



2019 CONSOLIDATED FINANCIAL STATEMENTS

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2019 Consolidated Financial Statements

1. Consolidated statement of income

<i>(in millions of euros)</i>	Notes	2019 ⁽¹⁾	2018
SALES	4.1	19,477	19,124
Cost of sales	4.3	(16,023)	(15,450)
Research and Development expenditure	4.5.1	(1,550)	(1,560)
Selling expenses		(304)	(316)
Administrative expenses		(566)	(595)
OPERATING MARGIN		1,034	1,203
as a % of sales		5.3%	6.3%
Share in net earnings (losses) of equity-accounted companies	4.5.3.1	(237)	(111)
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	4.5	797	1,092
as a % of sales		4.1%	5.7%
Other income and expenses	4.6.2	(65)	(56)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	4.6.1	732	1,036
Cost of net debt	8.2.1	(73)	(66)
Other financial income and expenses	8.2.2	(2)	(25)
INCOME (LOSS) BEFORE INCOME TAXES		657	945
Income taxes	9.1	(263)	(303)
NET INCOME (LOSS) FOR THE YEAR		394	642
Attributable to:			
▪ Owners of the Company		313	546
▪ Non-controlling interests	10.1.3	81	96
Earnings per share:			
▪ Basic earnings per share <i>(in euros)</i>	10.2	1.31	2.30
▪ Diluted earnings per share <i>(in euros)</i>	10.2	1.31	2.28

(1) The consolidated statement of income for 2019 reflects the impacts of applying IFRS 16 – “Leases” as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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

2. Consolidated statement of comprehensive income

<i>(in millions of euros)</i>	2019 ⁽¹⁾	2018
NET INCOME (LOSS) FOR THE YEAR	394	642
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	(1)	1
<i>o/w income taxes</i>	-	-
Translation adjustment	62	62
Cash flow hedges:		
■ Gains (losses) taken to equity	39	(7)
■ (Gains) losses transferred to income for the year	(2)	(4)
<i>o/w income taxes</i>	(4)	(4)
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	98	52
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	(1)	-
<i>o/w income taxes</i>	-	-
Actuarial gains (losses) on defined benefit plans	(102)	16
<i>o/w income taxes</i>	(8)	34
Remeasurement of long-term investments	1	(18)
<i>o/w income taxes</i>	(2)	3
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	(102)	(2)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	(4)	50
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	390	692
Attributable to:		
■ Owners of the Company	295	589
■ Non-controlling interests	95	103

(1) The consolidated statement of comprehensive income for 2019 reflects the impacts of applying IFRS 16 – “Leases” as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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

3. Consolidated statement of financial position

<i>(in millions of euros)</i>	<i>Notes</i>	December 31, 2019⁽¹⁾	December 31, 2018
ASSETS			
Goodwill	6.1	2,571	2,550
Other intangible assets	6.2	2,694	2,419
Property, plant and equipment	6.3	5,346	4,621
Investments in equity-accounted companies	4.5.3.2	152	187
Other non-current financial assets	8.1.1	702	590
Assets relating to pensions and other employee benefits	5.3	13	4
Deferred tax assets	9.2	437	486
NON-CURRENT ASSETS		11,915	10,857
Inventories, net	4.4	1,896	1,906
Accounts and notes receivable, net	4.2	2,821	2,781
Other current assets		455	522
Taxes receivable		33	34
Other current financial assets	8.1.1	20	15
Cash and cash equivalents	8.1.3.2	1,773	2,357
CURRENT ASSETS		6,998	7,615
TOTAL ASSETS		18,913	18,472
EQUITY AND LIABILITIES			
Share capital	10.1.1	241	240
Additional paid-in capital	10.1.1	1,531	1,513
Translation adjustment	10.1.2	71	17
Retained earnings		2,786	2,801
STOCKHOLDERS' EQUITY		4,629	4,571
Non-controlling interests	10.1.3	835	807
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		5,464	5,378
Provisions for pensions and other employee benefits – long-term portion	5.3	1,185	1,051
Other provisions – long-term portion	7.1	313	357
Long-term portion of long-term debt	8.1.2	4,417	3,466
Other financial liabilities – long-term portion	8.1.1	38	16
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	8.1.2.2	20	17
Subsidies and grants – long-term portion		87	56
Deferred tax liabilities	9.2	76	89
NON-CURRENT LIABILITIES		6,136	5,052
Accounts and notes payable		4,762	4,475
Provisions for pensions and other employee benefits – current portion	5.3	69	104
Other provisions – current portion	7.1	201	273
Subsidies and grants – current portion		41	39
Taxes payable		124	125
Other current liabilities		1,578	1,569
Current portion of long-term debt	8.1.2	193	434
Other financial liabilities – current portion	8.1.1	14	42
Liabilities associated with put options granted to holders of non-controlling interests – current portion	8.1.2.2	59	72
Short-term debt	8.1.2.3	269	900
Liabilities held for sale		3	9
CURRENT LIABILITIES		7,313	8,042
TOTAL EQUITY AND LIABILITIES		18,913	18,472

(1) The consolidated statement of financial position at December 31, 2019 reflects the impacts of applying IFRS 16 – “Leases” as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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

4. Consolidated statement of cash flows

<i>(in millions of euros)</i>	<i>Notes</i>	2019⁽¹⁾	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		394	642
Share in net (earnings) losses of equity-accounted companies		237	111
Net dividends received from equity-accounted companies		44	64
Expenses (income) with no cash effect	11.1	1,349	1,180
Cost of net debt		73	66
Income taxes (current and deferred)		263	303
GROSS OPERATING CASH FLOWS		2,360	2,366
Income taxes paid		(292)	(267)
Changes in working capital	11.2	396	71
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		2,464	2,170
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(812)	(777)
Acquisitions of property, plant and equipment		(1,154)	(1,291)
Investment subsidies and grants received		16	35
Disposals of property, plant and equipment and intangible assets		44	8
Net change in non-current financial assets		(266)	(212)
Acquisitions of investments with gain of control, net of cash acquired	11.3	19	(41)
Acquisitions of investments in associates and/or joint ventures		(5)	(2)
Disposals of investments with loss of control, net of cash transferred	11.4	(13)	(7)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		(2,171)	(2,287)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(297)	(296)
Dividends paid to non-controlling interests in consolidated subsidiaries		(46)	(28)
Capital increase		19	26
Sale (purchase) of treasury stock	11.5	15	(118)
Issuance of long-term debt	11.6	613	603
Loan issuance costs and premiums	11.6	(2)	(5)
Interest paid		(97)	(64)
Interest received		26	6
Repayment of long-term debt	11.6	(447)	(360)
Acquisitions of investments without gain of control	11.7	(29)	(2)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		(245)	(238)
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		-	6
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(1)	34
NET CHANGE IN CASH AND CASH EQUIVALENTS		47	(315)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,457	1,772
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		1,504	1,457
Of which:			
▪ Cash and cash equivalents		1,773	2,357
▪ Short-term debt		(269)	(900)

(1) The consolidated statement of cash flows for 2019 reflects the impacts of applying IFRS 16 - "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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

5. Consolidated statement of changes in stockholders' equity

Number of shares outstanding	(in millions of euros)	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Total stockholders' equity including non-controlling interests		
						Stockholders' equity	Non-controlling interests	Total
237,924,000	STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017⁽¹⁾	240	1,487	(36)	2,696	4,387	719	5,106
	Dividends paid ⁽²⁾	-	-	-	(296)	(296)	(28)	(324)
(1,236,492)	Treasury shares ⁽³⁾	-	-	-	(118)	(118)	-	(118)
599,979	Capital increase	-	26	-	-	26	-	26
	Share-based payment	-	-	-	3	3	-	3
	Put options granted ⁽⁶⁾	-	-	-	(5)	(5)	(2)	(7)
	Other movements	-	-	-	(15)	(15)	15	-
	TRANSACTIONS WITH OWNERS	-	26	-	(431)	(405)	(15)	(420)
	Net income (loss) for the year	-	-	-	546	546	96	642
	Other comprehensive income (loss), net of tax	-	-	53	(10)	43	7	50
	TOTAL COMPREHENSIVE INCOME (LOSS)	-	-	53	536	589	103	692
237,287,487	STOCKHOLDERS' EQUITY AT DECEMBER 31, 2018	240	1,513	17	2,801	4,571	807	5,378
	Dividends paid ⁽²⁾	-	-	-	(297)	(297)	(46)	(343)
957,981	Treasury shares	-	-	-	15	15	-	15
783,643	Capital increase ⁽⁴⁾	1	18	-	-	19	-	19
	Share-based payment	-	-	-	24	24	-	24
	Put options granted ⁽⁵⁾	-	-	-	9	9	1	10
	Other movements ⁽⁶⁾	-	-	-	(7)	(7)	(22)	(29)
	TRANSACTIONS WITH OWNERS	1	18	-	(256)	(237)	(67)	(304)
	Net income (loss) for the year	-	-	-	313	313	81	394
	Other comprehensive income (loss), net of tax	-	-	54	(72)	(18)	14	(4)
	TOTAL COMPREHENSIVE INCOME (LOSS)	-	-	54	241	295	95	390
239,029,111	STOCKHOLDERS' EQUITY AT DECEMBER 31, 2019	241	1,531	71	2,786	4,629	835	5,464

(1) The consolidated statement of changes in stockholders' equity at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published in February 2018, since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 - "Financial Instruments" and IFRS 15 - "Revenue from Contracts with Customers" as from January 1, 2018 with restatement of comparative periods, and of allocating the purchase price for FTE automotive and Valeo-Kapeec.

(2) A cash dividend of 1.25 euros per share was paid in 2019, representing a total payout of 297 million euros. The per-share amount was unchanged from June 2018.

(3) Changes in stockholders' equity attributable to treasury shares for 2018 included the impact of the share buyback program entered into with an investment services provider on March 7, 2018 in an amount of 100 million euros (see Note 10.1.1.3).

(4) The terms and conditions of the June 27, 2019 capital increase reserved for employees are detailed in Note 10.1.1.1.

(5) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.1.2.2).

(6) Other movements reflect the impacts of acquiring an additional interest in Ichikoh (see Note 2.2.1).

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

6. Notes to the consolidated financial statements

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4.4	Inventories	24	11.3	Acquisitions of investments with gain of control, net of cash acquired	77
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NOTE 1 ACCOUNTING POLICIES

The consolidated financial statements of the Valeo Group for the year ended December 31, 2019 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 CO₂ 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, 2019 were authorized for issue by the Board of Directors on February 20, 2020.

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) <https://ec.europa.eu/info/law>.

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2019

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

Standards, amendments and interpretations	IFRS 16 – “Leases” Effective as from January 1, 2019
Presentation and accounting policies applied within the Group	<p>On January 13, 2016, the IASB published IFRS 16 – “Leases”. IFRS 16 replaces IAS 17 and the related IFRIC and SIC interpretations. IFRS 16 introduces major changes in the principles for measuring, recognizing and presenting leases in the financial statements of lessees. It requires lessees to recognize leases using a single accounting model, i.e., the same model as that used to recognize finance leases under IAS 17.</p> <p>The lessee recognizes:</p> <ul style="list-style-type: none"> ■ a non-current asset representing its right to use the leased asset, in the consolidated statement of financial position; ■ a financial liability representing its obligation to pay for the right to use the asset, in the consolidated statement of financial position; ■ depreciation of the right-of-use asset and interest expenses on the lease liability, in the consolidated statement of income. <p>At the lease commencement date, the lease liability is measured at the present value of the minimum lease payments outstanding at that date, plus payments under any options that the lessee is reasonably certain to exercise. This amount is then measured at amortized cost using the effective interest rate. The carrying amount of the lease liability is subsequently increased by the interest due on the lease liability and reduced by the lease payments made.</p> <p>At the same date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises (i) the initial lease liability, (ii) any prepaid lease payments made, less any lease incentives received, (iii) any initial direct costs incurred by the lessee in establishing the lease, and (iv) an estimate of costs to be incurred by the lessee in dismantling or rehabilitating the underlying asset as required by the terms and conditions of the lease. It is subsequently reduced by depreciation and any impairment losses.</p> <p>Any non-removable leasehold improvements are depreciated over the shorter of the adopted lease term and the estimated period of use.</p> <p>The right-of-use asset is depreciated on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee or when the lease includes a purchase option that the lessee is reasonably certain to exercise, the right-of-use asset is depreciated over the useful life of the underlying asset under the same conditions as those applied to assets owned by the lessee. In all other cases, the right-of-use asset is depreciated over the reasonably certain useful life of the underlying asset.</p> <p>Payments for the interest portion of the lease liability and payments for the principal portion are recorded under cash flows from financing activities in the consolidated statement of cash flows. Payments for the principal portion of the lease liability are added back to calculate free cash flow.</p> <p>Subsequently, the lease liability and the right-of-use asset are remeasured to reflect the following:</p> <ul style="list-style-type: none"> ■ changes in the lease term; ■ changes in the assessment of an option; ■ changes in the amounts expected to be payable under residual value guarantees; ■ changes in the rates or indexes used to determine the lease payments; ■ changes in the lease payments. <p>The main exemptions provided under IFRS 16 and adopted by the Group are:</p> <ul style="list-style-type: none"> ■ exclusion of short-term leases; ■ exclusion of leases of low-value assets. <p>Lease payments on leases excluded from the scope of IFRS 16 and any variable payments not included in the initial measurement of the lease liability are recognized in operating expenses.</p>

Standards, amendments and interpretations

IFRS 16 – “Leases”
Effective as from January 1, 2019

Impacts and method of application at the transition date

Valeo mainly has lease contracts for land and buildings (production facilities, warehouses and offices), which were previously accounted for as operating leases under IAS 17 and for which a right-of-use asset is now recognized under IFRS 16.

Method used to apply IFRS 16 at the transition date

Valeo has applied IFRS 16 using the modified retrospective approach. Accordingly, the financial statements published before the date of the first-time application of IFRS 16 have not been restated.

Within the scope of its transition to IFRS 16, the Group elected the following main options to simplify application:

- exclusion of leases with a residual term of 12 months or less at the transition date, along with leases of low-value assets;
- application of IFRS 16 only to contracts previously identified as leases;
- use of the initial lease term to determine the discount rate at the transition date;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of first-time application;
- identification of onerous contracts at January 1, 2019 in accordance with IAS 37 – “Provisions, Contingent Liabilities and Contingent Assets”.

Any leases excluded from the scope of IFRS 16 are recognized directly in operating expenses.

The discount rates applied at the transition date were determined based on the Group’s incremental borrowing rate, plus a spread to reflect the economic conditions in each country. The discount rates were determined taking into account the initial terms of the leases.

The Group’s weighted average incremental borrowing rate stood at 3.44% at January 1, 2019.

Within the scope of its transition to IFRS 16, the Group applied the initial recognition exemption for deferred taxes provided under IAS 12.

Impacts of the application of IFRS 16 – “Leases” on the Group’s consolidated financial statements at January 1, 2019

<i>(in millions of euros)</i>	December 31, 2018	IFRS 16	January 1, 2019
Property, plant and equipment	4,621	440	5,061
TOTAL ASSETS	4,621	440	5,061
Long-term portion of long-term debt	3,466	370	3,836
NON-CURRENT LIABILITIES	3,466	370	3,836
Current portion of long-term debt	434	70	504
CURRENT LIABILITIES	434	70	504
TOTAL EQUITY AND LIABILITIES	3,900	440	4,340

Future minimum lease payments on IAS 17 operating leases at December 31, 2018 and the lease liability recognized under IFRS 16 at January 1, 2019 can be reconciled as follows:

<i>(in millions of euros)</i>	Adoption of IFRS 16
COMMITMENTS GIVEN UNDER OPERATING LEASES AT DECEMBER 31, 2018	474
Discounting effect	(69)
Effects relating to optional periods and purchase options ⁽¹⁾	51
Other effects, primarily relating to exemptions	(16)
IMPACT ON FINANCIAL LIABILITIES AT JANUARY 1, 2019	440
Lease liability under IAS 17 finance leases at December 31, 2018 ⁽²⁾	32
LEASE LIABILITY AT JANUARY 1, 2019	472

(1) Commitments given under IAS 17 operating leases only included minimum payments on the non-cancelable period of the leases.

(2) See 2018 Registration Document, Chapter 5, section 5.4.6, Note 8.1.2.1 “Long-term debt”, page 338.

Standards, amendments and interpretations

IFRS 16 – “Leases”

Effective as from January 1, 2019

Financial impacts at December 31, 2019

At December 31, 2019, the main impacts of the application of IFRS 16 – “Leases” are as follows:

- Consolidated statement of financial position

(in millions of euros)	December 31, 2019
Right-of-use assets	430
TOTAL ASSETS	430
Long-term lease liabilities – non-current portion	353
NON-CURRENT LIABILITIES	353
Long-term lease liabilities – current portion	88
CURRENT LIABILITIES	88
TOTAL EQUITY AND LIABILITIES	441

The rights to use the leased assets recorded within property, plant and equipment break down as follows:

(in millions of euros)	Right-of-use assets					Total
	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	-	13	40	27	5	85
Accumulated depreciation and impairment	-	(4)	(30)	(27)	(1)	(62)
NET CARRYING AMOUNT AT DECEMBER 31, 2018	-	9	10	-	4	23
Adoption of IFRS 16	8	377	9	-	46	440
NET CARRYING AMOUNT AT JANUARY 1, 2019	8	386	19	-	50	463
New contracts/Renewals/Modifications	-	26	6	-	24	56
Depreciation	(1)	(64)	(5)	-	(25)	(95)
Translation adjustment	-	5	1	-	-	6
NET CARRYING AMOUNT AT DECEMBER 31, 2019	7	353	21	-	49	430

- Consolidated statement of cash flows

In 2019, the net cash outflow in respect of lease liabilities, classified in net cash flows from (used in) financing activities, amounted to 98 million euros, of which 14 million euros corresponded to the interest portion and 84 million euros corresponded to net payments for the principal portion of lease liabilities.

Net payments for the principal portion of the lease liability are added back to calculate free cash flow (see Note 11.8).

- Key segment performance indicators

Depreciation of right-of-use assets in 2019 and the net carrying amount of right-of-use assets at end-December 2019 by segment were as follows:

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other ⁽¹⁾	Total
EBITDA	23	13	20	26	13	95
Segment assets	98	50	100	140	42	430

(1) The net carrying amount of right-of-use assets at December 31, 2019 (4 million euros) and the corresponding depreciation expense (1 million euros) relating to the Top Column Module business for 2019 are recorded within “Other” (see Note 3.1).

The following standards, amendments and interpretations have also 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, 2019

Annual Improvements to IFRSs 2015-2017 cycle	Various provisions
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features
IFRIC 23⁽¹⁾	Uncertainty over Income Tax Treatments

(1) See Note 7.1.

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

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on January 1, 2020 and early adopted by the Group as of January 1, 2019

Standards, amendments and interpretations **Amendments to IFRS 9, IAS 39 and IFRS 7**
Effective as of January 1, 2020 and early adopted by the Group as of January 1, 2019

Impacts for and applications by the Group	<p>The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the IBOR reform. They modify certain hedge accounting provisions and require entities to provide investors with additional information on hedging relationships that are directly affected by these uncertainties. These amendments were published on September 26, 2019 by the IASB.</p> <p>The European Union adopted them on January 16, 2020.</p> <p>The Group elected to early adopt, as of January 1, 2019, the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IASB in September 2019 in the context of the interest rate benchmark reform.</p> <p>These amendments enable the Group to disregard the uncertainties arising from interest rate benchmark reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present.</p>
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1.1.3 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2020 and not early adopted by the Group

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2020

Amendments to IAS 1 and IAS 8	Definition of Material
--------------------------------------	------------------------

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

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

Standards, amendments and interpretations		Effective date⁽¹⁾
Revised Conceptual Framework for Financial Reporting	Amendments to references to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IFRS 3	Definition of a Business	January 1, 2020

(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 all 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, 2019 chiefly concern:

- the conditions for capitalizing development expenditure (see Note 4.5.1.1);
- 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 measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6);
- lease terms, as regards optional periods, and determination of discount rates (see Note 6.3);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2).

NOTE 2 CHANGES IN THE 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. An arrangement in which the parties have rights to the net assets of that arrangement is called a joint venture. An arrangement in which the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, is known as a joint operation.

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 "Investments in equity-accounted companies".

The procedure used to measure investments in equity-accounted companies for impairment is governed by IFRS 9 – "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. After the measurement period, 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 and trademarks. 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 relating to operations that have not been classified as discontinued, 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 change that impacted the Group's structure and consolidated financial statements during the year was the acquisition of an additional 6.1% interest in Ichikoh, which increased Valeo's shareholding in the company from 55.08% to 61.19%. This transaction between owners did not affect the control of Ichikoh, which continues to be fully consolidated in the Group's financial statements, mainly within the Visibility Systems Business Group.

Based on a 29 million euro transaction price, the acquisition resulted in (i) a 22 million euro reduction in reserves attributable to non-controlling interests and (ii) a 7 million euro reduction in reserves attributable to the Group.

2.2.2 Subsequent events

None

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, 2019, Valeo and V. Johnson Enterprises had respective 49% and 51% interests 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 sells 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 20 million euros at December 31, 2019 (33 million euros at December 31, 2018) and mainly include commitments given on the creation of the joint venture with Siemens on December 1, 2016.

2.3.2 Commitments received

Commitments received totaled 486 million euros at December 31, 2019 (492 million euros at December 31, 2018) and correspond primarily to guarantees granted to Valeo in connection with the acquisition of FTE automotive and gestigon, and in connection with the creation of the Valeo Siemens eAutomotive joint venture.

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, Connected Cars and Intuitive Interior Controls. 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 connected and more autonomous;
- Powertrain Systems, comprising four Product Groups: Electrification and Powertrain Systems, Transmission Systems, Combustion Engine Systems and Active Hydraulic Actuator Systems. This Business Group is at the heart of the vehicle electrification revolution. Combining the expertise of the Business Group’s four Product Groups, Valeo manufactures comprehensive, integrated electric powertrain solutions as well as a range of products for cleaner thermal engines;
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Commercial Vehicles. The strategic objectives of the Thermal Systems Business Group are two-fold: intelligent management of thermal systems for

all vehicles, and passenger health and well-being. Vehicle electrification calls for new thermal management solutions capable of ensuring a comfortable cabin temperature without reducing driving range. These solutions are also designed to maintain the battery cells in hybrid and electric vehicles at optimum operating temperature and to enhance vehicle performance through their lightweight and aerodynamic design.

- Visibility Systems, comprising two Product Groups and one Product Line: the Lighting Systems and Wiper Systems Product Groups and the Electronics for Visibility Systems Product Line. This Business Group designs and produces innovative and efficient exterior and interior lighting, wiper and sensor cleaning systems to support the driver. These systems enable automated vehicles to drive in all conditions and thereby improve the travel experience for all vehicle passengers.

Each of these Business Groups is also responsible for production and for some of the distribution of products in the aftermarket segment. A significant portion of income and expenses for Valeo Service, which almost exclusively sells products manufactured by the Group, is reallocated among the Business Groups identified. The external trading operations of Valeo Service are presented within “Other”, along with the holding companies and eliminations between the four operating segments. Following the announcement in 2019 of the Group’s decision to withdraw from the Top Column Module business, “Other” now also includes this product line.

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 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;
- 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.

2019

<i>(in millions of euros)</i>	Comfort and Driving Assistance Systems ⁽²⁾	Powertrain Systems	Thermal Systems	Visibility Systems	Other ⁽²⁾	Total
Sales:						
■ segment (excluding Group)	3,591	4,998	4,516	5,923	449	19,477
■ intersegment (Group)	58	123	66	91	(338)	-
EBITDA⁽¹⁾	599	685	502	660	50	2,496
Research and Development expenditure	(579)	(293)	(274)	(360)	(44)	(1,550)
Investments in property, plant and equipment and intangible assets	534	418	460	522	52	1,986
Segment assets ⁽¹⁾	2,813	3,561	2,861	3,124	300	12,659

(1) The data for 2019 reflect the impacts of applying IFRS 16 - "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

(2) Following the announcement in 2019 of the Group's decision to withdraw from the Top Column Module business, "Other" now includes this product line.

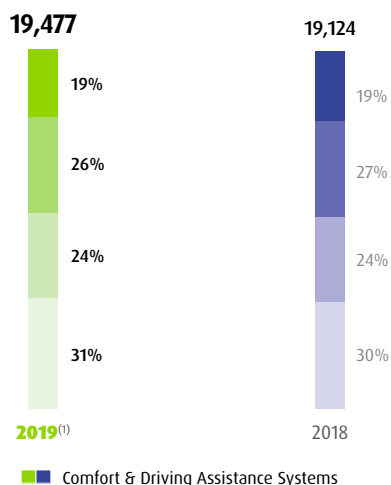
<i>(in millions of euros)</i>	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	3,873	4,998	4,516	5,923	167	19,477
■ intersegment (Group)	28	123	66	91	(308)	-
EBITDA⁽¹⁾	594	685	502	660	55	2,496
Research and Development expenditure	(603)	(293)	(274)	(359)	(21)	(1,550)
Investments in property, plant and equipment and intangible assets	566	418	460	522	20	1,986
Segment assets ⁽¹⁾	2,940	3,561	2,861	3,124	173	12,659

(1) The data for 2019 reflect the impacts of applying IFRS 16 - "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

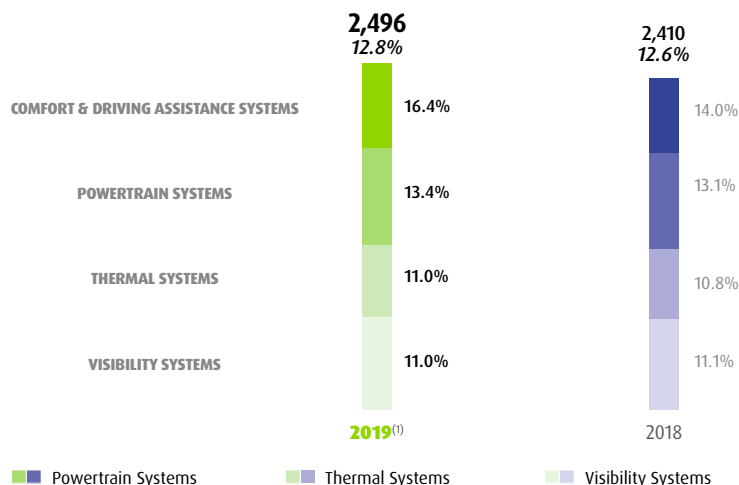
2018

<i>(in millions of euros)</i>	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	3,741	5,036	4,517	5,699	131	19,124
■ intersegment (Group)	25	105	52	84	(266)	-
EBITDA	528	674	495	642	71	2,410
Research and Development expenditure	(556)	(319)	(285)	(377)	(23)	(1,560)
Investments in property, plant and equipment and intangible assets	582	458	454	538	21	2,053
Segment assets	2,683	3,495	2,526	2,838	141	11,683

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



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



(1) The 2019 data for the Comfort & Driving Assistance Systems Business Group are presented excluding the data for the Top Column Module business, which is now included in "Other".

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2019	2018
Operating margin	1,034	1,203
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses ⁽¹⁾⁽²⁾	1,433	1,156
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(15)	(13)
Dividends paid by equity-accounted companies	44	64
EBITDA⁽²⁾	2,496	2,410
<i>as a % of sales</i>	<i>12.8%</i>	<i>12.6%</i>

(1) Impairment losses recorded in operating margin only.

(2) The data for 2019 reflect the impacts of applying IFRS 16 - "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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)	December 31, 2019	December 31, 2018
Segment assets⁽¹⁾	12,659	11,683
Accounts and notes receivable	2,821	2,781
Other current assets	455	522
Taxes receivable	33	34
Financial assets	2,508	2,966
Deferred tax assets	437	486
TOTAL GROUP ASSETS⁽¹⁾	18,913	18,472

(1) The data for 2019 reflect the impacts of applying IFRS 16 - "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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 that operate in several geographic areas.

2019

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets ⁽¹⁾
France	1,285	2,981	937
Other European countries and Africa	8,080	6,765	3,043
North America	3,721	3,851	1,321
South America	489	412	113
Asia	5,902	6,215	2,781
Eliminations	-	(747)	(3)
TOTAL	19,477	19,477	8,192

(1) The data for 2019 reflect the impacts of applying IFRS 16 – “Leases” as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

2018

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets
France	1,334	2,983	834
Other European countries and Africa	7,950	6,709	2,609
North America	3,373	3,476	1,148
South America	485	405	103
Asia	5,982	6,295	2,535
Eliminations	-	(744)	(2)
TOTAL	19,124	19,124	7,227

NOTE 4 OPERATING DATA

4.1 Sales

- For each automotive project, the three main typically identified promises made by Valeo to an automaker are:
- Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is usually considered to be related to the Supply of Parts; any contributions from customers in respect of Product Development are therefore recognized in sales over the period of series production as the promise to deliver the parts is fulfilled, within a period of four years. However, the accounting treatment applied may vary based on each project's specific contractual or operational features;
 - 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 are recognized at the start of series 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 are therefore deferred and recognized over the duration of the manufacturing phase of the project as the promise to deliver the parts is fulfilled, within a period of four years;
 - Supply of Parts, sales of which are recognized when control of the parts is transferred to the customer, i.e., generally upon delivery.

In this respect, sales primarily include sales of finished goods and all tooling revenues and customer contributions to Research and Development expenditure and prototypes. 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.

Under specific contracts, analysis of the relationship with the end customer leads Valeo to consider that it acts as agent when it supplies said end customer with "imposed" components. As such, the transactions in which Valeo acts as agent are recognized based on their net amount. This business model primarily concerns the Thermal Front-End operations of the Thermal Systems Business Group.

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.

Valeo generally has a contractual right to supply parts for a specific project on an exclusive basis. Estimated future volumes cannot be included in the order book as defined by IFRS 15 until the customer has placed an order for a firm volume. Accordingly, this information is not considered relevant.

Group sales rose 1.8% to 19,477 million euros in 2019 from 19,124 million euros in 2018.

Changes in exchange rates had a positive 1.7% impact, relating mainly to the appreciation of the US dollar and Japanese yen, while changes in the scope of consolidation during the year had a negative 0.2% impact. Like for like (comparable Group structure and exchange rate basis), consolidated sales for 2019 rose 0.3% on 2018.

4.1.1 Sales by type

Sales can be analyzed by type as follows:

<i>(in millions of euros)</i>	2019	2018
Original equipment	16,360	16,146
Aftermarket	1,990	2,010
Other	1,127	968
SALES	19,477	19,124

4.1.2 Original equipment sales by customer portfolio

Original equipment sales can be analyzed by customer portfolio as follows:

<i>(in millions of euros)</i>	2019	%	2018	%
German automakers	4,947	30%	4,812	30%
Asian automakers	5,299	33%	5,348	33%
US automakers	3,003	18%	2,830	17%
French automakers	2,163	13%	2,192	14%
Other	948	6%	964	6%
ORIGINAL EQUIPMENT SALES	16,360	100%	16,146	100%

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets that 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. The Group uses two impairment testing methods:

- impairment estimated taking into account historical loss experience, the age of the receivables, and a detailed risk assessment;
- impairment estimated taking into account customer credit risk.

Impairment losses are recognized in operating income or in other financial income and expenses if they relate to a credit risk on a 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 for derecognizing 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.

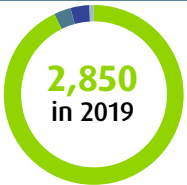
Accounts and notes receivable can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Accounts and notes receivable, gross	2,850	2,814
Impairment	(29)	(33)
ACCOUNTS AND NOTES RECEIVABLE, NET	2,821	2,781

At December 31, 2019, Valeo's largest automotive customer accounted for 12% of the Group's accounts and notes receivable (14% at December 31, 2018).

The average days' sales outstanding stood at 48 days at December 31, 2019, compared to 50 days at December 31, 2018.

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, 2019	December 31, 2018	
 <p>2,850 in 2019</p>	■ 93.0%	■ Not yet due	2,650	2,541
	■ 2.9%	■ Less than 1 month past due	84	121
	■ 3.3%	■ More than 1 month but less than 1 year past due	93	130
	■ 0.8%	■ More than 1 year past due	23	22
	ACCOUNTS AND NOTES RECEIVABLE, GROSS		2,850	2,814

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2019 totaled 2,650 million euros and 84 million euros, respectively, and represented 96% of total gross accounts and notes receivable (95% at end-December 2018). Past due receivables were written down in an amount of 29 million euros at December 31, 2019 (33 million euros at December 31, 2018).

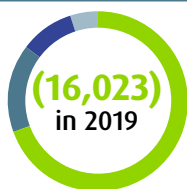
Accounts and notes receivable falling due after December 31, 2019, for which substantially all of the risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represented an amount of 290 million euros at December 31, 2019 versus 368 million euros at December 31, 2018. A total of 132 million euros out of the 290 million euros relates to recurring sales of receivables (165 million euros at December 31, 2018). The financial cost of these transactions, recognized in cost of net debt, was around 3 million euros in 2019, stable compared with 2018.

4.3 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.

Cost of sales can be analyzed as follows:

(in millions of euros)		2019	2018	
 <p>(16,023) in 2019</p>	■ 57.2% ⁽¹⁾	■ Raw materials consumed	(11,145)	(10,741)
	■ 13.1% ⁽¹⁾	■ Labor	(2,546)	(2,476)
	■ 7.9% ⁽¹⁾	■ Direct production costs and production overheads ⁽²⁾	(1,535)	(1,567)
	■ 4.1% ⁽¹⁾	■ Depreciation and amortization ⁽²⁾⁽³⁾	(797)	(666)
	COST OF SALES		(16,023)	(15,450)

(1) As a % of sales.

(2) The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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

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 specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3 "Property, plant and equipment") when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred). 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, 2019, inventories break down as follows:

<i>(in millions of euros)</i>	December 31, 2019			December 31, 2018
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	892	(137)	755	720
Work-in-progress	230	(30)	200	171
Finished goods and supplies	705	(119)	586	546
Specific tooling	359	(4)	355	469
INVENTORIES, NET	2,186	(290)	1,896	1,906

Impairment losses taken against inventories amounted to 290 million euros at December 31, 2019 (255 million euros at December 31, 2018), including an allowance (net of reversals) of 27 million euros during the year. Allowances to provisions for impairment of inventories net of reversals amounted to 24 million euros in 2018.

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

- Operating margin is equal to sales less costs to sell, 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 2019, operating margin including share in net earnings of equity-accounted companies totaled 797 million euros, or 4.1% of sales (5.7% of sales in 2018).

Share in net earnings (losses) of equity-accounted companies represented a loss of 237 million euros in 2019 and a loss of 111 million euros in 2018. See Note 4.5.3 for more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development costs

▼ Innovation can be analyzed as either research or development. Research is an activity that 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 2018 and 2019 are analyzed below:

(in millions of euros)

	2019	2018
GROSS CARRYING AMOUNT AT JANUARY 1	3,359	2,734
Accumulated amortization and impairment	(1,639)	(1,432)
NET CARRYING AMOUNT AT JANUARY 1	1,720	1,302
Capitalized development expenditure	769	716
Disposals	(4)	(1)
Impairment	(14)	(8)
Amortization	(403)	(302)
Translation adjustment	11	8
Reclassifications	1	5
NET CARRYING AMOUNT AT DECEMBER 31	2,080	1,720

4.5.1.2 Research and Development expenditure

▼ Research and Development expenditure comprises the costs incurred during the period, including amortization charged against capitalized development costs, less research

tax credits and the portion of Research and Development subsidies granted to the Group and taken to income.

Research and Development expenditure can be analyzed as follows for 2018 and 2019:

<i>(in millions of euros)</i>	2019	2018
Gross Research and Development expenditure	(2,054)	(2,073)
Subsidies and grants, and tax credits	143	107
Capitalized development expenditure	769	716
Amortization and impairment of capitalized development expenditure	(408)	(310)
RESEARCH AND DEVELOPMENT EXPENDITURE	(1,550)	(1,560)

The Group continued its Research and Development efforts in 2019 in order to fulfill the order intake recorded 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 59 million euros in respect of 2019 (53 million euros in 2018).

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 for derecognizing 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, 2019, amounts receivable in France in respect of the CICE tax credit for 2016, 2017 and 2018 and the research tax credit for 2016, 2017, 2018 and 2019 are no longer carried in the consolidated statement of financial position.

These receivables were transferred as follows:

- 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 2017 research tax credit receivable on June 27, 2018 for 63 million euros;
- the 2018 CICE tax credit receivable on December 19, 2018 for 16 million euros;

- the 2018 research tax credit receivable on June 25, 2019 for 63 million euros;
- the prospective 2019 research tax credit receivable on December 17, 2019 for 60 million euros.

The CICE tax credit was replaced by a reduction in social security contributions as from January 1, 2019. Accordingly, no receivables in respect of the CICE tax credit were transferred during the year.

The cost of the transfers made in 2019, recognized in cost of net debt for the year, was 1 million euros for the Group, stable compared to 2018.

At December 31, 2018, only the 2018 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 58 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

<i>(in millions of euros)</i>	2019	2018
Share in net earnings of associates	7	3
Share in net earnings (losses) of joint ventures	(244)	(114)
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	(237)	(111)

All investments accounted for 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

<i>(in millions of euros)</i>	2019	2018
Detroit Thermal Systems	6	3
Other investments in associates	1	-
SHARE IN NET EARNINGS OF ASSOCIATES	7	3

Share in net earnings (losses) of joint ventures

<i>(in millions of euros)</i>	2019	2018
Valeo Siemens eAutomotive	(260)	(147)
CloudMade	(4)	(3)
Chinese joint ventures	19	33
Other	1	3
SHARE IN NET EARNINGS (LOSSES) OF JOINT VENTURES	(244)	(114)

4.5.3.2 Investments in equity-accounted companies

Investments in associates

Changes in the investments in associates caption can be analyzed as follows:

<i>(in millions of euros)</i>	2019	2018
INVESTMENTS IN ASSOCIATES AT JANUARY 1	29	34
Share in net earnings of associates	7	3
Dividend payments	(4)	(9)
Other movements	-	-
Translation adjustment	-	1
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	32	29

The Group's investments in associates are detailed below:

	Percentage interest (in %)		Carrying amount (in millions of euros)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Detroit Thermal Systems	49.0	49.0	17	14
APG-FTE automotive Co. Ltd	49.0	49.0	9	9
Kuantic	33.3	33.3	4	5
Other investments in associates	N/A	N/A	2	1
INVESTMENTS IN ASSOCIATES			32	29

Investments in joint ventures

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

(in millions of euros)	2019	2018
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	158	325
Share in net earnings (losses) of joint ventures ⁽¹⁾	(2)	(114)
Dividend payments	(40)	(55)
Impact of changes in scope of consolidation	5	-
Other movements	(1)	1
Translation adjustment	-	1
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	120	158

(1) As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group has discontinued recognizing its share of further losses in accordance with IAS 28 and allocates them to other assets held by the Group in the joint venture.

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

	Percentage interest (in %)		Carrying amount (in millions of euros)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Valeo Siemens eAutomotive ⁽¹⁾	50.0	50.0	-	23
Chinese joint ventures	N/A	N/A	84	100
CloudMade	50.0	50.0	17	22
Other	N/A	N/A	19	13
INVESTMENTS IN JOINT VENTURES			120	158

(1) As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group has discontinued recognizing its share of further losses in accordance with IAS 28 and allocates them to other assets held by the Group in the joint venture.

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 and joint ventures is provided on an aggregate basis since the entities are not material taken individually, with the exception of the Valeo Siemens eAutomotive joint venture, for which information is presented separately below.

Associates

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

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Non-current assets	73	73
Current assets	101	88
Non-current liabilities	47	48
Current liabilities	82	74

<i>(in millions of euros)</i>	2019	2018
Sales	351	324
Operating expenses	(335)	(328)

Valeo Siemens eAutomotive

Condensed financial data in respect of the Valeo Siemens eAutomotive joint venture are set out below. These data were taken from the joint venture's IFRS financial statements, as adjusted by the Group for the purposes of equity accounting.

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Non-current assets	713	447
Current assets	286	218
Non-current liabilities	(1,285)	(580)
Current liabilities	(313)	(259)

<i>(in millions of euros)</i>	2019	2018
Sales	290	235
Income (loss) from continuing operations	(520)	(294)
Post-tax income (loss) from discontinued operations	-	-
NET INCOME (LOSS) FOR THE YEAR	(520)	(294)
Other comprehensive income (loss) attributable to owners of the Company	-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	(520)	(294)

As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group allocates it to the other components of its share in the joint venture, in accordance with IAS 28. Accordingly, the Group charged 242 million euros against the loans granted to the joint venture in 2019. There was no uncertainty as regards the recoverability of these financial assets

at December 31, 2019: an independent expert assessed the joint venture based on the discounted future cash flows projected by its general management in its multi-year business plan (discount rate of 9.7%). A 100-basis point increase in the discount rate used would have no impact on the positions reflected in the Group's financial statements at December 31, 2019.

Joint ventures excluding Valeo Siemens eAutomotive

Aggregate financial data in respect of joint ventures excluding Valeo Siemens eAutomotive are set out below:

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Non-current assets	153	156
Current assets	293	299
Non-current liabilities	48	23
Current liabilities	294	289

<i>(in millions of euros)</i>	2019	2018
Sales	638	743
Operating expenses	(598)	(664)

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

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Accounts and notes receivable	4	4
Accounts and notes payable	6	6
Net debt (cash)	(6)	(4)

<i>(in millions of euros)</i>	2019	2018
Sales of goods and services	33	33
Purchases of goods and services	(41)	(42)

Transactions with joint ventures

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Accounts and notes receivable	67	46
Accounts and notes payable	12	21
Net debt (cash)	(558)	(260)

<i>(in millions of euros)</i>	2019	2018
Sales of goods and services	177	114
Purchases of goods and services	(23)	(32)

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 732 million euros in 2019 versus 1,036 million euros in 2018.

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 fixed assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2018 and 2019:

<i>(in millions of euros)</i>	<i>Notes</i>	2019	2018
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:			
■ Acquisition fees		-	(2)
■ Sale of the Lighting business in Argentina		-	(30)
■ Sale of the Passive Hydraulic Actuator business		-	(5)
■ Other		(1)	-
Claims and litigation	4.6.2.1	(21)	(4)
Restructuring plans	4.6.2.2	(36)	(15)
Impairment of fixed assets	4.6.2.3	(7)	-
OTHER INCOME AND EXPENSES		(65)	(56)

4.6.2.1 Claims and litigation

In 2019, this item includes the impacts of various disputes and the related legal advisory costs.

4.6.2.2 Restructuring plans

Restructuring costs for 2019 primarily include the impacts of a Group cost reduction plan launched in first-half 2019 in light of the downturn in the automotive market, and expenses relating to early retirement plans in Germany.

Restructuring costs for 2018 chiefly included expenses relating to early retirement plans in Germany, and additional costs in connection with a restructuring plan in South Korea.

4.6.2.3 Impairment of fixed assets

An impairment loss of 9 million euros was recognized in 2019 following the impairment test carried out on the Air Charging Systems Product Line CGU (see Note 6.4.4). Following the merger of the Electronic Systems Product Group CGU into the Electrical Systems Product Group CGU, an impairment loss previously recognized in 2016 was reversed in an amount of 2 million euros, thereby increasing the carrying amount of the assets concerned to the value that would have been determined (net of depreciation/amortization) had no impairment loss been recognized (see Note 6.4.4).

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

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

	2019	2018
Total employees at December 31	114,700	113,600
Average employees during the year	114,525	114,125

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.

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)	2019	2018
Wages and salaries ⁽¹⁾	3,551	3,450
Social security charges	690	675
Share-based payment	26	3
Pension expenses under defined contribution plans	118	112
TOTAL	4,385	4,240

(1) Including temporary staff.

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 amendments to 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, amendments or settlements;
- net interest cost on pension obligations recognized in financial income (including the impact of discount unwinding) and the expected yield on hedging assets.

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) vary depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2019, 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 Italy, Mexico and South Korea;

- health cover during retirement in the United States:
 - Valeo pays into health plans and life insurance plans for certain retired employees in the 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:
 - these plans are now closed to new entrants (the last plan in force concerning a specific level of Valeo management (*cadres hors catégorie*) was closed to new entrants on June 30, 2017). With effect from July 3, 2019, no further conditional top-up pension rights may accrue under these defined benefit plans in respect of employment periods beyond January 1, 2020. A provision has been recognized in respect of the related obligation based on the probable present value of the future benefits payable, determined considering the number of years' service at the year-end relative to the number of years' service at retirement, it being specified that the beneficiaries must still finish their careers at Valeo. The portion of the obligation relating to the Group's executive managers is detailed in Note 5.5.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2019:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,983	22,246	11,405	11,058	57,692
Active employees having left the Group	-	2,228	929	589	3,746
Retirees	6	4,979	5,171	1,619	11,775
TOTAL EMPLOYEES	12,989	29,453	17,505	13,266	73,213
Average duration of post-employment benefit plans (years)	12	20	12	10	15

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 benefit payments 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 to measure obligations in the countries representing the Group's most significant obligations were as follows:

Country	December 31, 2019	December 31, 2018
Eurozone	1.15	1.90
United Kingdom	1.80	2.50
United States	3.15	4.05
Japan	0.50	0.45
South Korea	2.65	3.25

The weighted average long-term salary inflation rate was around 2.5% at December 31, 2019, down on 2018.

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:

2019

(in millions of euros)	France	Other European countries	North America ⁽¹⁾	Asia	Total
Present value of unfunded obligations	249	573	107	138	1,067
Present value of funded obligations	34	193	415	224	866
Market value of plan assets	(11)	(99)	(365)	(217)	(692)
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2019	272	667	157	145	1,241
Permanent employees at December 31, 2019 ⁽²⁾	12,939	31,794	15,948	22,543	83,224

(1) Unfunded pension obligations in North America include medical plans in the United States representing 68 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.

2018

(in millions of euros)	France	Other European countries	North America ⁽¹⁾	Asia	Total
Present value of unfunded obligations	227	484	97	125	933
Present value of funded obligations	46	163	392	234	835
Market value of plan assets	(8)	(84)	(327)	(198)	(617)
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2018	265	563	162	161	1,151
Permanent employees at December 31, 2018 ⁽²⁾	13,242	31,691	14,641	22,285	81,859

(1) Unfunded pension obligations in North America include medical plans in the United States representing 71 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 2019 and 2018 are shown in the tables below by major geographic area:

2019

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2019	273	647	489	359	1,768
Actuarial gains and losses recognized in other comprehensive income	22	107	51	(15)	165
Benefits paid	(13)	(20)	(50)	(25)	(108)
Translation adjustment	-	5	9	7	21
Expenses (income) for the year:	1	27	23	36	87
■ Service cost	21	16	3	26	66
■ Interest cost	5	11	19	5	40
■ Other ⁽¹⁾	(25)	-	1	5	(19)
BENEFIT OBLIGATIONS AT DECEMBER 31, 2019	283	766	522	362	1,933

(1) "Other" mainly includes actuarial gains and losses recognized immediately in income, the impacts of past service costs and gains on settlements as well as the impacts in France of amendments to top-up retirement plans under the PACTE law.

Actuarial losses totaling 165 million euros in 2019 primarily reflect the impacts of a decrease in discount rates in the different regions of the world.

2018

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2018	261	643	504	342	1,750
Actuarial gains and losses recognized in other comprehensive income	6	6	(27)	(1)	(16)
Benefits paid	(17)	(20)	(34)	(34)	(105)
Translation adjustment	-	(3)	23	18	38
Expenses (income) for the year:	23	21	23	34	101
■ Service cost	21	15	3	27	66
■ Interest cost	5	13	18	5	41
■ Other ⁽¹⁾	(3)	(7)	2	2	(6)
BENEFIT OBLIGATIONS AT DECEMBER 31, 2018	273	647	489	359	1,768

(1) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as the impacts of past service costs and gains on settlements.

Actuarial gains totaling 16 million euros in 2018 primarily reflected the impact of the rise in discount rates in the United States and United Kingdom, partially offset by the fall in discount rates in eurozone countries.

5.3.4 Movements in provisions

Movements in provisions in 2019 and 2018, including assets relating to pensions and other employee benefits, are shown in the table below:

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
NET PROVISIONS AT JANUARY 1, 2018	255	556	168	152	1,131
Actuarial gains and losses recognized in other comprehensive income	6	10	(1)	3	18
Amounts utilized during the year	(19)	(21)	(23)	(34)	(97)
Translation adjustment	-	(1)	7	9	15
Expenses (income) for the year:	23	19	11	31	84
▪ Service cost	21	15	3	27	66
▪ Net interest cost	5	11	6	2	24
▪ Other	(3)	(7)	2	2	(6)
NET PROVISIONS AT DECEMBER 31, 2018	265	563	162	161	1,151
Actuarial gains and losses recognized in other comprehensive income	22	100	(6)	(22)	94
Amounts utilized during the year	(16)	(21)	(13)	(31)	(81)
Translation adjustment	-	-	3	4	7
Expenses (income) for the year:	1	25	11	33	70
▪ Service cost	21	16	3	26	66
▪ Net interest cost	5	9	7	2	23
▪ Other	(25)	-	1	5	(19)
NET PROVISIONS AT DECEMBER 31, 2019	272	667	157	145	1,241
Of which current portion (less than one year)	17	23	8	21	69

An expense of 70 million euros was recognized in 2019 in respect of pensions and other employee benefits (down compared to 2018), of which 47 million euros was included in operating margin and 23 million in other financial income and expenses. The year-on-year decrease is primarily attributable to 25 million euro reversal recognized for France in connection with the reform of top-up retirement plans in the country under the PACTE law.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2019 and 2018 is shown in the tables below:

2019

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia ⁽¹⁾	Total
Cash at bank	-	1	4	65	70
Shares	11	37	142	57	247
Government bonds	-	40	164	66	270
Corporate bonds	-	18	55	26	99
Real estate	-	3	-	3	6
Other	-	-	-	-	-
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2019	11	99	365	217	692

(1) At December 31, 2019, four Japanese plans and two South Korean plans were overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized non-current financial assets for the amount of the surplus, i.e., 13 million euros, as it considers the right to a refund is unconditional for each plan within the meaning of IFRIC 14.

2018

(in millions of euros)	France	Other European countries	North America	Asia ⁽¹⁾	Total
Cash at bank	-	-	-	41	41
Shares	8	31	196	63	298
Government bonds	-	34	66	57	157
Corporate bonds	-	16	65	34	115
Real estate	-	-	-	-	-
Other	-	3	-	3	6
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2018	8	84	327	198	617

(1) At December 31, 2018, 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., 4 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

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 or other) 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 2019 and 2018 can be analyzed as follows:

2019

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2019	8	84	327	198	617
Expected return on plan assets	-	2	12	3	17
Contributions paid to external funds	4	4	5	20	33
Benefits paid	(1)	(3)	(42)	(14)	(60)
Actuarial gains and losses	-	7	57	7	71
Translation adjustment	-	5	6	3	14
PLAN ASSETS AT DECEMBER 31, 2019	11	99	365	217	692

The increase in the fair value of plan assets in 2019 is attributable to actuarial gains, in particular on funds in the United States.

Contributions totaling 33 million euros were paid to external funds in 2019, down 24 million euros compared to estimates. Contributions are estimated at 57 million euros for 2020.

2018

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2018	6	87	336	190	619
Expected return on plan assets	-	2	12	3	17
Contributions paid to external funds	4	4	15	20	43
Benefits paid	(2)	(3)	(26)	(20)	(51)
Actuarial gains and losses	-	(4)	(26)	(4)	(34)
Translation adjustment	-	(2)	16	9	23
PLAN ASSETS AT DECEMBER 31, 2018	8	84	327	198	617

The relative stability in the fair value of plan assets in 2018 was chiefly attributable to the favorable impact of the US dollar and Japanese yen, offset by the actual return on plan assets for the year representing a loss of 17 million euros.

5.3.6 Data for previous years

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

<i>(in millions of euros)</i>	2019	2018	2017	2016	2015
Benefit obligations	1,933	1,768	1,750	1,582	1,526
Financial assets	(692)	(617)	(619)	(510)	(526)
NET BENEFIT OBLIGATIONS	1,241	1,151	1,131	1,072	1,000
Actuarial (losses) gains recognized in other comprehensive income	(94)	(18)	69	(92)	93

Actuarial gains and losses recognized in other comprehensive income in 2019 include:

- 168 million euros in actuarial losses on changes in financial assumptions, chiefly due a decrease in discount rates in all regions;
- 5 million euros in actuarial gains on changes in demographic assumptions, chiefly in the United States, and 2 million euros in actuarial losses resulting from experience adjustments;
- 71 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, 2019:

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5-point increase	(15)	(75)	(29)	(17)	(136)
Impact of a 0.5-point decrease	16	81	31	17	145
Salary inflation rate					
Impact of a 0.5-point increase	16	2	2	6	26
Impact of a 0.5-point decrease	(14)	(2)	(2)	(6)	(24)

At December 31, 2019, 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 that have now been frozen and that only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2019 service cost. A 0.5 point decrease in the discount rate would lead to an additional expense of 4 million euros, while a 0.5 point increase in the discount rate would reduce the expense by 4 million euros.

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:

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
2020	12	16	7	9	44
2021	7	18	7	9	41
2022	15	19	7	11	52
2023	28	20	7	12	67
2024	12	21	7	10	50
2025/2029	94	118	39	60	311
TOTAL	168	212	74	111	565

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 remit 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 vesting period of the rights. The Group periodically reviews the number of free shares to be allotted in light of expectations as regards the achievement of performance

conditions. Where appropriate, the consequences of revising the number of free shares are reflected in the statement of income. The number of free shares that may be allotted based on total shareholder return (TSR) is determined on the date on which the plan is approved by the Board of Directors.

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 26 million euros was recognized in 2019 in respect of stock purchase option and free share plans, compared to an expense of 3 million euros in 2018. The lower expense in 2018 was primarily attributable to changes in the share price and to revised estimates of the number of instruments that Valeo expected to remit to beneficiaries.

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2019 were 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, 2019	Year of vesting ⁽²⁾
2014	970,440	316,770	3,000 ⁽³⁾	2017/2019
2015	957,027	260,805	379,260	2018/2020
2016	1,267,022	573,522	216,676 ⁽⁴⁾	2019/2021
2017	1,012,043	466,551	628,489	2020/2021/2022
2018	1,234,623	570,123	835,659	2021/2022/2023
2019	1,699,281	1,049,381	1,406,951	2022/2024
TOTAL	7,140,436	3,237,152	3,470,035	

(1) These free shares are subject to the Group meeting performance conditions over the three years following their allotment, with the exception of the 2017 and 2018 plans, for which it has been decided that the assessment period for the performance conditions subject to which the performance shares will vest to their beneficiaries will only be effective after a period of four years following their allotment, with no holding period.

(2) The vesting year varies depending on the country in which the beneficiaries of plans set up prior to 2019 are resident. For the 2019 plan, only free shares allotted to the Chairman and Chief Executive Officer are subject to a two-year holding period.

(3) These free shares will be remitted in 2020.

(4) All free shares that were subject to the Group meeting performance conditions set out in this plan have been canceled.

The main data and assumptions underlying the valuation of the 2019 free share plan at fair value were as follows:

Free shares	2019	
	Chairman and Chief Executive Officer	Other employees
Share price at authorization date (in euros)	25.8	25.8
Risk-free rate (%)	0.2	(0.2)
Dividend rate (%)	4.6	N/A
FAIR VALUE OF EQUITY INSTRUMENTS (IN EUROS)	20.9	22.1

5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plan operated by the Valeo Group at December 31, 2019 were as follows:

Year in which plan was set up	Number of shares under option	of which subject to conditions ⁽¹⁾	Option exercise price ⁽²⁾ (in euros)	Number of options not yet exercised at December 31, 2019	Expiration date
2012	1,101,480	795,690	13.59	82,150	2020

(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 2019 are detailed below:

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT JANUARY 1, 2019	2,425,668	1.01
Options/free shares granted	1,607,533	-
Options/free shares canceled	(114,869)	-
Options/free shares expired	(48,257)	3.46
Options exercised/free shares remitted	(467,302)	2.50
Free shares - Changes related to performance conditions	149,412	-
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT DECEMBER 31, 2019	3,552,185	0.31
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2019	82,150	13.59

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 eligible employees the opportunity to become shareholders through an employee share issue carried out specifically for this purpose.

As has been the case since 2016, a new standard plan was offered to employees during first-half 2019, 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 May 2, 2019. The subscription price of 23.72 euros corresponds to 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 allotted free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. The free shares allotted are existing Valeo shares repurchased on the market.

In all, 783,643 shares were subscribed at a price of 23.72 euros each, representing a 19 million euro capital increase on June 27, 2019 (see Note 10.1).

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:

	2019	2018
Date rights granted	May 2	May 2
Reference price (in euros)	29.64	54.47
Face value discount (%)	20	20
Subscription price (in euros)	23.72	43.58
Beneficiary's 5-year interest rate (%)	3.84	3.83
Risk-free interest rate (%)	(0.03)	0.37
Repo rate (%)	0.440	0.350

Including a discount to reflect the lock-up period requirement, the total cost of the Shares4U 2019 plan is 10 million euros, of which 5 million euros were recognized in personnel expenses for 2019 (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, 2019, 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 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. In accordance with the PACTE law, no additional rights may vest under this defined benefit plan as from January 1, 2020. The beneficiary remains subject to a presence condition and will only receive benefits in respect of the rights vested under the plan until that date if he finishes his career at Valeo.

The non-competition agreement no longer provides for the payment of any compensation, following the Chairman and Chief Executive Officer's decision to waive his right to such compensation in 2019. A prior decision of the Board of Directors is required to decide whether or not the 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.

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:

<i>(in millions of euros)</i>	2019	2018
SHORT-TERM BENEFITS		
■ Fixed, variable, exceptional and other compensation	10	14
■ Attendance fees	1	1
OTHER BENEFITS		
■ Post-employment benefits ⁽¹⁾	(7)	2
■ Share-based compensation ⁽²⁾	3	(5)

(1) The 7 million euro gain from post-employment benefits in 2019 is primarily attributable to the impact of the PACTE law on defined benefit plans.

(2) The 5 million euro gain from share-based payments in 2018 was primarily attributable to the impact of the failure to meet some or all of the performance obligations.

At December 31, 2019, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amounted to 15 million euros, compared with 24 million euros in 2018.

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 2018 and 2019 were carried out as described in Note 6.4.

Changes in goodwill in 2019 and 2018 are analyzed below:


<i>(in millions of euros)</i>	2019	2018
NET CARRYING AMOUNT AT JANUARY 1	2,550	2,512
Acquisitions during the year	1	3
Translation adjustment	20	35
NET CARRYING AMOUNT AT DECEMBER 31	2,571	2,550
Including accumulated impairment losses at December 31	-	-

The increase in goodwill in 2019 mainly reflects the appreciation in the Japanese yen (9 million euros) and the US dollar (7 million euros) against the euro between the two periods.

The increase in goodwill in 2018 mainly reflected the appreciation in the Japanese yen (20 million euros) and the US dollar (16 million euros) against the euro between the two periods.

Goodwill can be broken down by Business Group as follows:

(in millions of euros)

	December 31, 2019	December 31, 2018
 <ul style="list-style-type: none"> ■ 22% ■ Comfort & Driving Assistance Systems ■ 35% ■ Powertrain Systems ■ 24% ■ Thermal Systems ■ 18% ■ Visibility Systems ■ 1% ■ Other 		
GOODWILL	2,571	2,550

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost. 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:

(in millions of euros)	December 31, 2019			December 31, 2018
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	416	(335)	81	97
Patents and licenses	251	(142)	109	127
Capitalized development expenditure	4,070	(1,990)	2,080	1,720
Customer relationships and other intangible assets	700	(276)	424	475
OTHER INTANGIBLE ASSETS	5,437	(2,743)	2,694	2,419

Changes in intangible assets in 2019 and 2018 are analyzed below:

2019

<i>(in millions of euros)</i>	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2019	396	246	3,359	700	4,701
Accumulated amortization and impairment	(299)	(119)	(1,639)	(225)	(2,282)
NET CARRYING AMOUNT AT JANUARY 1, 2019	97	127	1,720	475	2,419
Acquisitions	23	3	769	11	806
Disposals	(2)	-	(4)	-	(6)
Impairment	-	-	(14)	1	(13)
Amortization	(39)	(21)	(403)	(48)	(511)
Translation adjustment	-	-	11	2	13
Reclassifications	2	-	1	(17)	(14)
NET CARRYING AMOUNT AT DECEMBER 31, 2019	81	109	2,080	424	2,694

2018

<i>(in millions of euros)</i>	Software	Patents and licenses ⁽¹⁾	Capitalized development expenditure ⁽¹⁾	Customer relationships and other intangible assets ⁽¹⁾	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2018	364	239	2,734	672	4,009
Accumulated amortization and impairment	(269)	(91)	(1,432)	(175)	(1,967)
NET CARRYING AMOUNT AT JANUARY 1, 2018	95	148	1,302	497	2,042
Acquisitions	34	9	716	21	780
Disposals	-	-	(1)	-	(1)
Impairment	-	1	(8)	2	(5)
Amortization	(39)	(21)	(302)	(48)	(410)
Translation adjustment	-	1	8	9	18
Reclassifications	7	(11)	5	(6)	(5)
NET CARRYING AMOUNT AT DECEMBER 31, 2018	97	127	1,720	475	2,419

⁽¹⁾ The amounts shown for other intangible assets differ from the amounts presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impacts of the allocation of goodwill to FTE automotive and Valeo-Kapec.

6.3 Property, plant and equipment

- Separately acquired property, plant and equipment are initially recognized at cost. 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

Depending on its nature, tooling specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred).

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 expenditure 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:

<i>(in millions of euros)</i>	December 31, 2019			December 31, 2018
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	359	(15)	344	337
Buildings	2,343	(1,223)	1,120	741
Machinery and industrial equipment	8,380	(5,239)	3,141	2,801
Specific tooling	2,339	(1,912)	427	400
Other property, plant and equipment	860	(585)	275	292
Property, plant and equipment in progress	39	-	39	50
PROPERTY, PLANT AND EQUIPMENT	14,320	(8,974)	5,346	4,621

Certain items of property, plant and equipment were pledged as security at December 31, 2019 (see Note 6.5.2).

Changes in property, plant and equipment in 2019 and 2018 are analyzed below:

2019

<i>(in millions of euros)</i>	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	352	1,815	7,635	2,181	821	50	12,854
Accumulated depreciation and impairment	(15)	(1,074)	(4,834)	(1,781)	(529)	-	(8,233)
NET CARRYING AMOUNT AT DECEMBER 31, 2018	337	741	2,801	400	292	50	4,621
Adoption of IFRS 16	8	377	9	-	46	0	440
NET CARRYING AMOUNT AT JANUARY 1, 2019	345	1,118	2,810	400	338	50	5,061
Acquisitions	3	125	755	162	123	12	1,180
Disposals	(2)	(16)	(6)	(6)	(5)	(3)	(38)
Impairment	-	-	2	1	-	-	3
Depreciation	(2)	(146)	(545)	(148)	(78)	-	(919)
Translation adjustment	5	15	23	3	1	-	47
Reclassifications	(5)	24	102	15	(104)	(20)	12
NET CARRYING AMOUNT AT DECEMBER 31, 2019	344	1,120	3,141	427	275	39	5,346

2018

<i>(in millions of euros)</i>	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, 2018⁽¹⁾	338	1,664	6,931	1,983	792	37	11,745
Accumulated depreciation and impairment	(15)	(996)	(4,432)	(1,645)	(547)	-	(7,635)
NET CARRYING AMOUNT AT JANUARY 1, 2018⁽¹⁾	323	668	2,499	338	245	37	4,110
Acquisitions	12	128	754	183	165	31	1,273
Disposals	-	(1)	(35)	(2)	(1)	(3)	(42)
Impairment	(1)	-	(6)	3	1	-	(3)
Depreciation	-	(76)	(479)	(135)	(48)	-	(738)
Translation adjustment	9	5	11	-	(3)	-	22
Reclassifications	(6)	17	57	13	(67)	(15)	(1)
NET CARRYING AMOUNT AT DECEMBER 31, 2018	337	741	2,801	400	292	50	4,621

(1) The amounts shown for land, buildings, machinery and industrial equipment and specific tooling differ from the amounts presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impacts of the allocation of goodwill to FTE automotive and Valeo-Kapec.

Leases

For leases falling within the scope of IFRS 16 – “Leases”, the lessee recognizes:

- a financial liability representing its obligation to pay for the right to use the asset, in the consolidated statement of financial position;
- a non-current asset representing its right to use the leased asset, in the consolidated statement of financial position;
- depreciation of the right-of-use asset and interest expenses on the lease liability, in the consolidated statement of income.

Lease liabilities

At the lease commencement date, the lease liability is measured at the present value of the minimum lease payments outstanding at that date, plus payments under any options that the lessee is reasonably certain to exercise.

The lease term used to calculate the lease liability is determined based on an economic analysis of any early termination, extension or renewal options or any options to purchase the underlying asset included in the enforceable term of the lease.

This amount is then measured at amortized cost using the effective interest rate. The carrying amount of the lease liability is subsequently increased by the interest due on the lease liability and reduced by the lease payments made.

The discount rates are determined based on the Group’s incremental borrowing rate, plus a spread to reflect the economic conditions in each country. They are determined taking into account the duration of the lease.

Right-of-use assets

At the lease commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises (i) the initial lease liability, (ii) any prepaid lease payments made, less any lease incentives received, (iii) any initial direct costs incurred by the lessee in establishing the lease, and (iv) an estimate of costs to be incurred by the lessee in dismantling or rehabilitating the underlying asset as required by the terms and conditions of the lease.

It is subsequently reduced by depreciation and any impairment losses. The right-of-use asset is depreciated on a straight-line basis. Any non-removable leasehold improvements are depreciated over either the adopted lease term or the estimated period of use, whatever is shorter.

If the lease transfers ownership of the underlying asset to the lessee or when the lease includes a purchase option that the lessee is reasonably certain to exercise, the right-of-use asset is depreciated over the useful life of the underlying asset under the same conditions as those applied to assets owned by the lessee. In all other cases, the right-of-use asset is depreciated over the reasonably certain useful life of the underlying asset.

Subsequently, the lease liability and the right-of-use asset are remeasured to reflect the following:

- changes in the lease term;
- changes in the assessment of an option;
- changes in the amounts expected to be payable under residual value guarantees;
- changes in the rates or indexes used to determine the lease payments;
- changes in the lease payments.

The main exemptions provided under IFRS 16 and adopted by the Group are:

- exclusion of short-term leases;
- exclusion of leases of low-value assets.

Lease payments on leases excluded from the scope of IFRS 16 and any variable payments not included in the initial measurement of the lease liability are recognized in operating expenses and presented within net cash flows from operating activities in the consolidated statement of cash flows.

For leases falling within the scope of IFRS 16, payments for the interest portion of the lease liability and payments for the principal portion are recorded under cash flows from financing activities in the consolidated statement of cash flows. Payments for the principal portion of the lease liability are added back to calculate free cash flow.

Movements in right-of-use assets included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	Right-of-use assets					Total
	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	-	13	40	27	5	85
Accumulated depreciation and impairment	-	(4)	(30)	(27)	(1)	(62)
NET CARRYING AMOUNT AT DECEMBER 31, 2018	-	9	10	-	4	23
Adoption of IFRS 16	8	377	9	-	46	440
NET CARRYING AMOUNT AT JANUARY 1, 2019	8	386	19	-	50	463
New contracts/Renewals/Modifications	-	26	6	-	24	56
Depreciation	(1)	(64)	(5)	-	(25)	(95)
Translation adjustment	-	5	1	-	-	6
NET CARRYING AMOUNT AT DECEMBER 31, 2019	7	353	21	-	49	430

In 2019, the expenses recorded with the respect to payments on leases excluded from the scope of IFRS 16 and any variable payments amounted to 74 million euros in 2019.

6.4 Impairment of fixed 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, 2019, there was a total of 27 CGUs.

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 "Segment reporting". 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 fixed 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 CGU and goodwill impairment tests to determine the recoverable amount of an asset or group of assets, unless otherwise specified.

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

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- cash flows are discounted based on a rate reflecting 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.

Following the application of IFRS 16 – “Leases”, the Group applied the following methodology at December 31, 2019:

- the capital employed tested does not include right-of-use assets and lease liabilities;
- recoverable amount is calculated based on post-tax cash flows, including payments for the principal portion of lease liabilities (corresponds to the Group's definition of cash flow);
- post-tax WACC does not include the impact of IFRS 16. 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 intake and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2018 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9.5% (stable compared to 2018), 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 1.13 (1.15 in 2018).

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 the medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill, the Group based itself on projected data for the automotive market, as well as its order intake 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 official and potential order intake.

The medium-term business plans for 2020-2024 are underpinned by the following assumptions:

- global automotive production, excluding commercial vehicles in China, of 91 million in 2022 and 96 million in 2024, representing average annual growth of 2.1% for 2019-2022 and 2.4% for 2019-2024. This assumption is consistent with several independent external forecasts and has been revised downwards compared with the forecasts used one year earlier. At the end of the period covered by the new business plan, Asia and the Middle East should represent 53% of global production, Europe and Africa 25%, North America 18% and South America 4%;
- 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: 1.25 US dollars, 9.00 Chinese renminbi, 134 Japanese yen, 1,400 South Korean won and 4.75 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 around 25% of cumulative original equipment sales over the five-year forecast period and approximately 50% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2019 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 2018.

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;
- 0.7-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:

<i>(in millions of euros)</i>	Headroom of the test	Impact on the headroom of the test			
	Based on 2019 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.7-pt decrease in the operating income used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,682	(472)	(204)	(246)	(828)
Powertrain Systems Business Group	1,073	(470)	(185)	(284)	(840)
Thermal Systems Business Group	661	(331)	(140)	(251)	(641)
Visibility Systems Business Group	1,537	(444)	(191)	(292)	(827)

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 2019, a fall of more than 20% in 2019 sales compared to 2018, 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 December 2019. Five CGUs were selected:

- the Electrical 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 Top Column Module Product Line, which now forms a separate CGU following the Group's decision to withdraw from this business;
- the Compressors Product Group (part of the Thermal Systems Business Group).

The impairment test carried out on the Air Charging Systems CGU in 2019 led to the recognition of an impairment loss of 9 million euros in other income and expenses (see Note 4.6.2.3), reflecting the Group's decision to stop investing in this business and to focus its resources on other high potential products.

The Electronic Systems Product Group CGU was merged into the Electrical Systems Product Group CGU in 2019. The merged CGU no longer indicates any risk of impairment and is therefore no longer tested. The impairment loss recognized in 2016 was reversed during the year in an amount of 2 million euros (see Note 4.6.2.3).

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;
- 0.7-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 five CGUs tested for impairment:

(in millions of euros)	Headroom of the test		Impact on the headroom of the test		
	Based on 2019 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.7-pt decrease in the operating income used to calculate the terminal value	Combination of all three factors
Electrical Systems Product Group CGU	1,157	(214)	(92)	(117)	(379)
Air Charging Systems Product Line CGU ⁽¹⁾	1	-	N/A	N/A	N/A
Active Safety Systems Product Line CGU	307	(108)	(41)	(63)	(190)
Top Column Modules Product Line CGU ⁽¹⁾	11	(4)	N/A	N/A	N/A
Compressors Product Group CGU	25	(30)	(12)	(35)	(67)

(1) The impairment tests on the Air Charging Systems Product Line CGU and the Top Column Module Product Line CGU assume a finite time period.

6.5 Off-balance sheet commitments relating to leases and investments

6.5.1 Leases

At December 31, 2019, future minimum commitments on outstanding leases excluded from the scope of IFRS 16 and on leases signed but not yet in force are as follows:

(in millions of euros)	December 31, 2019
Less than 1 year	11
1 to 5 years	68
More than 5 years	1
TOTAL	80

The main lease signed in 2019 but not yet in force concerns a turnkey commercial lease for the new Group headquarters in Paris, which is still under construction. The lease represents an estimated commitment of 62 million euros.

The reconciliation between future minimum lease payments on IAS 17 operating leases at December 31, 2018 (which amounted to 474 million euros) and the lease liability recognized under IFRS 16 at January 1, 2019 is presented in Note 1.1.1.

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 565 million euros at December 31, 2019, versus 718 million euros at December 31, 2018, as well as other commitments relating to operating activities in the amount of 22 million euros.

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, 2019	December 31, 2018
Property, plant and equipment	1	1
Financial assets	2	2
TOTAL	3	3

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 intended to cover commercial, tax and employee-related 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 2019 are shown in the table below:

<i>(in millions of euros)</i>	Provisions for product warranties	Provisions for restructuring costs	Other provisions	Total
PROVISIONS AT JANUARY 1, 2019	309	42	279	630
Additions	113	19	35	167
Amounts utilized during the year	(114)	(16)	(41)	(171)
Reversals	(44)	-	(31)	(75)
Changes in scope	-	-	-	-
Reclassifications ⁽¹⁾	-	-	(39)	(39)
Translation adjustment and other movements	2	-	-	2
PROVISIONS AT DECEMBER 31, 2019	266	45	203	514
Of which current portion (less than one year)	114	22	65	201

(1) Further to the application of IFRIC 23, an amount was reclassified from "Other provisions" to "Taxes payable" (see Note 1.1.1).

In 2019, the Group did not recognize any other individually material income items offsetting expected outflows of resources in respect of the other provisions mentioned above.

At December 31, 2019 and 2018, provisions break down as follows:

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
<p>514 in 2019</p> <ul style="list-style-type: none"> ■ 52% Provisions for product warranties ■ 9% Provisions for restructuring costs ■ 6% Provisions for tax-related disputes ■ 3% Provisions for environmental risks ■ 4% Provisions for onerous contracts ■ 26% Provisions for employee-related and other disputes 	266	309
	45	42
	30	73
	14	15
	25	45
	134	146
PROVISIONS FOR OTHER CONTINGENCIES	514	630

Provisions for employee-related and other disputes, which totaled 134 million euros at December 31, 2019, 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 advice of the Group's legal counsel, the provisions deemed necessary were set aside to cover the estimated outflows of resources, taking into account any compensation agreements signed between the various stakeholders.

In its decision of November 20, 2018, the Nancy Administrative Court of Appeal ordered the French Ministry of Labor to list the Reims site as a facility which may give rise to rights to benefits under the French early retirement scheme for asbestos workers (*Allocation de Cessation Anticipée d'Activité des Travailleurs de l'Amiante* - ACAATA). The site was added to the list on January 7, 2020 and the impacts of the decision are reflected in the Group's financial statements.

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 related to components and systems supplied to the automotive industry.

In the United States, the Department of Justice and Valeo's Japanese subsidiary, Valeo Japan Co. Ltd, reached a settlement of the Department of Justice's investigation into conduct involving climate control products on September 20, 2013 as part of which Valeo Japan Co. Ltd agreed to pay a fine of 13.6 million US dollars. This settlement 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. Separately, the Department of Justice investigated

conduct involving access mechanism products, but granted Valeo amnesty and so did not fine Valeo for this conduct.

Also in the United States, three class actions were filed by automotive dealers, direct purchasers, and automotive endpayers against Valeo Group companies with the United States District Court for the Eastern District of Michigan, for alleged antitrust violations involving the sale of climate control products. Each of these class actions was settled with court approval. Separately, Valeo reached court-approved settlement agreements in connection with two prospective actions relating to access mechanisms over which automotive dealers and end customers were threatening to file claims. Certain customers opted out of the aforementioned US settlement agreements, and Valeo has reached settlements with some of these customers.

In Europe, the European Commission issued a decision on March 8, 2017, fining certain automotive air conditioning and engine cooling suppliers for conduct involving thermal systems products. Valeo was fined a total of 26.8 million euros. On June 21, 2017, the European Commission issued a further decision fining automotive lighting system suppliers and marking an end to all its investigations involving Valeo. Valeo was among those identified by the Commission in the automotive lighting systems case, but was granted immunity and was therefore not fined.

Valeo is in contact with a number of European automakers regarding claims for damages resulting from the European Commission's proceedings. One of those, BMW on November 25, 2019, filed a complaint with the Munich Regional Court in Germany, naming Denso and Valeo and seeking compensation for alleged damages based, in Valeo's view, on unfounded claims related to conduct identified in the European Commission's March 2017 Thermal Systems decision.

In Canada, certain class actions remain ongoing.

Additional actions for damages can or may be brought further to the aforementioned antitrust investigations. The Group sets aside provisions whenever the payment of compensation is likely and can be quantified.

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 associated with 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);
 - accounts and notes receivable (see Note 4.2) and payable.

8.1.1 Fair value of financial assets and liabilities

	2019 carrying amount under IFRS 9			December 31, 2019	December 31, 2018
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
<i>(in millions of euros)</i>					
ASSETS					
Non-current financial assets:					
■ Long-term investments	-	62	170	232	217
■ Long-term loans and receivables (including accrued interest)	344	-	-	344	295
■ Deposits and guarantees	28	-	-	28	32
■ Other non-current financial assets	6	-	-	6	5
■ Hedging derivatives	-	61	-	61	25
■ Trading derivatives	-	-	31	31	16
Assets relating to pensions and other employee benefits	-	13	-	13	4
Accounts and notes receivable	2,821	-	-	2,821	2,781
Other current financial assets:					
■ Hedging derivatives	-	13	-	13	6
■ Trading derivatives	-	-	4	4	7
■ Accrued interest	-	-	3	3	2
Cash and cash equivalents	-	-	1,773	1,773	2,357
LIABILITIES					
Non-current financial liabilities:					
■ Hedging derivatives	-	3	-	3	9
■ Trading derivatives	-	-	35	35	7
Bonds	3,429	-	-	3,429	3,745
Schuldschein loan (German private placement)	547	-	-	547	-
Other long-term debt	634	-	-	634	155
Liabilities associated with put options granted to holders of non-controlling interests	-	79	-	79	89
Accounts and notes payable	4,762	-	-	4,762	4,475
Other current financial liabilities:					
■ Hedging derivatives	-	2	-	2	10
■ Trading derivatives	-	-	12	12	32
Short-term debt	269	-	-	269	900

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.

For the *Schuldschein* loan, the fair value of the fixed portion is measured by discounting future cash flows at the market interest rate at the reporting date. This method corresponds to Level 2 in the fair value hierarchy.

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, 2019			December 31, 2018		
	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	1,773	1,773	1	2,357	2,357	1
Derivative financial instruments ⁽¹⁾	109	109	2-3	54	54	2-3
LIABILITIES						
Bonds	3,429	3,411	1	3,745	3,598	1
<i>Schuldschein</i> loan (German private placement)	547	552	2	-	-	-
Other long-term debt	634	634	2	155	155	2
LOANS RECOGNIZED AT AMORTIZED COST	4,610	4,597		3,900	3,753	
Short-term debt	269	269	1-2	900	900	1-2
Derivative financial instruments ⁽¹⁾	52	52	2-3	58	58	2-3
Put options granted to holders of non-controlling interests	79	79	3	89	89	3

(1) 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. 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.

IFRS 13 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 credit risk on derivatives is calculated according to historical probabilities of default and a recovery rate, as observed on the market.

At December 31, 2018 and 2019, this has only a minimal impact on the Group.

8.1.2 Gross debt

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

At December 31, 2019, the Group's gross debt can be analyzed as follows:

(in millions of euros)	December 31, 2019			December 31, 2018		
	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	4,417	193	4,610	3,466	434	3,900
Put options granted to holders of non-controlling interests	20	59	79	17	72	89
Short-term debt	-	269	269	-	900	900
GROSS DEBT	4,437	521	4,958	3,483	1,406	4,889

8.1.2.1 Long-term debt

▼ This caption primarily includes bonds, lease liabilities 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.

Lease liabilities are measured in accordance with Note 6.3.

Analysis of long-term debt

(in millions of euros)	December 31, 2019	December 31, 2018
Bonds	3,429	3,745
Schuldschein loan (German private placement)	547	-
Lease liabilities ⁽¹⁾	441	32
Other borrowings	147	84
Accrued interest	46	39
LONG-TERM DEBT	4,610	3,900

(1) The modified retrospective application of IFRS 16 – "Leases" had a 440 million euro impact on long-term debt at the transition date. Lease liabilities totaled 472 million euros at January 1, 2019 (see Note 1.1.1).

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	Schuldschein loan (German private placement)	Other loans and lease liabilities	Accrued interest	Total
CARRYING AMOUNT AT DECEMBER 31, 2018	3,745	-	116	39	3,900
Adoption of IFRS 16	-	-	440	-	440
CARRYING AMOUNT AT JANUARY 1, 2019	3,745	-	556	39	4,340
Increases/Subscriptions	-	548	65	-	613
New contracts/Renewals/Modifications	-	-	53	-	53
Redemptions/Repayments	(350)	-	(97)	-	(447)
Value adjustments	25	(1)	1	-	25
Translation adjustment	9	-	9	-	18
Other movements	-	-	1	7	8
CARRYING AMOUNT AT DECEMBER 31, 2019	3,429	547	588	46	4,610

In April 2019, the Group issued a *Schuldschein* loan (a German private placement) for a nominal amount of 548 million euros, breaking down as follows:

- a 115 million euro tranche maturing in 2023 and paying a fixed coupon of 0.95%;
- a 221 million euro tranche maturing in 2023 and paying a variable coupon of 6-month Euribor (with a floor of 0%) +0.95%;
- a 90 million euro tranche maturing in 2025 and paying a fixed coupon of 1.29%;
- a 122 million euro tranche maturing in 2025 and paying a variable coupon of 6-month Euribor (with a floor of 0%) +1.15%;

The two variable-rate tranches are hedged by floored interest rate swaps (the floor only applies for the first two years), which exchange the variable coupon with a 0% floor for a fixed rate. The swaps have been classified as cash flow hedges.

In addition, the Group redeemed the 350 million euro bond issued in 2017 under the Euro Medium Term Note financing program.

At December 31, 2019, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at December 31, 2019 (in millions of euros)	Issuance	Maturity	Nominal (in millions)	Nominal amount outstanding (in millions)	Currency	Nominal interest rate	Other information
Convertible bond	495	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)	598	September 2017	September 2022	600	600	EUR	0.3752%	-
Bond (EMTN program)	498	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	648	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	596	June 2018	June 2025	600	600	EUR	1.5%	-
Bond (EMTN program)	594	March 2016	March 2026	600	600	EUR	1.625%	-
Schuldschein loan (German private placement)	115	April 2019	April 2023	115	115	EUR	0.95%	-
Schuldschein loan (German private placement)	220	April 2019	April 2023	221	221	EUR	6-month Euribor +0.95%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of -0.041%
Schuldschein loan (German private placement)	90	April 2019	April 2025	90	90	EUR	1.291%	-
Schuldschein loan (German private placement)	122	April 2019	April 2025	122	122	EUR	6-month Euribor +1.15%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of 0.145%
Lease liabilities	441	-	-	-	441	-	-	-
Other long-term debt ⁽¹⁾	193	-	-	-	193	-	-	-
LONG-TERM DEBT	4,610							

(1) Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 74 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

At December 31, 2019, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (versus 3.3 billion euros drawn at December 31, 2018).

The Group also has confirmed bank credit lines with an average maturity of 3.0 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines had been drawn down at December 31, 2019. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A1 from Moody's.

Maturity of long-term debt

(in millions of euros)	Carrying amount	< 1 year	Maturity					2025 and beyond
			≥ 1 year and ≤ 5 years				> 5 years	
			2021	2022	2023	2024		
Bonds	3,429	-	495	598	498	648	1,190	
Schuldschein loan (German private placement)	547	-	-	-	335	-	212	
Lease liabilities	441	88	76	60	56	44	117	
Other borrowings	147	59	23	26	21	12	6	
Accrued interest	46	46	-	-	-	-	-	
LONG-TERM DEBT	4,610	193	594	684	910	704	1,525	

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, 2019, the average maturity of Valeo's (the parent company) debt was 4 years, down from 4.6 years at December 31, 2018.

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2019 was used for variable-rate interest.

(in millions of euros)	Carrying amount	< 1 year	Contractual cash flows					Total
			≥ 1 year and ≤ 5 years				> 5 years	
			2021	2022	2023	2024	2025 and beyond	
Bonds	3,429	47	559	647	545	742	1,229	3,767
Schuldschein loan (German private placement)	547	5	5	6	340	3	214	573
Other long-term debt	634	193	99	86	77	56	123	634
LONG-TERM DEBT	4,610	245	663	739	962	800	1,566	4,974

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 covenant:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2019 ⁽¹⁾
Credit lines	Consolidated net debt/consolidated EBITDA	< 3.5	1.1

(1) Calculated over 12 months.

The early repayment clauses were renegotiated with all banks to reflect the application of IFRS 16 – "Leases".

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).

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 these 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 are as follows:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 13, 2020	BBB-	Stable	A-3
Moody's	March 22, 2019	Baa3	Stable	P-3

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.

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 recorded in stockholders' equity as a deduction from 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, 2018	82	65	17
Fair value adjustments recognized against non-controlling interests	2	(1)	3
Fair value adjustments recognized in retained earnings	5	8	(3)
LIABILITIES AT DECEMBER 31, 2018	89	72	17
Fair value adjustments recognized against non-controlling interests	(1)	(1)	-
Fair value adjustments recognized in retained earnings	(9)	(12)	3
LIABILITIES AT DECEMBER 31, 2019	79	59	20

At December 31, 2019, 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, 2019, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. Marco Polo has been granted a put option which it may exercise at any time following an agreed period of one year.

The maturity of these financial liabilities is as follows:

(in millions of euros)	Carrying amount	Maturity						
		On demand	< 1 year	≥ 1 year and ≤ 5 years				> 5 years
				2021	2022	2023	2024	2025 and beyond
Liabilities associated with put options granted to holders of non-controlling interests	79	59	-	20	-	-	-	-

8.1.2.3 Short-term debt

- Short-term debt mainly includes credit balances with banks as well as Negotiable European Commercial Paper (NEU CP) (previously “commercial paper”) issued by Valeo for its short-term financing needs. Commercial paper has a maturity of between three and six months and is valued at amortized cost.

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Negotiable European Commercial Paper	243	814
Short-term loans and overdrafts	26	86
SHORT-TERM DEBT	269	900

Valeo has a short-term Negotiable European Commercial Paper (NEU CP) financing program for a maximum amount of 2 billion euros. At December 31, 2019, a total of 243 million euros (814 million euros at December 31, 2018) had been drawn on this program.

The 26 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 associated with 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).

<i>(in millions of euros)</i>	December 31, 2019			December 31, 2018		
	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	4,417	193	4,610	3,466	434	3,900
Put options granted to holders of non-controlling interests	20	59	79	17	72	89
Short-term debt	-	269	269	-	900	900
GROSS DEBT	4,437	521	4,958	3,483	1,406	4,889
Long-term loans and receivables (including accrued interest)	(336)	(8)	(344)	(295)	-	(295)
Accrued interest	-	(3)	(3)	-	(2)	(2)
Cash and cash equivalents	-	(1,773)	(1,773)	-	(2,357)	(2,357)
Derivative instruments associated with interest rate and foreign currency risks⁽¹⁾	(26)	5	(21)	5	8	13
NET DEBT	4,075	(1,258)	2,817	3,193	(945)	2,248

(1) At end-December 2019 and end-December 2018, the fair value of derivative instruments associated with an item of net debt comprises the fair value of derivatives hedging financial currency risk and the fair value of derivatives hedging interest rate 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.

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Marketable securities	102	738
Cash	1,671	1,619
CASH AND CASH EQUIVALENTS	1,773	2,357

Cash and cash equivalents totaled 1,773 million euros at December 31, 2019, consisting of 102 million euros of marketable securities with a low price volatility risk, and 1,671 million euros in cash. Marketable securities consist solely of 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 such cases, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company. The Group has set up a cross-border, multi-currency cash pooling arrangement in euros, Hungarian forint and Czech koruna for European subsidiaries, in US dollars for US subsidiaries, and in

Chinese renminbi for Chinese subsidiaries. This arrangement enables 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:

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Euro	2,396	2,624
US dollar	554	391
Japanese yen	89	(109)
Brazilian real	(52)	(19)
South Korean won	(116)	(117)
Chinese renminbi	(39)	(451)
Other currencies	(15)	(71)
TOTAL	2,817	2,248

8.1.4 Derivative financial instruments

- ▼ The Group uses derivative financial instruments to manage and reduce its exposure to foreign exchange and commodity 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 the 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 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 financial income and expenses and are generally offset by changes in the fair value of the underlying receivables and payables. However, foreign currency hedges of foreign currency financing are designated as fair value hedges in order to be eligible for the option available under IFRS 9, whereby forward points are amortized (on a straight-line basis over the term of the hedge) and recognized in the statement of income within cost of net debt.

Foreign currency derivatives hedging highly probable future transactions that are generally material and will impact 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 margin 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

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

The Group elected to early adopt, as of January 1, 2019, the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IASB in September 2019 in the context of the interest rate benchmark reform.

These amendments enable the Group to disregard the uncertainties arising from benchmark rate reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present.

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.

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

Interest rate derivatives designated as hedges of borrowings indexed to a benchmark rate are presented in Note 8.1.4.3. The impacts of the upcoming benchmark rate reform are currently being analyzed by the Group.

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, 2019 and 2018:

(in millions of euros)	Accounting classification	Nominal purchase price ⁽¹⁾	Nominal sale price ⁽¹⁾	OCI reserves	Other financial assets		Other financial liabilities		December 31, 2019	December 31, 2018
					Non-current	Current	Non-current	Current	Total	Total
Forward foreign currency contracts	Cash flow hedge	791	(217)	38	31	11	-	(2)	40	21
Forward foreign currency contracts	Trading	356	(198)	-	-	1	-	(2)	(1)	-
Total operating foreign currency derivatives		1,147	(415)	38	31	12	-	(4)	39	21
Swaps	Fair value hedge	468	468	(4)	29	-	(1)	-	28	(1)
Swaps	Trading	228	228	-	-	3	(1)	(9)	(7)	(12)
Total financial foreign currency derivatives		696	696	(4)	29	3	(2)	(9)	21	(13)
Swaps - Purchases	Cash flow hedge	104	-	3	-	2	-	-	2	(8)
Total commodity derivatives		800	696	3	-	2	-	-	2	(8)
Floored swaps	Cash flow hedge	343	343	(1)	-	-	(2)	-	(2)	-
Cross-currency swap	Cash flow hedge	159	159	3	1	-	-	-	1	-
Cross-currency swap	Trading	14	14	-	-	-	1	(1)	-	-
Total interest rate derivatives		516	516	2	1	-	(1)	(1)	(1)	-
Convertible bond options	Trading	59	59	-	2	-	(2)	-	-	-
Cross options	N/A	N/A	N/A	N/A	29	-	(33)	-	(4)	(4)
Total other derivatives				-	31	-	(35)	-	(4)	(4)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS				39	92	17	(38)	(14)	57	(4)

(1) The nominal amounts of the derivatives are expressed in euros.

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 IFRS 9 – "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 IFRS 9. The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies.

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.

As in 2018, the ineffective portion of these hedges of operational currency risk was not material in 2019.

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 financing program.

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, is hedged by EUR/USD currency swaps through to maturity. These swaps have been documented as fair value hedges.

The unrealized gain of 22 million euros mainly includes currency swaps relating to hedges of intragroup loans and borrowings.

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):

<i>(in millions of euros)</i>	December 31, 2019					December 31, 2018
	USD	JPY	EUR	Other currencies	Total	Total
Accounts and notes receivable	156	18	521	24	719	725
Other financial assets	350	71	111	779	1,311	641
Accounts and notes payable	(221)	(66)	(710)	(69)	(1,066)	(1,091)
Long-term debt	(1,095)	(79)	(263)	(596)	(2,033)	(1,299)
GROSS EXPOSURE	(810)	(56)	(341)	138	(1,069)	(1,024)
Forward sales	(311)	(97)	(68)	(706)	(1,182)	(540)
Forward purchases	1,056	130	79	412	1,677	1,117
NET EXPOSURE	(65)	(23)	(330)	(156)	(574)	(447)

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

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.1234 US dollars and 121.94 Japanese yen to 1 euro at December 31, 2019 (1.145 and 125.85, respectively, at December 31, 2018).

An increase of 10% in the value of the euro against these currencies at December 31, 2019 and 2018 would have had the following pre-tax impacts:

<i>(in millions of euros)</i>	December 31, 2019		December 31, 2018	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure to US dollar	7	(14)	(23)	(28)
Exposure to Japanese yen	2	(8)	(3)	(7)
Exposure to euro	(33)	5	(10)	(6)
TOTAL	(24)	(17)	(36)	(41)

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, 2019 would have had the opposite impacts to the ones shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2019 were used to value foreign currency derivatives.

(in millions of euros)	Carrying amount	< 1 year	Contractual cash flows					Total
			≥ 1 year and ≤ 5 years				> 5 years	
			2021	2022	2023	2024	2025 and beyond	
Forward foreign currency contracts used as hedges:								
▪ Assets	43	11	6	6	9	4	7	43
▪ Liabilities	(4)	(4)	-	-	-	-	-	(4)
Currency swaps used as hedges:								
▪ Assets	32	3	29	-	-	-	-	32
▪ Liabilities	(11)	(9)	(1)	(1)	-	-	-	(11)

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 IFRS 9.

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, 2019 and 2018 break down as follows:

(in metric tons)	December 31, 2019	December 31, 2018
Aluminum	36,536	39,158
Secondary aluminum	9,881	8,840
Copper	10,100	8,890
Zinc	588	895
Polypropylene	268	4,189
TOTAL	57,373	61,972

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 3 million euros relating to existing hedges was recognized in other comprehensive income for 2019.

An unrealized loss of 8 million euros recognized in other comprehensive income in 2018 and arising on existing commodity hedges was reclassified in full to operating income in 2019.

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, 2019 and 2018:

(in millions of euros)	December 31, 2019		December 31, 2018	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	9	-	10
Impact of a 10% fall in metal futures prices	-	(9)	-	(10)

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

Remaining contractual maturities of commodity derivatives

Forward prices on the London Metal Exchange (LME) at December 31, 2019 were used to determine contractual maturities for commodity derivatives.

(in millions of euros)	Carrying amount	< 1 year	Contractual cash flows				2025 and beyond	Total
			≥ 1 year and ≤ 5 years					
			2021	2022	2023	2024		
Commodity derivatives:								
■ Assets	2	2	-	-	-	-	2	
■ Liabilities	-	-	-	-	-	-	-	

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, 2019, 99% of long-term debt (i.e., due in more than one year) was at fixed rates (91% at December 31, 2018).

In March 2019, the Group converted the 159 million euro loan granted to one of its Czech subsidiaries into Czech koruna. At the same time, the Group set up a cross currency swap in Czech koruna for the same amount and with the same maturity. The swap has been classified as a cash flow hedge.

In May 2019, a Group subsidiary in Japan converted the 1.7 billion Japanese yen loan granted to one of its Indonesian subsidiaries into Indonesian rupiah. At the same time, the Japanese subsidiary set up a cross currency swap in Indonesian rupiah for the same amount and with the same maturity. The swap has not been classified as a hedge.

The two variable-rate tranches of the *Schuldschein* loan issued in April 2019 are hedged by floored interest rate swaps, which exchange the variable coupon with a 0% floor for a fixed rate. The swaps have been classified as cash flow hedges.

The Group had no outstanding interest rate swaps at December 31, 2018.

(in millions of euros)	December 31, 2019		December 31, 2018	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
■ CZK loan	159	1	-	-
■ IDR loan	14	(1)	-	-
Floored interest rate swaps:				
■ <i>Schuldschein</i> loan (German private placement)	343	(2)	-	-
TOTAL LIABILITIES	516	(2)	-	-

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:

2019

<i>(in millions of euros)</i>	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	436	26	2,672	220	1,403	122	4,511	368	4,879
Loans	-	(8)	-	(336)	-	-	-	(344)	(344)
Accrued interest	-	(3)	-	-	-	-	-	(3)	(3)
Cash and cash equivalents	-	(1,773)	-	-	-	-	-	(1,773)	(1,773)
NET POSITION BEFORE HEDGING	436	(1,758)	2,672	(116)	1,403	122	4,511	(1,752)	2,759
Derivative instruments	-	-	221	(221)	122	(122)	343	(343)	-
NET POSITION AFTER HEDGING	436	(1,758)	2,893	(337)	1,525	-	4,854	(2,095)	2,759

2018

<i>(in millions of euros)</i>	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	898	436	1,654	-	1,915	-	4,467	436	4,903
Loans	-	-	-	(295)	-	-	-	(295)	(295)
Cash and cash equivalents	-	(2,357)	-	-	-	-	-	(2,357)	(2,357)
NET POSITION BEFORE HEDGING	898	(1,921)	1,654	(295)	1,915	-	4,467	(2,216)	2,251
Derivative instruments	-	-	-	-	-	-	-	-	-
NET POSITION AFTER HEDGING	898	(1,921)	1,654	(295)	1,915	-	4,467	(2,216)	2,251

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, 2019, almost all long-term debt was at fixed rates. 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:

<i>(in millions of euros)</i>	December 31, 2019		December 31, 2018	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1-point increase in interest rates	21	-	23	-

Similarly, at December 31, 2019, a sudden 1% fall in interest rates would have had the opposite impact for the same amount.

8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2019, 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 2 million euros at December 31, 2019, unchanged versus end-December 2018.
- Put and call options granted by Valeo and Siemens on the creation of their joint venture:
 - 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 27 million euros at December 31, 2019 and 12 million euros at December 31, 2018;

- 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, 2019 and 16 million euros at December 31, 2018.

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.

Contractual maturities of other material derivative financial instruments

(in millions of euros)	Carrying amount	< 1 year	Contractual cash flows				
			≥ 1 year and ≤ 5 years				> 5 years
			2021	2022	2023	2024	2025 and beyond
Convertible bond options							
■ Assets	2	-	2	-	-	-	-
■ Liabilities	(2)	-	(2)	-	-	-	-
Put and call options relating to the Valeo-Siemens joint venture ⁽¹⁾	-						
■ Assets	27	-	27	-	-	-	-
■ 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 long-term investments.

Guarantee deposits are valued at amortized cost.

Long-term investments primarily include investments in non-consolidated companies and mutual funds, which are measured at fair value.

Changes in the fair value of investments in non-consolidated companies are recorded in the statement of income, unless the investment is neither held for trading nor contingent consideration recognized by an acquirer as part of a business combination. In such cases, the Group may make an irrevocable election at initial recognition of each

investment to present subsequent changes in fair value in other comprehensive income, and dividend income in the statement of income. Once this election has been made, unrealized gains and losses recognized in other comprehensive income may not subsequently be recycled to the statement of income, even in the event of disposal of the related investment.

The election described above for equity instruments is not available for mutual funds. Accordingly, changes in fair value are recognized under other financial income and expenses in the consolidated statement of income.

The fair value of securities listed on an active market is their stock market value.

Long-term investments totaled 232 million euros at end-December 2019 and can be analyzed as follows:

(in millions of euros)	2019	2018
LONG-TERM INVESTMENTS AT JANUARY 1	217	172
Acquisitions	13	43
Disposals	(8)	-
Changes in fair value recognized in equity	3	(21)
Changes in fair value recognized in income	29	22
Dividends paid by Company mutual funds	(24)	-
Translation adjustment	2	1
LONG-TERM INVESTMENTS AT DECEMBER 31	232	217

They mainly comprise investments in the following companies:

<i>(in millions of euros)</i>	2019	2018
Hubei Cathay China	49	47
Sino-French Innovation Fund (Cathay)	50	47
Sino-French Innovation Fund II (Cathay)	25	25
Toyota	31	25
Other long-term investments ⁽¹⁾	77	73
LONG-TERM INVESTMENTS AT DECEMBER 31	232	217

(1) Other investments for less than 25 million euros each in investment funds and in listed companies over which Valeo exercises neither control nor significant influence.

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, 2019, these instruments represented 119 million euros of accounts and notes receivable and 155 million euros of accounts and notes payable (102 million euros and 102 million euros, respectively, at December 31, 2018).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves the 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.

<i>(in millions of euros)</i>	2019	2018
Interest expense ⁽¹⁾	(118)	(89)
Interest income	45	23
COST OF NET DEBT	(73)	(66)

(1) Including, in 2019, finance costs for 1 million euros on undrawn credit lines and financial expenses for 4 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research tax credits.

8.2.2 Other financial income and expenses

- Other financial income and expenses notably include:
 - the ineffective portion of 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 of 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;
 - changes in the fair value of long-term investments held for trading.

<i>(in millions of euros)</i>	2019	2018
Net interest cost on provisions for pensions and other employee benefits ⁽¹⁾	(23)	(24)
Currency gains (losses)	(7)	(21)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Gains (losses) on long-term investments held for trading	29	22
Other	-	(1)
OTHER FINANCIAL INCOME AND EXPENSES	(2)	(25)

(1) See Note 5.3.4.

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

<i>(in millions of euros)</i>	2019	2018
Current taxes	(231)	(319)
Deferred taxes	(32)	16
INCOME TAXES	(263)	(303)

The Group recognized income tax expense of 263 million euros for 2019, corresponding to an effective tax rate of 29.4%, in particular reflecting deferred taxes recognized.

9.1.2 Tax proof

<i>(in millions of euros)</i>	2019	2018
NET INCOME (LOSS) BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	894	1,056
Standard tax rate in France	34.43%	34.43%
THEORETICAL INCOME TAX EXPENSE	(308)	(364)
Impact of:		
■ Unrecognized deferred tax assets and unused tax losses (current year)	(21)	(22)
■ Recognition of previously unrecognized deferred tax assets	-	35
■ Other income tax rates	81	98
■ Utilization of prior-year tax losses	3	6
■ Permanent differences between accounting income and taxable income	1	(39)
■ Tax credits	2	2
■ <i>Cotisation sur la valeur ajoutée des entreprises (CVAE)</i>	(21)	(19)
GROUP INCOME TAX EXPENSE	(263)	(303)

- In 2019, unrecognized deferred tax assets and unused tax losses by main country chiefly relate to Germany, Brazil and China.

- The favorable 81 million euros impact relating to tax rates that are different from the standard tax rate breaks down as follows:

Country	Current tax rate ⁽¹⁾	2019	2018
China	25.0%	25	21
South Korea	24.2%	17	25
Poland	19.0%	10	13
United States	21.0%	11	26
Germany	27.8%	(10)	(8)
Spain	25.0%	7	7
Turkey	22.0%	6	6
Czech Republic	19.0%	2	3
Japan	31.8%	3	2
Other countries		10	3
TOTAL		81	98

(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.

- Permanent differences between accounting income and taxable income comprise withholding tax not deducted and forfeited, non-deductible interest expense and the impact of the Base Erosion and Anti-Abuse Tax (BEAT) introduced in the 2017 US tax reform.
- 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 2019 therefore includes a net expense of 21 million euros in respect of the CVAE tax (19 million euros in 2018).

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. Each entity or tax consolidation group assesses the recoverability of its tax loss carryforwards annually using future taxable profit projections covering a period of five years, prepared on the basis of medium-term business plans drawn up by Group entities and approved by General Management. Where an entity or tax consolidation group reports a net deferred tax asset position, tax loss carryforwards may generally be recognized in the statement of financial position for a maximum period of five years. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and when 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 has 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:

<i>(in millions of euros)</i>	December 31, 2019	December 31, 2018
Loss carryforwards	715	655
Capitalized development expenditure	(357)	(293)
Pensions and other employee benefits	260	244
Other provisions	119	126
Inventories	77	67
Provisions for restructuring costs	9	7
Tooling	(1)	-
Non-current assets	(33)	(66)
Other	158	181
TOTAL DEFERRED TAXES, GROSS	947	921
Unrecognized deferred tax assets	(586)	(524)
TOTAL DEFERRED TAXES	361	397
Of which:		
■ Deferred tax assets	437	486
■ Deferred tax liabilities	(76)	(89)

At December 31, 2019, the main countries for which deferred tax assets were recognized in the statement of financial position for tax loss carryforwards are as follows:

<i>(in millions of euros)</i>	Loss carryforwards	Potential tax saving
United States	677	144
Germany ⁽¹⁾	272	75
France	160	25
MAIN COUNTRIES	1,109	244
Other countries		36
DEFERRED TAX ASSETS RECOGNIZED FOR TAX LOSS CARRYFORWARDS		280

(1) Tax loss carryforwards are recognized up to the amount of deferred tax liabilities.

For each of the above-mentioned countries, tax losses can be carried forward indefinitely.

At December 31, 2019, deferred tax assets not recognized by the Group can be analyzed as follows:

<i>(in millions of euros)</i>	Tax basis	Potential tax saving
Tax losses available for carryforward from 2020 through 2024	56	(12)
Tax losses available for carryforward in 2024 and thereafter	64	(15)
Tax losses available for carryforward indefinitely	1,596	(408)
CURRENT TAX LOSS CARRYFORWARDS	1,716	(435)
Unrecognized deferred tax assets on temporary differences		(151)
TOTAL		(586)

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, 2019 can be analyzed as follows:

	2019	2018
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	237,287,487	237,924,000
Number of treasury shares purchased/sold under the liquidity agreement ⁽¹⁾ or delivered following the exercise of stock options or free shares granted	957,981	600,925
Number of shares purchased under the share buyback program ⁽²⁾	-	(1,837,417)
Number of shares issued under employee stock ownership plans: Shares4U ⁽³⁾	783,643	599,979
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	239,029,111	237,287,487
Number of treasury shares held by the Group	2,007,632	2,965,613
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31⁽⁴⁾	241,036,743	240,253,100

(1) See Note 10.1.1.2.

(2) See Note 10.1.1.3.

(3) As part of the Shares4U 2019 plan (see Note 5.3), a 19 million euro capital increase reserved for employees took place on June 27, 2019, issuing 783,643 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 May 2, 2019, at 23.72 euros. This gave rise to 18 million euros in additional paid-in capital.

(4) At December 31, 2019 and December 31, 2018, each share had a par value of 1 euro and was fully paid up.

10.1.1.2 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, which is consistent with the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement - AFEI*), was signed with an investment services provider on March 21, 2019, replacing the previous liquidity agreement signed on April 22, 2004. At December 31, 2019, 100,000 shares and 14,610,641 euros had been allocated to the liquidity agreement compared with 591,500 shares and 997,523 euros at December 31, 2018.

10.1.1.3 Share buyback program

In 2018, Valeo requested the assistance of an investment services provider to meet certain objectives of its 2018 share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017.

Pursuant to the agreement signed on March 7, 2018, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, which undertook to acquire them at term, within the limit of 100 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 23, 2017.

Under the program, Valeo bought back a total of 1,837,417 shares in 2018. They have been 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.

The main features of the 2018 share buyback programs are as follows:

	2018 program
Date agreement took effect	March 8, 2018
Expiration date	May 29, 2018
Maximum nominal amount of buyback <i>(in millions of euros)</i>	100
Treasury shares delivered <i>(in number of shares)</i>	1,837,417
Average share price <i>(in euros per share)</i>	54.42

10.1.2 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 54 million euros (unrealized gain of 53 million euros at December 31, 2018). In 2019, this essentially reflected the rise in the value of the US dollar (29 million euros) and the Japanese yen (23 million euros), partially offset by the fall in the value of the Korean won (12 million euros) and the Turkish lira (9 million euros).

10.1.3 Non-controlling interests

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

<i>(in millions of euros)</i>	2019	2018
NON-CONTROLLING INTERESTS AT JANUARY 1	807	719
Share in net earnings	81	96
Dividends paid	(45)	(28)
Changes in scope of consolidation ⁽¹⁾	(21)	15
Fair value adjustments to put options granted to holders of non-controlling interests ⁽²⁾	1	(2)
Other movements	10	(3)
Translation adjustment	2	10
NON-CONTROLLING INTERESTS AT DECEMBER 31	835	807

(1) Changes in the scope of consolidation in 2019 primarily reflect the impacts of acquiring an additional 6.1% interest in Ichikoh during the year (see Note 2.2.1).

(2) See Note 8.1.2.2.

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, 2019	December 31, 2018	2019	2018
Pyeong Hwa Company ⁽¹⁾	50	50.0	608	585
Ichikoh China Alliance entities	5.8	6.7	27	27
Other Ichikoh entities	38.8	44.9	146	140
Other individually non-material interests	N/A	N/A	54	55
NON-CONTROLLING INTERESTS			835	807

(1) Pyeong Hwa Company is our longstanding partner in Valeo Pyeong Hwa entities in South Korea and our partner in Valeo-Kapec.

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.

	2019	2018
Net income attributable to owners of the Company <i>(in millions of euros)</i>	313	546
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	238,170	237,613
BASIC EARNINGS PER SHARE <i>(in euros)</i>	1.31	2.30

	2019	2018
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	238,170	237,613
Dilutive effect from <i>(in thousands)</i> :		
▪ Stock options	59	209
▪ Free shares	1,350	1,575
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES <i>(in thousands of shares)</i>	239,579	239,397
DILUTED EARNINGS PER SHARE <i>(in euros)</i>	1.31	2.28

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 2019 and 2018:

<i>(in millions of euros)</i>	2019	2018
Depreciation, amortization and impairment of fixed assets	1,425	1,143
Net additions to (reversals from) provisions	(82)	(2)
Losses (gains) on sales of fixed assets	12	11
Expenses related to share-based payment	24	3
Losses (gains) on long-term investments	(29)	(22)
Losses (gains) on previously held interests	-	36
Other losses (gains) with no cash effect	(1)	11
TOTAL	1,349	1,180

11.2 Changes in working capital

Changes in the main components of working capital in 2019 and 2018 are shown in the table below:

(in millions of euros)	2019	2018
Inventories	29	(200)
Accounts and notes receivable	(14)	124
Accounts and notes payable	248	80
Other receivables and payables	133	67
TOTAL	396	71

Accounts and notes receivable falling due after December 31, 2019, 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 and notes receivable" and in Note 4.5.2 "Amounts receivable under French research and CICE tax credits".

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

The net cash inflow of 19 million euros relates mainly to the reimbursement in 2019 of a levy paid by Valeo in 2018 on behalf of the seller as part of an acquisition.

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

In 2019, the Group recorded a net cash outflow of 13 million euros, chiefly relating to the additional impacts of disposals carried out in prior years (sale of the Passive Hydraulic Actuator business to the Italian group Raicam and sale of the Lighting business in Argentina).

11.8 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding changes in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets and payments for the principal portion of lease liabilities. 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.

11.5 Sale (purchase) of treasury stock

In 2018, the Group recorded a net cash outflow of 118 million euros, chiefly relating to the impact of the share buyback program implemented during the year, giving rise to a cash outflow of 100 million euros (see Note 10.1.1.3).

11.6 Issuance and repayment of long-term debt

In 2019, the Group issued a *Schuldschein* loan, a German private placement, in a nominal amount of 548 million euro (see Note 8.1.2.1). Repayments made on long-term borrowings primarily concerned the 350 million euro bond issued in 2017 (see Note 8.1.2.1) and net lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 84 million euros.

11.7 Acquisitions of investments without gain of control

In 2019, the Group recorded a net cash outflow of 29 million euros, chiefly relating to the impacts of increasing its shareholding in Ichikoh during the first half of the year (see Note 2.2.1).

Net cash flow corresponds to free cash flow less (i) cash flows in respect of 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 issuance 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 2019 and 2018:

<i>(in millions of euros)</i>	2019	2018
Gross operating cash flows	2,360	2,366
Income taxes paid	(292)	(267)
Changes in working capital	396	71
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	2,464	2,170
Net payments for purchases of intangible assets and property, plant and equipment	(1,906)	(2,025)
Net payments for the principal portion of lease liabilities ⁽¹⁾	(84)	-
Elimination of change in non-recurring sales of accounts and notes receivable ⁽²⁾	45	16
FREE CASH FLOW	519	161
Change in non-recurring sales of accounts and notes receivable ⁽²⁾	(45)	(16)
Net change in non-current financial assets ⁽¹⁾	(274)	(212)
Acquisitions of investments with gain of control, net of cash acquired	19	(41)
Acquisitions of investments in associates and/or joint ventures	(5)	(2)
Disposals of investments with loss of control, net of cash transferred	(13)	(7)
Acquisitions of investments without gain of control	(29)	(2)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(343)	(324)
Capital increase in cash	19	26
Sale (purchase) of treasury stock	15	(118)
Net interest paid/received	(71)	(58)
Loan issue costs and premiums	(2)	(5)
NET CASH FLOW	(210)	(598)

(1) The net cash inflow of 8 million euros in respect of lease receivables was set off against payments for the principal portion of lease liabilities.

(2) 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 IFRS 9 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 (excluding their network) and recognized in the consolidated statement of income for the Valeo parent company and the French subsidiaries, are as follows:

<i>(in millions of euros)</i>	Ernst & Young		Mazars	
	2019	2018	2019	2018
AUDIT				
Statutory audit, certification and review of the individual and consolidated financial statements	1.8	1.8	1.3	1.4
Non-audit services	-	0.1	-	0.1
TOTAL FEES	1.8	1.9	1.3	1.5

Non-audit services provided by Ernst & Young et Autres and Mazars to the Group and the entities it controls concern (i) comfort letters in connection with bond issues, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects.

NOTE 13 LIST OF CONSOLIDATED COMPANIES

Company	December 31, 2019		December 31, 2018	
	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
Valeo Siemens eAutomotive France SAS	EM	50	EM	50
Spheros Climatechnics France SAS ⁽⁴⁾	-	-	FC	100
Kuantic	EM	33	EM	33
SPAIN				
Valeo Climatización, SAU	FC	100	FC	100
Valeo España, SAU	FC	100	FC	100
Valeo Iluminación, SAU	FC	100	FC	100
Valeo Service España, SAU	FC	100	FC	100
Valeo Termico, SAU	FC	100	FC	100
ITALY				
Valeo Service Italia, SpA	FC	100	FC	100
Valeo, SpA	FC	100	FC	100

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

(1) See Note 2.2.1.

(2) Acquisition during the year with no material impact on the consolidated financial statements.

(3) Disposals.

(4) Mergers and liquidations.

(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH ⁽⁵⁾	FC	100	FC	100
Valeo GmbH ⁽⁵⁾	FC	100	FC	100
Valeo Holding GmbH ⁽⁵⁾	FC	100	FC	100
Valeo Klimasysteme GmbH ⁽⁵⁾	FC	100	FC	100
Valeo Schalter und Sensoren GmbH ⁽⁵⁾	FC	100	FC	100
Valeo Service Deutschland GmbH ⁽⁵⁾	FC	100	FC	100
Valeo Wischersysteme GmbH ⁽⁵⁾	FC	100	FC	100
peiker acustic GmbH ⁽⁵⁾	FC	100	FC	100
CloudMade Deutschland GmbH	EM	50	EM	50
Valeo Thermal Commercial Vehicles Germany GmbH ⁽⁵⁾	FC	100	FC	100
Valeo Siemens eAutomotive GmbH	EM	50	EM	50
Valeo Siemens eAutomotive Germany GmbH	EM	50	EM	50
Valeo Siemens eAutomotive BSAES Holding GmbH	EM	50	EM	50
FTE Group Holding GmbH ⁽⁵⁾	FC	100	FC	100
FTE Verwaltungs GmbH ⁽⁵⁾	FC	100	FC	100
FTE Asia GmbH ⁽⁵⁾	FC	100	FC	100
FTE automotive GmbH ⁽⁵⁾	FC	100	FC	100
FTE automotive systems GmbH ⁽⁵⁾	FC	100	FC	100
FTE automotive Möve GmbH ⁽⁵⁾	FC	100	FC	100
gestigon GmbH ⁽⁵⁾	FC	100	FC	100
Asaphus ⁽²⁾	EM	50	-	-
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	EM	50	EM	50
CloudMade Limited	EM	50	EM	50
FTE automotive UK Limited ⁽⁴⁾	-	-	FC	100
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited ⁽¹⁾	FC	94.2	FC	93

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

(1) See Note 2.2.1.

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Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
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	EM	50	EM	50
DENMARK				
FTE automotive Denmark ApS	FC	100	FC	100
SWEDEN				
Valeo Climate Control Sweden	FC	100	FC	100
FINLAND				
Valeo Thermal Commercial Vehicles Finland Oy (Ltd) (formerly Spheros-Parabus Oy)	FC	100	FC	100
NETHERLANDS				
Valeo CV (Netherlands)	FC	100	FC	100
Valeo Holding Netherlands BV	FC	100	FC	100
Valeo International Holding BV	FC	100	FC	100
Valeo Service Benelux BV ⁽⁴⁾	-	-	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 s.r.o. (formerly Valeo Vymeniky Tepla k.s.)	FC	100	FC	100
FTE automotive Czechia s.r.o.	FC	100	FC	100
SLOVAKIA				
FTE automotive Slovakia s.r.o.	FC	100	FC	100
POLAND				
Valeo Autosystemy SpZOO	FC	100	FC	100
Valeo Electric and Electronic Systems SpZOO	FC	100	FC	100
Valeo Service Eastern Europe SpZOO	FC	100	FC	100
Valeo Siemens eAutomotive Poland SpZOO	EM	50	EM	50
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo Siemens eAutomotive Hungary Kft.	EM	50	EM	50
ROMANIA				
Valeo Lighting Injection SA	FC	100	FC	100
Valeo Sisteme Termice SRL	FC	100	FC	100
RUSSIA				
Valeo Technology Rus Limited Liability Company (formerly Valeo Climate Control Tomilino LLC)	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100

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

(1) See Note 2.2.1.

(2) Acquisition during the year with no material impact on the consolidated financial statements.

(3) Disposals.

(4) Mergers and liquidations.

(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
UKRAINE				
CloudMade Ukraine LLC	EM	50	EM	50
Spheros-Elektron TzOV	EM	20	EM	20
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret AS	FC	100	FC	100
Valeo Ticari Tasitlar Termo Sistemleri AS (formerly Spheros Termo Sistemleri AS)	FC	100	FC	100
AFRICA				
TUNISIA				
DAV Tunisie SA	FC	100	FC	100
Valeo Embrayages Tunisie SA	FC	100	FC	100
Valeo Tunisie SA	FC	100	FC	100
MOROCCO				
Cablinal Maroc, SA ⁽⁴⁾	-	-	FC	100
Valeo Vision Maroc, SA	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
Mornay Trading (Proprietary) Limited (formerly Transfrig)	FC	100	FC	100
Valeo Thermal Systems East London (Pty) Ltd ⁽²⁾	FC	51	-	-
Valeo Thermal Commercial vehicles SA (Pty) Ltd (formerly Spheros SA (Pty) Ltd)	FC	100	FC	100
NORTH AMERICA				
UNITED STATES				
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.	EM	50	EM	50
ValeoThermal Commercial Vehicles North America, Inc. (formerly Spheros North America, Inc.)	FC	100	FC	100
PIAA Corp., USA ⁽¹⁾	FC	61.2	FC	55
Valeo Kapec North America, Inc.	FC	50	FC	50
FTE automotive USA Inc.	FC	100	FC	100
FTE automotive North America Inc.	FC	100	FC	100

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

(1) See Note 2.2.1.

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(3) Disposals.

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Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
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 Mexico Tech Center, SA de CV (formerly Valeo Technical Center)	FC	100	FC	100
Valeo Thermal Commercial Vehicles Mexico, SA de CV (formerly Spheros Mexico, SA de CV)	FC	60	FC	60
peiker acustic de Mexico, SA de CV	FC	100	FC	100
Valeo Kapec, SA de CV	FC	50	FC	50
FTE Mexicana, SA de CV	FC	100	FC	100
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Valeo climatizacao do Brasil - veiculos comerciais S/A (formerly Spheros Climatização do Brasil S/A)	FC	60	FC	60
Reparts Comercia de Peças para veiculos Ltda (formerly Reparts Industria E Comercio de Peças para veiculos Ltda)	FC	60	FC	60
Setbus Soluções Automotivas Eireli	FC	60	FC	60
FTE Indústria e Comércio Ltda ⁽⁴⁾	-	-	FC	100
ARGENTINA				
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA ⁽⁴⁾	-	-	FC	100
Valeo Climatizacion de vehiculos comerciales SAS	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia SAS	FC	60	FC	60
ASIA PACIFIC				
THAILAND				
Valeo Automotive (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 ⁽⁴⁾	-	-	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd ⁽¹⁾	FC	61.2	FC	55

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

(1) See Note 2.2.1.

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(3) Disposals.

(4) Mergers and liquidations.

(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
SOUTH KOREA				
Valeo Automotive Korea Co. Ltd	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	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	FC	50	FC	50
PHVS Co. Ltd	FC	49	FC	49
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
PH Asean Transmission (formerly VPH Indonesia Ltd)	FC	50	FC	50
PT. Ichikoh Indonesia ⁽¹⁾	FC	61.2	FC	55
MALAYSIA				
Valeo Malaysia SDN BHD	FC	100	FC	100
Ichikoh (Malaysia) SDNBHD ⁽¹⁾	FC	42.8	FC	38.6
Valeo Malaysia CDA SDNBHD	FC	100	FC	100
Spheros SDN BHD	FC	100	FC	100
UNITED ARAB EMIRATES				
Valeo Thermal Commercial Vehicles Middle East FZE (formerly Spheros Middle East FZE)	FC	100	FC	100
HONG KONG				
Spheros Ltd	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)	FC	100	FC	100
JAPAN				
Ichikoh Industries Limited ⁽¹⁾	FC	61.2	FC	55.1
Life Elex. Inc. ⁽¹⁾	FC	36.2	FC	32.6
Kyushu Ichikoh Industries Ltd ⁽¹⁾	FC	61.2	FC	55.1
Hakuden Ltd ⁽¹⁾	FC	61.2	FC	55.1
Misato Industries Ltd ⁽¹⁾	FC	61.2	FC	55.1
PIAA Corporation ⁽¹⁾	FC	61.2	FC	55.1
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Kapec Japan K,K (formerly Valeo Unisia Transmissions K.K.)	FC	50	FC	50
Cloud Made Japan	EM	50	EM	50
Nitto Manufacturing Co. Ltd	FC	98.0	FC	98.0

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

(1) See Note 2.2.1.

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(3) Disposals.

(4) Mergers and liquidations.

(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	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 ⁽¹⁾	FC	94.2	FC	93.3
Fuzhou Niles Electronic Co. Ltd ⁽⁴⁾	-	-	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	37.5	FC	37.5
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd ⁽¹⁾	FC	94.2	FC	93.3
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
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)	FC	50	FC	50
Valeo Engine Cooling (Foshan) 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 ⁽¹⁾	FC	94.2	FC	93.3
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 ⁽¹⁾	FC	94.2	FC	93.3
Valeo Management (Beijing) Co. Ltd	FC	100	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Comfort Driving Assistance Systems (Guangzhou) 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 ⁽¹⁾	FC	94.2	FC	93.3
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	73	FC	73
Shanghai VPHI Co. Ltd	FC	50	FC	50
Valeo ePowertrain (Shenzhen) Co. Ltd	EM	50	EM	50
Valeo Siemens eAutomotive Shanghai Co. Ltd	EM	50	EM	50

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

(1) See Note 2.2.1.

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(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
Beijing Valeo Siemens Automotive E-Drive Systems Co. Ltd Changzhou	EM	30	EM	30
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles System (Suzhou) Co. Ltd (formerly Spheros (Suzhou) Co. Ltd)	FC	100	FC	100
Spheros (Yangzhou) Limited	FC	100	FC	100
peiker (Shanghai) Automotive Technology Co. Ltd	FC	100	FC	100
Ichikoh (Wuxi) Automotive Parts Co. Ltd ⁽¹⁾	FC	61.2	FC	55
Roncheng Life ⁽¹⁾	EM	11.3	EM	10
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Powertrain (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Siemens eAutomotive (Tianjin) Co. Ltd	EM	50	EM	50
Valeo Siemens eAutomotive (Changshu) Co. Ltd	EM	50	EM	50
APG-FTE automotive Co. Ltd	EM	49	EM	49
Fawer Valeo Siemens eAutomotive	EM	24.8	EM	24.8
FTE automotive (Taicang) Co. Ltd	FC	100	FC	100
Suzhou Valeo PyeongHwa Dongfeng Clutch CO, Ltd ⁽²⁾	FC	26.3	-	-
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Ltd	FC	100	FC	100
Valeo Motherson Thermal Commercial Vehicles India Ltd (formerly Spheros Motherson Thermal Systems Ltd)	EM	51	EM	51

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

(1) See Note 2.2.1.

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(4) Mergers and liquidations.

(5) 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 the identified entities. They will be published in the German Federal Gazette.

Statutory auditors' report on the consolidated financial statements

To the Annual General Meeting of Valeo,

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 and other documents provided to shareholders.

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, 2019.

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, 2019 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, 2019 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.

Emphasis of Matter

We draw attention to the following matter described in Note 1.1.1 to the consolidated financial statements outlining the change in accounting method relating to IFRS 16 – "Leases". Our opinion is not modified in respect of this matter.

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 at December 31, 2019, goodwill amounted to 2,571 million euros and other intangible assets and properties, plants and equipment amounted to 8,040 million euros.

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 presented in Notes 6.1, 6.2, 6.3 and 6.4 of the consolidated 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, is 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 perpetuity growth rate), which we compared with the values provided by the main financial analysts;
- evaluated the impact of variations in discount rate and perpetuity growth 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 of the consolidated financial statements.

Evaluation of the share in the joint venture VSeA

Risk identified

As at December 31, 2019, your Company has an investment in the joint venture Valeo Siemens eAutomotive (“VSeA”), which is accounted for using the equity method.

As described in Note 4.5.3.3. of the consolidated financial statements, the share in net losses of the joint venture being higher than the net carrying amount of its investment, the Group allocates them to other elements of its share in the joint venture applying IAS 28. As such, for the year 2019, 242 million euros were allocated to the long-term loans granted by the Group to the joint venture.

Through the expertise of an external expert, Valeo management conducts an evaluation of these financial assets, to assess their recoverability. The preferred method for this evaluation and the hypothesis of discount rate are presented in Notes 4.5.3.3 of the consolidated financial statements.

We considered the evaluation of the share in the joint venture VSeA and the recoverability of the related financial assets to be a key audit matter as they are based on the discounted value of future cash flows and are, as such, based on significant estimates, judgments and assumptions of the management.

Our response

With the help of the auditors of the joint venture, we:

- conducted an analysis of the business plan prepared by the management of the joint venture, including by comparing with the financial performance of the fiscal year and with the previous business plans and conducted an analysis of the main underlying assumptions by conducting interviews with the management of the joint venture;
- evaluated the consistency of the cash flow projections with the latest estimates of the management of the joint venture, as they were reported to the board of directors of the joint venture during the preparation process of the medium-term business plan.

Through the expertise of our valuation specialists, we:

- reconciled the net carrying amount of the assets related to the joint venture VSeA with the consolidated accounts;
- conducted an analysis of the main underlying assumptions of the business plan by conducting interviews with your Company’s management;
- examined the valuation method of the recoverable value and corroborated the result with another valuation method also based on the discounted value of future cash flows;
- analyzed the main valuation hypotheses (discount rate and perpetuity growth rate), which we compared with the values used for the Group;
- evaluated the impact of variations in discount rate, normative operating margin and normative investment outflow through sensitivity analyses.

Finally, we assessed the content of the disclosures in the consolidated financial statements regarding the impairment losses on goodwill and CGUs’ assets in Note 4.5.3.3 of the consolidated financial statements.

Provisions for specific quality risks

Risk identified

Provisions for customer warranties are set aside to cover the estimated cost of future returns of the 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 Note 7.1 of the consolidated financial statements.

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

Our response

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

As part of our audit work we also:

- examined the Group's valuation methodology;
- 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 the site financial controllers and by examining the Group's internal reporting procedures;
- 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 the site financial controllers and with the financial direction of the Business Groups on specific quality risks, in order to assess the main hypotheses underlying the estimation of the risk.

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

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information pertaining to the Group presented in the management report of the Board of Directors.

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

We attest that the consolidated non-financial statement required by article L. 225-102-1 of the French Commercial Code (*Code de commerce*) is included in the Group's information given in the management report, it being specified that, in accordance with article L. 823-10 of this Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

- We were appointed as statutory auditors of Valeo by the Annual General Meeting held on June 3, 2010.
- As at December 31, 2019, our firms were in the tenth 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 to the Audit Committee a report 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) No. 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, February 20, 2020

The Statutory Auditors
French original signed by

	MAZARS		ERNST & YOUNG et Autres
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Guillaume Rouger

