2008 CONSOLIDATED FINANCIAL STATEMENTS

(AUDITED)

CONSOLIDATED STATEMENTS OF INCOME

(In millions of euros)	*Notes*	**2008**	**2007**
Net sales	*3.1*	**8,664**	**9,555**
Other operating revenues		151	134
Total operating revenues		**8,815**	**9,689**
Cost of sales	*3.2*	(7,350)	(8,058)
Gross margin [(1)]		**1,314**	**1,497**
% of net sales		15.2%	15.7%
Research and development expenditure		(639)	(668)
Selling expenses		(177)	(193)
Administrative expenses		(419)	(424)
Other income and expenses	*3.4*	(282)	(27)
Operating income (loss)		**(52)**	**319**
% of total operating revenues		-0.6%	3.3%
Interest expense	*3.5*	(68)	(82)
Interest income	*3.5*	23	31
Other financial income and expenses	*3.6*	(59)	(46)
Equity in net earnings of associates		9	8
Income (loss) before income taxes		**(147)**	**230**
Income taxes	*3.7*	(51)	(83)
Income (loss) from core activities		**(198)**	**147**
% of total operating revenues		-2.2%	1.5%
Income (loss) from non-strategic activities		(1)	(59)
Net income (loss) for the year		**(199)**	**88**
Net income (loss) attributable to equity holders of the Company		(207)	81
Minority interests		8	7
Earnings (loss) per share:	*3.8*		
▪ **basic earnings (loss) per share** (in euros)		**(2.73)**	**1.06**
▪ diluted earnings (loss) per share (in euros)		(2.73)	1.05

(1) Gross margin represents net sales (excluding other operating revenues) less cost of sales.

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

CONSOLIDATED BALANCE SHEETS

(In millions of euros)	*Notes*	**2008**	**2007**
ASSETS			
Goodwill	*4.1*	1,154	1,165
Other intangible assets	*4.2*	525	514
Property, plant and equipment	*4.3*	1,739	1,790
Investments in associates	*4.4*	133	103
Non-current financial assets	*5.2.1*	24	18
Deferred tax assets	*4.5*	103	99
Non-current assets		**3,678**	**3,689**
Inventories	*4.6*	543	622
Accounts and notes receivable	*4.7*	1,168	1,699
Other current assets		248	292
Taxes recoverable		30	72
Other current financial assets	*5.2.2*	15	4
Assets held for sale		5	7
Cash and cash equivalents	*4.10.4*	661	771
Current assets		**2,670**	**3,467**
Total assets		**6,348**	**7,156**
LIABILITIES AND EQUITY			
Share capital		235	235
Additional paid-in capital		1,402	1,402
Retained earnings		(326)	101
Stockholders' equity		**1,311**	**1,738**
Minority interests		51	44
Stockholders' equity including minority interests	*4.8*	**1,362**	**1,782**
Provisions - non-current portion	*4.9*	772	778
Long-term debt	*4.10*	1,299	1,283
Deferred tax liabilities	*4.5*	16	21
Non-current liabilities		**2,087**	**2,082**
Accounts and notes payable		1,454	1,836
Provisions - current portion	*4.9*	462	324
Taxes payable		50	72
Other current liabilities		703	750
Current portion of long-term debt	*4.10*	26	29
Other current financial liabilities	*5.2.2*	38	21
Short-term debt	*4.10.3*	166	260
Current liabilities		**2,899**	**3,292**
Total liabilities and equity		**6,348**	**7,156**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of euros)	*Notes*	**2008**	**2007**
Cash flows from operating activities			
Net income (loss) for the year		(199)	88
Equity in net earnings of associates		(9)	(8)
Net dividends received from associates		3	2
Other expenses (income) with no cash effect	*4.11.1*	732	535
Cost of net debt		45	57
Income taxes (current and deferred)		51	91
Gross operating cash flows		**623**	**765**
Income taxes paid		(71)	(85)
Changes in working capital	*4.11.2*	178	(42)
Net cash provided by operating activities (1)		**730**	**638**
Cash flows from investing activities			
Outflows relating to acquisitions of intangible assets		(160)	(138)
Outflows relating to acquisitions of property, plant and equipment		(468)	(435)
Inflows relating to disposals of property, plant and equipment		15	47
Net change in non-current financial assets		(10)	(3)
Impact of changes in scope of consolidation	*4.11.3*	52	208
Net cash used in investing activities		**(571)**	**(321)**
Cash flows from financing activities			
Dividends paid to parent company stockholders		(92)	(85)
Dividends paid to minority interests in consolidated subsidiaries		(7)	(4)
Dividend equalization tax (2)		27	-
Issuance of share capital		3	20
Sale (purchase) of treasury shares		(39)	(26)
Issuance of long-term debt		8	22
Grants		1	1
Net outflows related to capital reductions		-	-
Net interest paid		(34)	(47)
Repayments of long-term debt		(9)	(35)
Net cash used in financing activities		**(142)**	**(154)**
Effect of exchange rate changes on cash		(33)	4
Net change in cash and cash equivalents		**(16)**	**167**
Net cash and cash equivalents at beginning of year		511	344
Net cash and cash equivalents at end of year		**495**	**511**
Of which: ▪ Cash and cash equivalents		661	771
▪ Short-term debt		(166)	(260)

(1) Including contributions received.

(2) This amount relates to the refund by the State of the dividend equalization tax paid by Valeo in 2000, further to the December 2007 administrative court ruling.

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

STATEMENTS OF RECOGNIZED INCOME AND EXPENSES

(In millions of euros)	**2008**	**2007**
Translation adjustment	(28)	(17)
Actuarial gains (losses) on defined benefit plans	(56)	79
Cash flow hedges:		
▪ gains (losses) taken to equity	(13)	(12)
▪ (gains) losses transferred to income (loss) for the year	9	(6)
Net investment hedges		
▪ gains (losses) taken to equity	-	-
Remeasurement of available-for-sale financial assets	-	(5)
Income taxes on items recognized directly in equity	(4)	(11)
Income and expenses recognized directly in equity	**(92)**	**28**
Net income (loss) for the year	**(199)**	**88**
Total recognized income and expenses for the year	**(291)**	**116**
Of which: ▪ attributable to equity holders of the Company	(303)	109
▪ attributable to minority interests	12	7

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Number of shares	*(In millions of euros)*	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity	Minority interests	Stockholders' equity including minority interests
76 893 913	**Stockholders' equity at December 31, 2006**	**233**	**1 387**	**74**	**20**	**1 714**	**38**	**1 752**
	Dividends	-	-	-	(85)	(85)	(4)	(89)
(746 100)	Treasury stock	-	-	-	(26)	(26)	-	(26)
	Capital increase	-	-	-	-	-	3	3
629 000	Share-based payment	2	15	-	10	27	-	27
	Income and expenses recognized directly in equity	-	-	(17)	45	28	-	28
	Net income (loss) for the year	-	-	-	81	81	7	88
	Other movements	-	-	-	(1)	(1)	-	(1)
76 776 813	**Stockholders' equity at December 31, 2007**	**235**	**1 402**	**57**	**44**	**1 738**	**44**	**1 782**
	Dividends	-	-	-	(92)	(92)	(7)	(99)
(1 709 695)	Treasury stock	-	-	-	(39)	(39)	-	(39)
	Capital increase	-	-	-	-	-	3	3
	Share-based payment	-	-	-	8	8	-	8
	Income and expenses recognized directly in equity	-	-	(32)	(64)	(96)	4	(92)
	Net income (loss) for the year	-	-	-	(207)	(207)	8	(199)
	Other movements	-	-	-	(1)	(1)	(1)	(2)
75 067 118	**Stockholders' equity at December 31, 2008**	**235**	**1 402**	**25**	**(351)**	**1 311**	**51**	**1 362**

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

4.F - NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2008 include the accounts of Valeo, its subsidiaries, and the Group's share of associates and jointly controlled entities.

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

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

Valeo's consolidated accounts were authorized for issue by the Board of Directors on February 12, 2009.

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

1.1. Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

- **Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2008**

New standards, amendments and interpretations effective as of January 1, 2008 do not have a material impact on the consolidated financial statements for the year ended December 31, 2008.

- **Standards, amendments and interpretations published by the International Accounting Standards Board (IASB) and effective for reporting periods beginning on or after January 1, 2009**

The following standards, amendments and interpretations, which were not early adopted by the Group, may have an impact on financial statements published after January 1, 2009:

- IFRS 8 – "Operating Segments"

This standard requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and assess its performance. Work on the impact of IFRS 8 is currently being finalized.

- Revised IAS 23 – "Borrowing Costs"

This revised standard is effective as of January 1, 2009 and requires borrowing costs relating to investment projects undertaken after that date to be capitalized as part of the carrying amount of the assets to which they relate. IAS 23 is to be adopted prospectively, and will not result in any restatement of 2008 figures in 2009.

- Revised IFRS 3 – Business Combinations and revised IAS 27 – Consolidated and Separate Financial Statements

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

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

This interpretation, which was not adopted by the Group ahead of its effective date, will have a negative impact of around 7 million euros on equity at January 1, 2009. This results from the remeasurement of pension obligations in Japan to reflect local legislation and the characteristics of pension plans in terms of minimum funding requirements.

1.2. Basis of preparation

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

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

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

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business such as those relating to quality and safety (see management report on note I.2.1), as well as more general risks to which the Group is exposed on account of its industrial operations across the globe. In recent months, the international climate has been severely affected by the financial crisis and resulting economic turmoil. Valeo has to contend with a sharp decline in the global automotive industry which deepened over the last quarter of 2008. To counter this situation, in December 2008 the Group announced its plan to cut around 5,000 jobs worldwide. It also stepped up plans to cut costs. The financial statements for the year ended December 31, 2008 take into account the impact of these different measures which affect operating income (see note 3.4), and in particular balance sheet captions relating to restructuring provisions (see note 4.9.1) and fixed assets on which additional write-downs are taken to reflect impairment losses (see note 3.4.3).

The global automotive industry crisis and the serious difficulties encountered by North American car manufacturers have also led the Group to enhance the monitoring of its risk exposure (see note 5.3).

The Group must exercise its own judgment as regards all such risks, and does so based on past experience and other factors considered to be decisive given the circumstances. Valeo's estimates and assumptions have been made at a time when the outlook for the auto industry going forward is difficult to assess. The estimates and assumptions used are reviewed on a continuous basis. The amounts that will be stated in Valeo's future financial statements may be different from the amounts currently estimated. At year-end, Valeo expects that it will be able to meet its financial obligations over the following 12 months.

As explained above, details of the main risks to which the Group is exposed, along with the associated assumptions and judgments underlying the accounting methods applied, are provided in the following notes:

- 3.4 Other income and expenses;
- 4.9 Provisions for other liabilities;
- 5.3 Risk management policy.

1.3. Consolidation methods

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

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

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

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

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

1.4. Foreign currency translation

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

Transactions carried out in a currency other than the company's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in foreign currency are recognized at the historical exchange rate prevailing at the transaction date. Differences arising from the translation of foreign currency transactions are recognized in income, with the exception of differences relating to loans and borrowings which are in substance an integral part of the net investment in a foreign subsidiary. These are recorded, for their net-of-tax amount, in consolidated stockholders' equity under translation reserves until the net investment is disposed of, at which time they are recognized in income.

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

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

1.5. Operating revenues

Operating revenues are comprised of net sales and other operating revenues.

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

Other operating revenues consist of all revenues for which the associated costs are recorded below the gross margin line. They mainly comprise sales of prototypes and contributions received from customers to development costs. Such contributions are deferred as appropriate and are taken to income over the period during which the corresponding products are sold, within a maximum period of four years.

1.6. Gross margin and operating income

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

Operating income includes all income and expenses other than:

- interest paid on debt and interest earned on cash and cash equivalents;
- other financial income and expenses;
- equity in net earnings of associates;
- income taxes;
- income/(loss) from non-strategic activities ("discontinued operations" under IFRS 5).

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

1.7. Financial income and expenses

Financial income and expenses comprise the cost of net debt and other financial income and expenses.

The cost of net debt corresponds to interest paid on debt less interest earned on cash and cash equivalents.

Other financial income and expenses notably include:

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

1.8. Earnings per share

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

1.9. Business combinations

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

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

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

1.10. Intangible assets

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

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

Development expenditure is capitalized where the Group can demonstrate:

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

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

Capitalized development costs are amortized over a maximum period of four years from the start of volume production. Impairment losses may, as required, be recognized in respect of capitalized development costs.

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

- Software 3 years
- Patents and licenses based on their useful lives
- Other intangible assets (excluding customer relationships) 5 years
- Customer relationship intangibles 25 years

Intangible assets are tested for impairment using the methodology described in note 1.12.

1.11. Property, plant and equipment

Property, plant and equipment are carried at cost excluding interest expense, 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 fixed assets in the Group.

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

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

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

- Buildings 20 years
- Fixtures and fittings 8 years
- Machinery and tooling 4 to 8 years
- Other fixed assets 3 to 8 years

Land is not depreciated.

Capital grants received are recognized in liabilities and are written back to income proportionately to the recognition of depreciation on the corresponding assets.

1.12. Impairment of assets

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

CGUs are largely autonomous management entities representing the level at which resources are allocated and performance is measured. They generally correspond to production sites or to groups of production sites.

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

The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. In practice, since the fair value less costs to sell of Group CGUs can seldom be reliably estimated, Valeo applies value in use (unless otherwise specified) to calculate the recoverable amount of a CGU in accordance with paragraph 20 of IAS 36. Value in use corresponds to the present value of future cash flows expected to derive from the use of an asset or CGU. The discount rate used is the rate that reflects both the current assessment of the time value of money and risks specific to the asset (or group of assets) for which future cash flow estimates have not been adjusted.

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

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

1.13. Financial assets and liabilities

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

1.13.1. Available-for-sale financial assets

This category includes shares in non-consolidated companies.

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

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

1.13.2. Long-term loans and receivables

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

1.13.3. Other non-current financial assets

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

1.13.4. Current financial assets and liabilities

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

- **Cash and cash equivalents**

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

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

- **Trade receivables and payables**

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

Accounts receivable can be subject to provisions for impairment in value. If an event triggering a loss is identified during the financial year subsequent to initial recognition of the receivable, the required provision will be calculated by comparing the estimated future cash flows discounted at the original effective interest rate to the carrying amount in the balance sheet. Provisions are recognized in other financial expenses if they relate to a risk of insolvency of the debtor.

- **Derivative financial instruments**

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

When hedge accounting is applied:

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

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

- **Foreign currency derivatives**

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

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

- **Metals derivatives**

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

- **Interest rate derivatives**

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

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

1.13.5. Debt

- **Bonds and other loans**

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

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

- **OCEANE bonds**

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

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

- **Short-term debt**

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

1.14. Inventories

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

Provisions for impairment in value are recorded on the basis of the net realizable value.

1.15. Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies. Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements and for all tax loss carry forwards. The main temporary differences relate to provisions for pensions and other employee benefits and to other temporarily non-deductible provisions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

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

The Group reviews the probability of future recovery of deferred tax assets on a periodic basis. This review can, if necessary, lead the Group to no longer recognize deferred tax assets that it had recognized in prior years.

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

1.16. Share-based payment

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

1.17. Pensions and other employee benefits

Pensions and other employee benefits cover two categories of employee benefits:

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

These benefits are broken down into:

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

The provision for pensions and other employee benefits (including long-term benefits) is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The calculation of this provision is based on valuations performed by independent actuaries using the projected unit credit method and final salaries. These valuations incorporate both financial assumptions (discount rate, expected rate of return on plan assets, and increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized in full in the income statement for the financial year in which they were incurred. However, actuarial gains and losses on post-employment benefits are taken directly to equity in the year in which they arise.

1.18. Provisions

A provision is recognized when the Group has a legal or constructive obligation resulting from a past event, where it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation, and where the obligation can be estimated reliably. Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

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

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

1.19. Assets held for sale and non-strategic operations

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

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

1.20. Segment reporting

According to IAS 14, segment reporting should be provided at both a primary and secondary level. The choice of segments and levels of disclosure depends on the differences in terms of risk and return and on the organizational structure of the Group.

The Group's risks and returns are based on the nature of its products or services, the nature of its production processes, the type of customers to whom the products or services are to be sold, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. They also depend on the countries in which the Group operates and markets its products, raw material costs used in the production cycle and the Group's capacity to innovate in order to offer its clients products that meet market expectations.

Analysis of these factors demonstrates that they are common to the Group's business as a whole and different business segments cannot therefore be separately identified within the meaning of IAS 14.

Valeo is organized in a multi-dimensional manner:

- the Group is divided into autonomous Divisions which represent the levels at which resources are allocated and performance is measured. However, as there are approximately one hundred such divisions, none of them can be considered to be material within the meaning of IAS 14;
- the Divisions are supported by Valeo's functional networks and Branches, which oversee the coherence of the Group's Product Families; they also exploit synergies with the Innovation Domains, and are coordinated by National Directorates.

Analysis of this organizational structure does not allow any specific dimension of the Group's business to be separated out from the others within the meaning of IAS 14.

Accordingly:

- the Group as a whole is considered as a single business segment ("Automotive supplier");
- information for each geographical area, supplemented by information based on the most appropriate criteria for understanding the Group's business, is provided for the secondary level of segment reporting.

2. Changes in the scope of consolidation

2.1. Transactions carried out in 2008

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

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

2.1.2. Creation of Valeo Climate Control Tomilino LLC in Russia

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

2.1.3. Sale of the heavy duty truck Engine Cooling business

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

2.1.4. Sale of Valeo Armco Engine Cooling Co

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

2.2. Transactions carried out in 2007

2.2.1. Sale of the Wiring Harness activity to the Leoni group

In December 2007 Valeo sold its Wiring Harness activity to German group Leoni for 143 million euros. The impact of this transaction on income for 2007 was a capital loss of 51 million euros after tax, which was included in the consolidated statement of income under "Income/(loss) from non-strategic activities".

In 2007 this business generated net sales of 551 million euros and operating income of 3 million euros. In accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, the after-tax profit from the Wiring Harness activity is presented in aggregate on a separate line under "Income/(loss) from non-strategic activities" in the 2007 statement of income.

2.2.2. Acquisition of Connaught Electronics Ltd. (CEL)

In July 2007 the Group acquired the Irish group Connaught Electronics Ltd (CEL), which manufactures electronic equipment for the automotive industry. The full consolidation of this entity did not have a material impact on the Group's consolidated balance sheet at December 31, 2007 or statement of income for the year then ended. No significant adjustments were made following completion of the project to identify the assets acquired and liabilities assumed in the acquisition. The contribution of Connaught Electronics Ltd (CEL) to consolidated net sales was 24 million euros in 2008.

2.2.3. Creation of two new joint ventures in India

In May 2007 Valeo formed a joint venture specializing in automotive security systems with the Minda group, one of India's leading automotive equipment suppliers. The consolidation of this entity using the proportional method did not have a material impact on the Group's 2007 or 2008 financial statements.

On July 24, 2007 Valeo and the Minda group created another joint venture to produce starters and alternators for private passenger vehicles, 66.7%-owned by Valeo and 33.3%-owned by Minda. In view of the agreements between Valeo and Minda, this entity is fully consolidated. The first-time consolidation of the entity did not have a material impact on the Group's 2007 or 2008 financial statements.

These two Indian joint ventures contributed 12 million euros to consolidated net sales for 2008.

2.2.4. Ichikoh

Valeo raised its interest in Ichikoh, one of Japan's largest lighting systems suppliers, from 29.4% at December 31, 2006 to 31.6% at December 31, 2007. The Group's percentage interest in the company remained unchanged at December 31, 2008. Ichikoh is accounted for by the equity method.

3. Notes to the statement of income

3.1. Net sales

Group net sales fell 9.3% to 8,664 million euros in 2008 from 9,555 million euros in 2007. The decrease includes a negative net currency impact of 1.5% and a negative impact of 0.7% due to changes in scope of consolidation.

On a comparable Group structure and exchange rate basis, consolidated net sales for 2008 fell 7.1% year-on-year.

3.2. Cost of sales

Cost of sales can be analyzed as follows:

(In millions of euros)	**2008**	**2007**
Raw materials consumed	(4,819)	(5,297)
Labor	(1,310)	(1,423)
Direct production costs and production overheads	(846)	(945)
Depreciation and amortization [1]	(387)	(403)
Others	12	10
Cost of sales	**(7,350)**	**(8,058)**

(1) This amount does not include amortization charged against capitalized development costs and tooling.

3.3. Personnel expenses

	2008	**2007**
Total employees [1]	51,200	61,200

(1) Including temporary staff.

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

(In millions of euros)	**2008**	**2007**
Wages and salaries [1]	1,651	1,686
Social charges	367	399
Share-based payment	8	11
Pension expenses under defined contribution schemes	88	96

(1) Including temporary staff.

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

3.4. Other income and expenses

(In millions of euros)	**2008**	**2007**
Claims and litigation	1	25
Restructuring costs	(239)	(37)
Impairment of fixed assets	(58)	(26)
Other	14	11
Other income and expenses	**(282)**	**(27)**

3.4.1. Claims and litigation

In the year ended December 31, 2007, the Group wrote back a provision for 22 million euros following the settlement of a commercial dispute.

3.4.2. Restructuring costs

Following the announcement in December 2008 of its plan to cut around 5,000 jobs worldwide, the Group recognized an amount of 225 million euros in its financial statements, breaking down as:

- additions to provisions for reorganization expenses totaling 232 million euros;
- reversals from a provision for pensions in France for 16 million euros (see note 4.9.2);
- an expense of 9 million euros corresponding to costs already incurred during the period.

The plan was launched at the end of December 2008 and should be completed by the end of 2009. The amounts booked concern labor costs and redundancy expenses covering around 3,400 employees in Europe. Outside Europe, the cutbacks should affect around 1,600 employees, mostly in North America and Brazil.

Restructuring costs for the year ended December 31, 2007 totaled 37 million euros, and comprised costs relating to the streamlining or closure of plants, mainly in Europe.

3.4.3. Impairment of fixed assets

- **Property, plant and equipment and intangible assets (excluding goodwill)**

Impairment losses on property, plant and equipment and intangible assets mainly result from impairment tests carried out at the level of Cash-Generating Units (CGUs) in accordance with the following methodology:

- The value in use of CGUs is calculated using post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term plans drawn up by Group divisions. The projections are based on past experience, macroeconomic data for the automobile market, order books and products under development. The steep decline in automobile production over recent months has prompted the Group to reassess the assumptions underlying its previous budgets and medium-term plans. Values in use have therefore been estimated based on:
  - a 2009 budget that factors in a sharp drop in forecast sales volumes following the decline already observed in the last quarter of 2008;
  - medium-term plans which forecast an ending crisis after a period of three years.
- Cash flows beyond the five-year period are extrapolated using a growth rate of 1%. This rate is the same as that used in 2007, and is below the average long-term growth rate for the Group's business sector.
- Cash flows are discounted based on a weighted average cost of capital (WACC) of 8.5% after tax in 2008 (7.5% in 2007). This 1% rise in the discount rate chiefly reflects the deterioration in the refinancing market and greater share price volatility. In 2007, an independent expert was consulted in determining the method to be used to compute WACC. WACC calculation method is based on a sample of 20 automotive parts suppliers.

Year ended December 31, 2008

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

- property, plant and equipment and intangible assets (excluding goodwill) relating to a CGU within the Compressors Product Family based in the Czech Republic (20 million euros);
- impairment losses recognized against assets of 3 CGUs based in the Americas relating to the Wiper Systems, Climate Control and Interior Controls Product Families (20 million euros);
- impairment losses recognized against a Wiper System CGU whose plants are located in France and Spain (10 million euros).

Year ended December 31, 2007

The Group recognized impairment losses of 26 million as a result of these impairment tests, concerning one CGU within each of the Interior Controls, Compressors and Engine Cooling Product Families. The impairment losses were recognized against property, plant and equipment and intangible assets (24 million euros) and against goodwill (2 million euros) relating to the Iran-based Engine Cooling CGU.

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

Year ended December 31, 2008

An increase of 1% in the discount rate would result in an additional impairment loss of 10 million euros being recognized against intangible assets and property, plant and equipment. A 1% decrease in the discount rate would lead to a reversal of 14 million euros in impairment recognized against fixed assets. These calculations were based on an average euro/dollar exchange rate of 1.5.

Year ended December 31, 2007

An increase of 0.5% in the discount rate would result in an additional impairment loss of 7 million euros being recognized against intangible assets and property, plant and equipment. A 0.5% decrease in the discount rate would lead to a reversal of 6 million euros in impairment recognized against fixed assets.

- **Goodwill**

Goodwill is allocated to Cash-Generating Units (CGUs) on the basis of the Product Family to which it relates. Goodwill is tested for impairment at least once a year, using the same method and assumptions as those used for the CGUs described above.

Value in use for groups of CGUs were calculated based on a 2009 budget that factors in a sharp drop in forecast sales volumes and on medium-term plans which forecast an end to the crisis after a period of three years. No impairment losses were taken against goodwill as a result of the tests performed for the year ended December 31, 2008.

No impairment losses were recognized by the Group in 2007 as a result of these tests, other than the write-down on goodwill relating to the CGU in Iran.

- **Sensitivity of goodwill impairment tests**

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

No impairment losses would be taken against goodwill were the crisis forecast to end after a period of four years instead of three.

A 0.5% increase in the discount rate would have no impact on goodwill impairment tests at December 31, 2007.

3.4.4. Other

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

In 2007, this caption relates mainly to capital gains on disposals of property assets for 27 million euros. The balance includes costs relating to strategic transactions.

3.5. Cost of net debt

(In millions of euros)	**2008**	**2007**
Interest expense	(68)	(82)
Interest income	23	31
Cost of net debt	**(45)**	**(51)**

Despite the rise in interest rates over the first nine months of 2008, the cost of the Group's net debt fell. This was because the negative impact of the rise in interest rates was offset by the reduction in debt due to cash received on the disposal of the heavy duty truck Engine Cooling business and Wiring Harness units, collected in the second quarter of 2008 and at end-December 2007, respectively.

3.6. Other financial income and expenses

(In millions of euros)	**2008**	**2007**
Interest expense on unwinding of discount on pension obligations [(1)]	(49)	(48)
Expected return on pension plan assets [(1)]	21	21
Currency gains (losses) on cash flow hedges	-	-
Currency gains (losses) on other transactions	(6)	(9)
Gains (losses) on commodity transactions (trading and ineffective portion)	(17)	-
Gains (losses) on fair value hedges (interest rate)	-	-
Additions to provisions for credit risk	(5)	(4)
Gains (losses) on disposals of financial assets	-	-
Unwinding of discount on provisions (excluding pension obligations)	(1)	(4)
Miscellaneous	(2)	(2)
Other financial income and expenses	**(59)**	**(46)**

(1) See note 4.9.2.

The sudden, large volume cutbacks by customers in 2008 resulted in a 17 million euro loss on commodity hedges, since the volumes initially hedged significantly exceeded actual requirements.

Currency losses incurred in 2007 mainly relate to operations carried out by the Group in Eastern Europe and Turkey.

3.7. Income taxes

3.7.1. Income tax expense

(In millions of euros)	**2008**	**2007**
Current taxes	(73)	(84)
Deferred taxes	22	1
Income tax	**(51)**	**(83)**

3.7.2. Effective tax rate

The Group recognized income tax expense of 51 million euros for 2008, while reporting a pre-tax loss.

(% of pre-tax income/loss)	**2008**	**2007**
Standard tax rate in France	(34,4)	(34,4)
Impact of:		
• income taxed at other rates	1,9	12,9
• unused tax losses (current year) and unrecognized deferred tax assets	72,0	(37,1)
• utilization of prior-year tax losses	(0,5)	0,1
• permanent differences between book income and taxable income	(1,2)	16,5
• tax credits	(4,8)	4,8
Effective Group tax rate	**33,0**	**(37,2)**

No deferred tax assets were recognized as a result of the redundancy plan affecting staff in France and the United States. This explains the change in the Group's effective tax rate in 2008 compared to 2007.

3.8. Earnings per share

3.8.1. Basic earnings per share

	2008	2007
Net income (loss) attributable to equity holders of the Company (in millions of euros)	(207)	81
Weighted average number of shares outstanding (in thousands of shares)	75 922	76 951
Basic earnings (loss) per share (in euros)	**(2,73)**	**1,06**

3.8.2. Diluted earnings per share

	2008	2007
Net income (loss) attributable to equity holders of the Company (in millions of euros)	(207)	81
Weighted average number of shares outstanding (in thousands of shares)	75 922	76 951
Stock options (in thousands of options)	-	445
Weighted average number of shares used for the calculation of diluted earnings per share (in thousands of shares)	75 922	77 396
Diluted earnings (loss) per share (in euros)	**(2,73)**	**1,05**

3.8.3. Income (loss) from non-strategic activities

	2008	2007
Basic earnings (loss) per share (in euros)	-	(0.76)
Diluted earnings (loss) per share (in euros)	-	(0.76)

4. Notes to the balance sheet

4.1. Goodwill

(In millions of euros)	2008	2007
Net goodwill at January 1	**1,165**	**1,415**
Acquisitions during the year [(1)]	6	5
Price adjustments in respect of acquisitions made in previous years	(1)	2
Disposals, net	(31)	(212)
Translation adjustments	15	(43)
Impairment losses	-	(2)
Net goodwill at December 31	**1,154**	**1,165**
Including accumulated impairment losses at December 31	-	(2)

(1) See note 2.1.1.

In the years ended December 31, 2008 and 2007, changes in goodwill excluding the impact of exchange rate fluctuations are mainly due to the sale of:

- the heavy duty truck Engine Cooling business (see note 2.1.3);
- the Wiring Harness activity in December 2007 (see note 2.2.1).

The 2 million euro impairment loss recognized in 2007 reflects the full write-down taken against goodwill assigned to the Iranian CGU.

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

(In millions of euros)	**2008**	**2007**
Wiper Systems	214	208
Climate Control	238	207
Interior Controls	176	172
Engine Management Systems	181	181
Security Systems	125	129
Electrical Systems	80	100
Other	140	168
Total	**1,154**	**1,165**

4.2. Other intangible assets

	2008			**2007**
(In millions of euros)	**Gross carrying amount**	**Amortization and impairment losses**	**Net carrying amount**	**Net carrying amount**
Software	170	(142)	28	35
Patents and licenses	62	(34)	28	21
Capitalized development expenditure	757	(436)	321	302
Customer relationships intangibles	143	(22)	121	120
Other	48	(21)	27	36
Other intangible assets	**1,180**	**(655)**	**525**	**514**

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

Changes in other intangible assets over 2008 and 2007 are analyzed below:

2008

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

2007

(In millions of euros)	**Software**	**Patents and licenses**	**Capitalized development costs**	**Other intangible assets**	**Total**
Gross at January 1, 2007	**132**	**85**	**550**	**187**	**954**
Accumulated amortization and impairment	(97)	(54)	(258)	(17)	(426)
Net at January 1, 2007	**35**	**31**	**292**	**170**	**528**
Acquisitions	7	1	122	7	137
Disposals	-	(1)	(4)	(2)	(7)
Changes in scope of consolidation	-	1	(11)	(1)	(11)
Impairment losses	-	-	-	-	-
Amortization	(19)	(10)	(95)	(6)	(130)
Translation adjustments	-	-	(3)	-	(3)
Reclassifications	12	(1)	1	(12)	-
Net at December 31, 2007	**35**	**21**	**302**	**156**	**514**

4.3. Property, plant and equipment

	2008			**2007**
(In millions of euros)	**Gross carrying amount**	**Amortization and impairment losses**	**Net carrying amount**	**Net carrying amount**
Land	151	(15)	136	136
Buildings	935	(569)	366	390
Plant and equipment	3,339	(2,599)	740	800
Specific tooling	1,234	(1,077)	157	149
Other	426	(353)	73	100
Fixed assets in progress	267	-	267	215
Total	**6,352**	**(4,613)**	**1,739**	**1,790**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2008.

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

(In millions of euros)	**2008**	**2007**
Land	-	-
Buildings	1	6
Plant and equipment	3	3
Specific tooling	-	1
Other	3	4
Fixed assets in progress	-	-
Total	**7**	**14**

Changes in property, plant and equipment in 2008 and 2007 are analyzed below:

2008

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

In accordance with IFRS 5, buildings for which the Group is actively seeking buyers are classified in "Assets held for sale" (5 million euros at December 31, 2008).

2007

(In millions of euros)	**Land**	**Buildings**	**Plant and equipment**	**Specific tooling**	**Other**	**Fixed assets in progress**	**Total**
Gross at January 1, 2007	**156**	**971**	**3,322**	**1,169**	**468**	**239**	**6,325**
Accumulated depreciation and impairment	(10)	(552)	(2,452)	(1,023)	(370)	-	(4,407)
Net at January 1, 2007	**146**	**419**	**870**	**146**	**98**	**239**	**1,918**
Acquisitions	1	16	129	60	28	211	445
Disposals	-	(2)	(5)	(3)	(2)	(2)	(14)
Assets held for sale	-	(1)	-	-	-	-	(1)
Changes in scope of consolidation	(3)	(18)	(40)	(2)	12	(3)	(54)
Impairment losses	(1)	(1)	(8)	(9)	(3)	-	(22)
Depreciation	(3)	(51)	(265)	(99)	(43)	-	(461)
Translation adjustments	(5)	(2)	(8)	(2)	-	(4)	(21)
Reclassifications	1	30	127	58	10	(226)	-
Net at December 31, 2007	**136**	**390**	**800**	**149**	**100**	**215**	**1,790**

4.4. Investments in associates

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

(In millions of euros)	**2008**	**2007**
Investments in associates at January 1	**103**	**103**
Share in net earnings of associates	9	8
Dividend payments	(3)	(2)
Impact of changes in scope of consolidation	-	1
Translation adjustments [1]	25	(1)
Other	(1)	(6)
Investments in associates at December 31	**133**	**103**

(1) Due mainly to the impact of the appreciation in the yen on interests in Ichikoh.

	Ownership interest (%)		Carrying amount (in millions of euros)	
	2008	**2007**	**2008**	**2007**
Ichikoh	31.6	31.6	100	74
Faw Valeo Climate Control	36.5	36.5	26	23
Other	-	-	7	6
Investments in associates	**-**	**-**	**133**	**103**

At the beginning of June 2008, Valeo took a larger role in managing Ichikoh Industries Ltd. pursuant to an agreement concerning Ichikoh's corporate governance and operational management structure. The agreement will allow Valeo to exploit synergies between the two groups and to strengthen its influence over Ichikoh.

Ichikoh is listed on the Tokyo Stock Exchange. At December 31, 2008, the collapse in equity markets had driven down the value of the shares owned by Valeo to 30 million euros from 49 million euros at December 31, 2007. Ichikoh is accounted for by the equity method. The carrying amount of the investment is supported by its value in use.

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

(In millions of euros)	**2008**	**2007**
Total assets	841	655
Total liabilities	546	433
Total operating revenues	876	841
Net income for the year	27	30

4.5. Deferred taxes

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

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

Deferred taxes broken down by temporary differences are shown below:

(In millions of euros)	**2008**	**2007**
Loss carry forwards (1)	718	645
Capitalized development expenditure	(99)	(80)
Pensions and other employee benefits	148	132
Other provisions	65	83
Inventories	24	21
Provisions for reorganization expenses	88	42
Tooling	1	8
Non-current assets	(3)	(5)
Other	32	22
Deferred taxes, gross	**974**	**868**
Unrecognized deferred tax assets (1)	(887)	(790)
Deferred taxes	**87**	**78**
Of which: • deferred tax assets	103	99
• deferred tax liabilities	(16)	(21)

(1) Deferred tax assets are recognized in respect of tax loss carry forwards to the extent that it is probable that future profits will be available against which they may be offset. If this is not the case, a provision will be set aside in this respect.

At December 31, 2008, deferred tax assets not recognized by the Group can be analyzed as follows:

(In millions of euros)	**Tax basis**	**Potential tax saving**
Tax losses available for carryforward through 2009 to 2012	175	41
Tax losses available for carryforward in 2013 and thereafter	859	320
Tax losses available for carry forward indefinitely	805	277
Current tax loss carry forwards	**1,839**	**638**
Unrecognized deferred tax assets on temporary differences	-	249
Total unrecognized deferred tax assets	**-**	**887**

At December 31, 2007, the total amount of unrecognized deferred tax assets came to 761 million euros.

4.6. Inventories

At December 31, 2008, inventories break down as follows:

	2008			**2007**
(In millions of euros)	**Gross carrying amount**	**Write-down**	**Net carrying amount**	**Net carrying amount**
Raw materials	220	(39)	181	217
Work-in-progress	57	(7)	50	66
Finished goods, supplies and specific tooling	367	(55)	312	339
Inventories, net	**644**	**(101)**	**543**	**622**

Impairment losses taken against inventories amounted to 101 million euros at December 31, 2008 (110 million euros at December 31, 2007), including an allowance of 29 million euros during the year.

Impairment losses recognized in 2007 amounted to 35 million euros.

4.7. Accounts and notes receivable

(In millions of euros)	**2008**	**2007**
Accounts and notes receivable, gross	1,200	1,728
Provision for impairment	(32)	(29)
Accounts and notes receivable, net	**1,168**	**1,699**

Impairment losses taken against accounts and notes receivable are recognized in "Other financial income and expenses" when the writedown results from a risk of client default (see note 3.6), and in administrative expenses in other cases.

4.8. Stockholders' equity

4.8.1. Share capital

At December 31, 2008, Valeo's share capital excluding treasury stock totaled 235 million euros, comprising 78,209,617 shares of fully paid-up common stock with a par value of 3 euros (see note 4.8.6). Shares that have been registered in the name of the same holder for at least four years carry double voting rights (3,152,418 shares at December 31, 2008).

Valeo's share capital would rise to 272 million euros (90,665,384 shares) in the event of:

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

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity, and in particular to prevent net debt from exceeding 100% of stockholders' equity for any prolonged period of time.

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

The following employee stock subscription, stock option and free share plans approved by the Annual General Meeting were outstanding at December 31, 2008:

- **Terms and conditions of stock subscription plans**

Year in which plan was set up	Number of shares subject to options	Exercise price of options (in euros) (1)	Number of options outstanding at December 31, 2008 (2)	Expiration date
2001	80,000	55.82	80,800	2009
2001	600,000	42.48	303,000	2009
2001	442,875	42.69	261,454	2009
2002	420,000	43.84	188,163	2010
2002	600,000	28.30	112,069	2010
2003	700,000	23.51	230,690	2011
2003	780,000	32.91	417,942	2011
2004	1,123,200	28.46	756,210	2012
Total	**4,746,075**		**2,350,328**	

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

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

- **Terms and conditions of stock option plans**

Year in which plan was set up	Number of shares subject to options	Exercise price of options (in euros) (1)	Number of shares outstanding at December 31, 2008 (2)	Expiration date
2003	500,000	32.91	268,038	2011
2004	280,800	32.74	190,087	2012
2005	650,000	32.32	466,660	2013
2006	187,000	33.75	187,000	2014
2006	1,309,250	32.63	1,023,000	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,374,250	2015
2008	426,750	31.41	396,000	2016
Total	**5,280,800**		**4,155,035**	

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

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

- **Terms and conditions of free share awards**

Year in which plan was set up	Number of free shares granted	Number of shares not yet issued at December 31, 2008	Year of vesting
2006	100,000	74,750	2009
2007	100,000	82,750	2010
Total	**200,000**	**157,500**	

Movements in stock option plans and free share awards can be analyzed as follows:

2008

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

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

2007

	Number of options and free shares	Weighted average exercise price
Options not exercised at January 1, 2007	**7,109,400**	**30.50**
Options granted/free shares to be issued	2,027,000	35.02
Options cancelled	(914,920)	20.21
Options expired	-	-
Options exercised	(694,972)	27.70
Options not exercised/free shares not issued at December 31	**7,526,508**	**33.13**
Options which can be exercised at December 31, 2007	**3,582,026**	**35.43**

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

	2008	**2007**	
	March	**March**	**November**
	Call option	**Free shares and stock options**	**Stock options**
Share price at grant date (euros)	22.6	37.0	36.9
Expected volatility (%)	39.7	- et 27,8	32.2
Risk-free rate (%)	4.0	4.1	4.4
Dividend rate (%)	3.9	3.2	3.2
Duration of the option (years)	8	- et 8	8
Fair value of equity instruments (euros)	**4.0**	**32.2 et 7.6**	**8.9**

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

An expense of 8 million euros was booked in 2008 in respect of stock options plans and free share awards (2007: 11 million euros).

4.8.2. Additional paid-in capital

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

4.8.3. Translation adjustments

At December 31, 2008, this caption primarily includes gains and losses arising from the translation of the net assets of Valeo's Asian, Brazilian, Turkish and Polish subsidiaries.

4.8.4. Retained earnings

Retained earnings include the 199 million euro loss for the year prior to allocation.

4.8.5. Dividends per share

The balance of the parent company's distributable retained earnings amounts to 1,544 million euros in 2008, before allocation of the 2007 net loss. Distributable retained earnings amounted to 1,592 million euros in 2007.

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

Dividends paid in 2007 totaled 85 million euros, representing 1.10 euro per share.

4.8.6. Treasury stock

At December 31, 2008, Valeo owns 3,142,499 of its own shares, representing 4.02% of share capital (December 31, 2007: 1,432,804 shares, representing 1.83% of share capital).

4.8.7. Minority interests

Changes in minority interests can be analyzed as follows:

(In millions of euros)	**2008**	**2007**
Minority interests at January 1	**44**	**38**
Equity in net earnings	8	7
Dividends paid	(7)	(4)
Capital increase	3	-
Translation adjustments	4	3
Changes in scope of consolidation	(1)	-
Minority interests at December 31	**51**	**44**

4.9. Provisions

Changes in provisions can be analyzed as follows:

(In millions of euros)	Provisions for reorganization expenses	Provisions for pensions and other employee benefits	Other provisions	Total
Provisions at December 31, 2006	**176**	**748**	**431**	**1,355**
Amounts used during the year	(59)	(80)	(112)	**(251)**
Impact of changes in scope of consolidation	(16)	(13)	(5)	**(34)**
Translation adjustments	(8)	(26)	(5)	**(39)**
Reclassification	-	-	-	**-**
Additions	39	33	149	**221**
Unwinding of discount	4	29	-	**33**
Reversals	(9)	(4)	(91)	**(104)**
Actuarial gains and losses recognized through equity	-	(79)	-	**(79)**
Provisions at December 31, 2007	**127**	**608**	**367**	**1,102**
Amounts used during the year	(50)	(65)	(62)	**(177)**
Impact of changes in scope of consolidation	-	(12)	(4)	**(16)**
Translation adjustments	4	2	-	**6**
Reclassification	(1)	(9)	3	**(7)**
Additions	240	30	74	**344**
Unwinding of discount	1	28	-	**29**
Reversals	(7)	(27)	(69)	**(103)**
Actuarial gains and losses recognized through equity	-	56	-	**56**
Provisions at December 31, 2008	**314**	**611**	**309**	**1,234**
Of which current portion (less than 1 year)	**246**	**63**	**153**	**462**

4.9.1. Provisions for reorganization expenses

Provisions for reorganization expenses amount to 314 million euros at December 31, 2008 and concern:

- the workforce adjustment plan announced on December 17, 2008 for 232 million euros. The key phases of this plan should be completed by the end of 2009;
- provisions for production streamlining measures and staff cuts, mainly in the United States.

4.9.2. Provisions for pensions and other employee benefits

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

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

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

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

▪ Actuarial assumptions

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

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

To calculate discount rates for the year ended December 31, 2008, the Group used the same benchmarks as in previous years. The discount rates used in the countries representing the Group's most significant obligations were as follows:

Benchmark	*(%)*	**2008** Basis after rounding	**2007** Basis after rounding
iBoxx Euro-Corporate AA 10-year+	Euro zone	6.0	5.3
iBoxx £-Corporate AA 15-year+	United Kingdom	6.5	5.8
Citigroup Pension Discount Curve	United States	6.1	6.3
10-year government bonds	Japan	2.0	2.3
10-year government bonds	South Korea	4.0	5.5

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

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

(%)	**2008**	**2007**
United States	8.0	8.5
United Kingdom	6.3	6.4
Japan	2.7	2.7

The weighted average long-term salary inflation rate was 3.5% at December 31, 2008, unchanged from December 31, 2007.

The rate of increase for medical costs in the United States used to value the Group's obligations at December 31, 2008 was 10% up to the end of 2009, gradually reducing to 5% over the following 23 years. This assumption was changed in 2008 further to a recent study by the Society of Actuaries in the United States. However, the change does not have a material impact on the measurement of the Group's obligations and associated expenses.

▪ Breakdown of obligations

At December 31, 2008

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

At December 31, 2007

(In millions of euros)	**France**	**Other European countries**	**North America**	**Other countries**	**Total**
Present value of unfunded obligations	169	231	113	41	554
Present value of funded obligations	21	64	253	41	379
Market value of plan assets	(6)	(44)	(211)	(39)	(300)
Deficit	**184**	**251**	**155**	**43**	**633**
Unrecognized past service cost	(25)	-	-	-	(25)
Provisions recognized at December 31, 2007	**159**	**251**	**155**	**43**	**608**

- **Movements in provisions**

(In millions of euros)	**France**	**Other European countries**	**North America**	**Other countries**	**Total**
Provisions at January 1, 2007	**177**	**298**	**225**	**48**	**748**
Actuarial gains and losses recognized through equity	(7)	(42)	(29)	(1)	(79)
Amounts used during the year	(25)	(17)	(29)	(8)	(79)
Impact of changes in scope of consolidation	(7)	(6)	-	-	(13)
Translation adjustments	-	(2)	(20)	(4)	(26)
Expenses (income) for the year	21	20	8	8	57
Provisions at December 31, 2007	**159**	**251**	**155**	**43**	**608**
Actuarial gains and losses recognized through equity	(6)	(26)	74	14	56
Amounts used during the year	(27)	(14)	(16)	(8)	(65)
Impact of changes in scope of consolidation	-	(8)	(4)	-	(12)
Reclassification	(9)	-	-	-	(9)
Translation adjustments	-	(4)	10	(4)	2
Expenses (income) for the year (1)	3	18	1	9	31
Provisions at December 31, 2008	**120**	**217**	**220**	**54**	**611**
Of which current portion (less than 1 year)	14	10	28	11	63

(1) Including amortization of unrecognized past service cost.

Expenses booked in respect of pensions and other employee benefit obligations totaled 31 million euros in 2008 versus 57 million euros in 2007. The fall in this item mainly reflects:

- a reversal of 16 million euros regarding pension obligation in France following the announcement of the workforce adjustment plan (employee benefit obligations relating to the redundancies announced are already included in provisions for reorganization expenses);
- changes to the terms and conditions of plans in the United States, which reduce the expense for the year by 4 million euros.

Following changes in financing arrangements for the Early Retirement Fund for Asbestos Workers, the Group reclassified outstanding amounts due in respect of asbestos tax under other social security liabilities.

Movements in obligations

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

(1) This line corresponds to the reduction in the Group's asbestos-related obligations following changes in financing arrangements for the Early Retirement Fund for Asbestos Workers. As the reduction relates to an off balance sheet item (unrecognized past service cost), it has no impact on income (loss) for 2008.

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Obligations at January 1, 2007	**208**	**343**	**429**	**94**	**1 074**
Service cost	9	9	2	6	26
Interest cost	9	13	23	3	48
Benefits paid	(24)	(15)	(18)	(14)	(71)
Actuarial gains and losses	(7)	(41)	(28)	(1)	(77)
Impact of changes in scope of consolidation	(7)	(6)	-	-	(13)
Other	2	(2)	1	-	1
Translation adjustments	-	(6)	(43)	(6)	(55)
Obligations at December 31, 2007	**190**	**295**	**366**	**82**	**933**

Movements in plan assets

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Plan assets at January 1, 2007	**5**	**45**	**205**	**46**	**301**
Expected return on plan assets	-	2	18	1	21
Contributions paid to external funds	2	1	21	1	25
Benefits paid	(1)	(2)	(10)	(7)	(20)
Actuarial gains and losses	-	1	1	-	1
Translation adjustments	-	(3)	(24)	(2)	(29)
Plan assets at December 31, 2007	**6**	**44**	**211**	**39**	**300**
Expected return on plan assets	-	2	18	1	21
Contributions paid to external funds	2	2	10	3	17
Benefits paid	(5)	(2)	(12)	(6)	(25)
Actuarial gains and losses	(2)	(9)	(78)	(6)	(95)
Translation adjustments	-	(8)	8	7	7
Plan assets at December 31, 2008	**1**	**29**	**157**	**38**	**225**

Following the collapse in equity markets, the fair value of plan assets in 2008 fell sharply year-on-year. This explains the significant amount of actuarial losses resulting from experience adjustments on plan assets, which represent the difference between actual and expected returns. These actuarial differences were deducted from equity at December 31, 2008.

The actual return on plan assets was a negative 75 million euros in 2008, compared with a positive 23 million euros in 2007.

Contributions of 17 million euros were paid to external funds in 2008. Contributions in 2009 are estimated at 28 million euros.

- **Breakdown of plan assets**

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Cash at bank	-	-	16	8	24
Shares	6	44	156	11	217
Government bonds	-	-	27	20	47
Corporate bonds	-	-	12	-	12
Breakdown of plan assets at December 31, 2007	**6**	**44**	**211**	**39**	**300**
Cash at bank	-	-	11	6	17
Shares	1	29	98	12	140
Government bonds	-	-	35	20	55
Corporate bonds	-	-	13	-	13
Breakdown of plan assets at December 31, 2008	**1**	**29**	**157**	**38**	**225**

- **Data for previous financial years**

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

(In millions of euros)	2008	2007	2006	2005	2004
Obligations	843	933	1,074	1,188	1,093
Financial assets	(225)	(300)	(301)	(294)	(211)
Funded amount	**618**	**633**	**773**	**894**	**882**
Actuarial (losses) gains recognized in equity (1)	(56)	79	27	(50)	(42)

(1) At December 31, 2008, this line includes actuarial losses of 95 million euros resulting from experience adjustments on financial assets, actuarial gains of 8 million euros resulting from experience adjustments on obligations and 31 million euros resulting from change in actuarial assumptions.

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

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

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

- **Sensitivity of plan assets to rates of return**

A decrease of 1% in the expected return on plan assets would reduce annual financial income recognized on these assets by around 2 million euros. An increase of 1% in the expected return on plan assets would have the opposite effect.

4.9.3. Other provisions

(In millions of euros)	2008	2007
Provisions for product warranties	133	164
Other	176	203
Other provisions	**309**	**367**

For the year ended December 31, 2008, the caption "Other" includes provisions for tax risks (56 million euros), and an amount set aside in respect of site rehabilitation obligations (20 million euros). The balance of this caption is intended to cover other operational risks such as claims and litigation regarding prices or disputes with suppliers.

4.10. Debt

4.10.1. Gross debt

At December 31, 2008, the Group's gross debt can be analyzed as follows:

(In millions of euros)	**2008**	**2007**
Long-term debt (note 4.10.2)	1,299	1,283
Current portion of long-term debt (note 4.10.2)	26	29
Short-term debt (note 4.10.3)	166	260
Gross debt	**1,491**	**1,572**

4.10.2. Long-term debt

- **Analysis of long-term debt**

(In millions of euros)	**2008**	**2007**
Bonds	596	596
OCEANE bonds [(1)]	444	435
Syndicated loans	222	219
Lease obligations	6	9
Other borrowings	32	28
Accrued interest	25	25
Long-term debt	**1,325**	**1,312**

(1) The carrying amount of the OCEANE bonds was reduced from 463 millions euros following the application of IAS 32 at January 1, 2005.

Long-term debt includes:

- 600 million euros worth of eight-year fixed rate bonds issued by Valeo on June 24, 2005 and paying a fixed coupon of 3.75%. These bonds were issued in the context of the Euro Medium Term Notes program. The effective interest rate on these bonds is 3.89%;
- 463 million euros worth of bonds convertible for new shares and/or exchangeable for existing shares ("OCEANE") issued on August 4, 2003, representing 9,975,754 bonds with a nominal value of 46.4 euros each. The interest on these bonds is 2.375% per annum payable in arrears on January 1 of each year. Bearers of the bonds may request conversion and/or exchange into common stock at any time, on the basis of 1.013 Valeo share for one bond. In addition, Valeo has a call option that may be exercised between January 31, 2007 and December 31, 2010 if the Valeo share is valued at an average price of 60 euros. The effective interest rate of the OCEANE bonds is 4.54% (4.46% excluding the call);
- two seven-year syndicated loans for a total amount of 225 million euros issued on July 29, 2005, hedged by two interest rate swaps which are perfectly matched in both amount and duration. These loans and the related hedges have the following characteristics:
  - the first loan is at a variable rate and incorporates a cap which limits the interest rate to a maximum of 4.735%. It is hedged by a derivative which offsets the option included in the loan,
  - the second loan is at a fixed rate of 3.62% and incorporates a swaption that enables the Group to opt for a variable rate in 2009. It is hedged by a derivative which has identical characteristics to those of the call option included in the loan.

Covenants related to financial debts are detailed in note 5.3.2.

- **Maturities of long-term debt**

(In millions of euros)	**2010**	**2011**	**2012**	**2013**	**2014 and beyond**	**Total**
Bonds	-	-	-	596	-	**596**
OCEANE bonds	-	444	-	-	-	**444**
Syndicated loans	-	-	222	-	-	**222**
Lease obligations	2	1	-	-	1	**4**
Other borrowings	4	5	6	5	13	**33**
Total	**6**	**450**	**228**	**601**	**14**	**1,299**

4.10.3. Short-term debt

(In millions of euros)	**2008**	**2007**
Commercial paper	34	50
Short-term loans and overdrafts	132	210
Short-term debt	**166**	**260**

4.10.4. Cash and cash equivalents

(In millions of euros)	**2008**	**2007**
Marketable securities	353	328
Cash	308	443
Cash and cash equivalents	**661**	**771**

Marketable securities consist of money market funds invested in negotiable debt securities or guaranteed by governments in the euro zone for 349 million euros

4.10.5. Net debt

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

- **Breakdown of net debt**

(In millions of euros)	**2008**	**2007**
Long-term debt (note 4.10.2)	1,299	1,283
Current portion of long-term debt (note 4.10.2)	26	29
Loans and other non-current financial assets	(9)	(2)
Total long-term debt	**1,316**	**1,310**
Short-term debt (note 4.10.3)	166	260
Cash and cash equivalents (note 4.10.4)	(661)	(771)
Net cash and cash equivalents	**(495)**	**(511)**
Net debt	**821**	**799**

4.10.6. Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(In millions of euros)	**2008**	**2007**
Euro	881	895
US dollar	(21)	(34)
Yen	8	12
Brazilian real	(16)	(7)
Korean won	(15)	(18)
Chinese yuan	(31)	(24)
Other currencies	15	(25)
Total	**821**	**799**

4.11. Breakdown of cash flows

4.11.1. Other expenses (income) with no cash effect

(In millions of euros)	**2008**	**2007**
Expenses (income) with no cash effect		
Depreciation, amortization and impairment	623	615
Net additions to (reversals from) provisions	104	(117)
Losses (gains) on sales of non-current assets	(13)	30
Expenses related to share-based payment	8	11
Unrealized gains and losses on financial instruments	12	-
Other expenses (income) with no cash effect	(2)	(4)
Total	**732**	**535**

4.11.2. Changes in working capital

(In millions of euros)	**2008**	**2007**
Changes in working capital		
Inventories	59	(22)
Accounts and notes receivable	505	(40)
Accounts and notes payable	(366)	35
Other receivables and payables	(20)	(15)
Total	**178**	**(42)**

The sharp decline in the global automotive market and production stoppages at the end of 2008 led to a large fall in inventories and accounts receivable, partly offset by a decrease in accounts payable.

4.11.3. Impact of changes in the scope of consolidation

Changes in the scope of consolidation in 2008 have a positive impact of 52 million euros on cash and cash equivalents. This amount results mainly from:

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

In 2007, the impact of changes in the scope of consolidation is essentially attributable to the sale of the Wiring Harness activity to German group Leoni.

	2007		
(In millions of euros)	**Disposal of Wiring Harness unit**	**Acquisitions and other disposals**	**Total**
Net assets acquired (sold)	**(237)**	**24**	**(213)**
Minority interests	-	-	-
Total net assets acquired (sold) after minority interests	**(237)**	**24**	**(213)**
Goodwill on entities acquired	-	5	5
Impact of changes in scope of consolidation	**(237)**	**29**	**(208)**

5. Additional disclosures

5.1. Segment reporting

The Valeo Group comprises a single business segment ("Automotive equipment"). The Group's secondary reporting level – geographical areas – corresponds to production areas. Additional information is included based on an appropriate breakdown to provide a more accurate analysis of the Group's business.

Balance sheet and statement of income items relating to non-strategic activities have been restated as indicated in note 2.1.

5.1.1. Reporting by geographic area

2008

(In millions of euros)	**Net sales by market**	**Net sales by production area**	**Total assets at December 31**	**Capital expenditure for the year**	**Number of employees**
Europe	5,749	6,133	3,012	415	34,137
North America	1,041	947	374	102	4,670
South America	598	562	204	73	3,903
Asia	1,276	1,284	800	48	8,490
Eliminations	-	(262)	(137)	-	-
Total	**8,664**	**8,664**	**4,253**	**638**	**51,200**

2007

(In millions of euros)	**Net sales by market**	**Net sales by production area**	**Total assets at December 31**	**Capital expenditure for the year** (1)	**Number of employees**
Europe	6,458	6,873	3,645	365	41,397
North America	1,293	1,224	457	64	6,826
South America	559	522	253	32	4,206
Asia	1,245	1,264	778	92	8,771
Eliminations	-	(328)	(144)	-	-
Total	**9,555**	**9,555**	**4,989**	**553**	**61,200**

(1) Capital expenditure in 2007 does not include investments related to the Wiring Harness activity which was sold during that year.

Total segment assets reconcile to total Group assets as follows:

(In millions of euros)	**2008**	**2007**
Total segment assets	4,253	4,989
Assets held for sale	5	7
Financial assets	833	896
Deferred tax assets	103	99
Goodwill	1,154	1,165
Total	**6,348**	**7,156**

Goodwill balances cannot be broken down by geographical area as they are allocated to groups of CGUs which belong to several areas.

5.1.2. Research and development costs by domain of innovation and sales by Product Family

"Domains of innovation" have been set up to enhance and support innovation by bringing together different technologies and Product Families in order to propose integrated solutions to the market in terms of comfort, safety and the environment.

(In millions of euros)	**2008**	**2007**
Driving Assistance	200	193
Propulsion Efficiency	218	230
Comfort Enhancement	221	242
Other	-	3
Total	**639**	**668**

The domains of innovation aim to boost sales of the product portfolio, while the Group's divisions are responsible for the manufacture and sale of these products. The product portfolio is divided into the following Product Families:

(In millions of euros)	**2008**	**2007**
Transmissions	739	784
Climate Control	1,342	1,436
Engine Cooling	1,112	1,353
Lighting Systems	1,150	1,198
Electrical Systems	1,055	1,154
Wiper Systems	924	1,052
Security Systems	647	726
Interior Controls	890	983
Compressors	389	414
Engine Management Systems	293	339
Other and eliminations	123	116
Total	**8,664**	**9,555**

5.2. Financial instruments

5.2.1. Fair value of financial instruments

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39. The classification of financial instruments into specific categories is described in note 1.13.

	Carrying amount under IAS 39					
	2008	**2008**				**2007**
(In millions of euros)	**Carrying amount**	**Amortized cost**	**Loans and receivables**	**Fair value through equity**	**Fair value through income**	**Carrying amount**
ASSETS						
Non-current financial assets:						
▪ investments in non-consolidated companies	4	-	-	4	-	4
▪ loans	9	9	-	-	-	2
▪ deposits and guarantees	8	-	8	-	-	6
▪ other non-current financial assets	3	-	3	-	-	6
Accounts and notes receivable	1,168	1,168	-	-	-	1,699
Other current financial assets:						
▪ hedging derivatives	1	-	-	1	-	1
▪ trading derivatives	14	-	-	-	14	3
▪ other	-	-	-	-	-	-
Cash and cash equivalents	661	-	-	-	661	771
LIABILITIES						
Bonds	596	596	-	-	-	608
OCEANE convertible bonds (debt component)	444	444	-	-	-	446
Syndicated loans	222	-		-	222	221
Other long-term debt	37	37	-	-	-	37
Accounts and notes payable	1,454	1,454	-	-	-	1,836
Other current financial liabilities:						
▪ hedging derivatives	20	-	-	17	3	19
▪ trading derivatives	18	-	-	-	18	2
Short-term debt	166	166	-	-	-	260

The principal terms and conditions of borrowings (bonds, OCEANE convertible bonds and syndicated loans) are detailed in section 4.10.2, while the basis for recognition is set out in note 1.13.

The fair value of bonds is calculated on the basis of listed prices on active markets, and amounted to 455 million euros at December 31, 2008 and 560 million euros at December 31, 2007.

For the debt component of the OCEANE convertible bonds and for the syndicated loans, fair value is estimated by discounting future cash flows at the market interest rate applicable at year-end, based on an issuer spread for the Group estimated at 7.68% for the OCEANE bonds and at 6.32% for the syndicated loans. These issuer spreads correspond to the spreads on Valeo’s three- and five-year credit default swaps, respectively. The fair value of OCEANE convertible bonds and syndicated loans was 397 million euros and 186 million euros, respectively, at December 31, 2008 (437 million euros and 221 million euros, respectively at end-2007).

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

5.2.2. Fair value of derivatives

(In millions of euros)	**2008**	**2007**
ASSETS		
Hedging derivatives:		
• commodity derivatives	1	1
Trading derivatives:		
• foreign currency derivatives	14	3
Total other current financial assets	**15**	**4**
LIABILITIES		
Hedging derivatives:		
• foreign currency derivatives	(3)	-
• interest rate derivatives	(3)	(6)
• commodity derivatives	(14)	(13)
Trading derivatives:		
• foreign currency derivatives	(8)	(2)
• commodity derivatives	(10)	-
Total other current financial liabilities	**(38)**	**(21)**

The impact of financial instruments on income (loss) for the years ended December 31, 2008 and 2007 is set out in note 3.6.

5.2.2.1.Fair value of foreign currency derivatives

At December 31

	2008		**2007**	
(In millions of euros)	**Nominal**	**Fair value**	**Nominal**	**Fair value**
Forward foreign currency purchases	18	6	2	-
Forward foreign currency sales	(48)	4	(76)	2
Currency swaps	(20)	4	(132)	1
Total assets	**(50)**	**14**	**(206)**	**3**
Forward foreign currency purchases	56	(5)	29	-
Forward foreign currency sales	(30)	(1)	(14)	(1)
Currency swaps	(158)	(5)	(3)	(1)
Total liabilities	**(132)**	**(11)**	**12**	**(2)**
Net impact		**3**		**1**

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

5.2.2.2.Fair value of commodity (metals) derivatives

At December 31

	2008		**2007**	
(In millions of euros)	**Nominal**	**Fair value**	**Nominal**	**Fair value**
Swaps – Purchases	1	-	2	-
Swaps – Sales	(5)	1	(8)	1
Total assets	**(4)**	**1**	**(6)**	**1**
Swaps – Purchases	69	(24)	146	(13)
Swaps – Sales	(2)	-	-	-
Total liabilities	**67**	**(24)**	**146**	**(13)**
Net impact		**(23)**		**(12)**

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

5.2.2.3.Fair value of interest rate derivatives

(In millions of euros)	2008 Nominal	2008 Fair value	2007 Nominal	2007 Fair value
Interest rate swaps	225	(3)	225	(6)
Total liabilities	**225**	**(3)**	**225**	**(6)**

The fair value of interest rate swaps is computed by discounting future cash flows based on market interest rates at year-end.

5.3. Risk management policy

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

5.3.1. Market risk

5.3.1.1.Foreign currency risk

- **Exposure to foreign currency risk**

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

The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies, as well as swaps and options. The foreign currency derivatives used by the Group are not recognized as hedging instruments according to the IAS 39 criteria. Exceptionally, the Group applies hedge accounting to highly probable future cash flows from the date the derivatives are contracted. In 2008, Valeo entered into cash flow hedges in respect of transactions carried out in Poland. The unrealized loss of 3 million euros on these hedges is included in equity at December 31, 2008.

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

(In millions of euros)	2008 USD	2008 JPY	2008 EUR	2008 Total	2007 Total
Accounts and notes receivable	55	10	226	291	440
Other financial assets	216	29	108	353	314
Accounts and notes payable	(38)	(12)	(253)	(303)	(368)
Long-term debt	(22)	-	(422)	(444)	(528)
Gross exposure recognized on the balance sheet at December 31	**211**	**27**	**(341)**	**(103)**	**(142)**
Forward sales	(273)	(38)	(5)	(316)	93
Forward purchases	38	30	25	93	(293)
Net exposure at December 31	**(24)**	**19**	**(321)**	**(326)**	**(342)**

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro.

At December 31, 2007, the breakdown by currency of the net exposure recognized in the balance sheet for (342) million euros is as follows:

- 12 million euros relating to the US dollar;
- 18 million euros relating to the Japanese yen;
- (372) million euros relating to the euro.

- **Analysis of the sensitivity of net income to foreign currency risk**

The sensitivity analysis was based on an exchange rate of 1.39 US dollars and 126.14 Japanese yen to 1 euro at December 31, 2008 (1.47 and 164.93, respectively, at December 31, 2007).

The impact on net income (loss) of a 10% rise in the value of the euro against these currencies at December 31, 2008 is shown in the table below. A sensitivity analysis is also provided for 2007. For the purpose of the analyses, it is assumed that all other variables, including interest rates, remain unchanged.

At December 31

(In millions of euros)	**Gains (losses)**
USD	2
JPY	(2)
Total for 2008	**0**
USD	(3)
JPY	(2)
Total for 2007	**(5)**

Assuming that all other variables remain unchanged, a 10% fall in the value of the euro against the US dollar and Japanese yen at end-2008 would have the opposite effect to the one shown above.

- **Net investment risk**

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

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

No derivative instrument hedging a net investment in a foreign operation is recognized in the Group's balance sheet at December 31, 2008.

5.3.1.2.Commodity risk

- **Exposure to commodity risk**

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

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

The volume of non-ferrous metals hedged at December 31, 2008 and 2007 was 39,000 tons and 63,000 tons, respectively.

Base metals derivatives used by the Group are designated as cash flow hedges under IAS 39. An unrealized loss of 13 million euros related to existing hedges was recognized directly in equity at December 31, 2008 in accordance with IAS 39. Earnings for the period include a loss of 17 million euros on commodity transactions (see note 3.6).

An unrealized loss of 12 million euros on commodity hedges was recognized in equity at December 31, 2007. The loss was reclassified in full to operating income in the first half of 2008.

- **Analysis of the sensitivity of net equity to metal price risk**

A 10% increase in metal futures prices at December 31, 2008 would have a positive impact of around 3 million euros, split between net equity (effective portion of the hedge) and earnings (ineffective portion). A 10% increase in metal futures prices at end-2007 would have had a positive impact of 9 million euros.

A fall of 10% in metal futures prices would have the opposite impact for the same amount.

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

5.3.1.3.Interest rate risk

- **Exposure to interest rate risk**

A detailed description of the Group's policy for managing interest rate risk is provided in the management report (see chapter 3.I.3.3).

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

The interest rate derivatives used by the Group to hedge against changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39. These derivatives are recorded at fair value in the balance sheet, with changes in fair value taken to income. For the effective portion of the hedge, the impact on income is offset by a symmetrical revaluation of the hedged item. The interest rate derivatives used by the Group to hedge its variable-rate debt do not qualify as hedging instruments within the meaning of IAS 39.

The Group's financing rate was 4.9% in 2008 (4.6% in 2007 excluding non-strategic activities).

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

At December 31, 2008

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

At December 31, 2007

	Less than 1 year		**1 to 5 years**		**More than 5 years**		**Total nominal values**		
(In millions of euros)	**Fixed portion**	**Variable portion**	**Fixed portion**	**Variable portion**	**Fixed portion**	**Variable portion**	**Fixed portion**	**Variable portion**	**Total**
Financial liabilities	27	262	698	3	614	1	1,339	266	1,605
Cash and cash equivalents	-	(771)	-	(2)	-	-	-	(773)	(773)
Net position before hedging	**27**	**(509)**	**698**	**1**	**614**	**1**	**1,339**	**(507)**	**832**
Derivative instruments	-	225	(225)	-	-	-	(225)	225	-
Net position after hedging	**27**	**(284)**	**473**	**1**	**614**	**1**	**1,114**	**(282)**	**832**

- **Analysis of sensitivity to interest rate risk**

At December 31, 2008, 83% of long-term debt is at fixed rates (unchanged from December 31, 2007).

Accordingly, 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.

Taking derivatives into account, the maximum impact on income (loss) before tax of a sudden 1% rise in short-term interest rates applied to financial assets and liabilities at variable rates is an estimated gain of 2 million euros (gain of 3 million euros at December 31, 2007).

Similarly, a sudden 1% fall in short-term interest rates would have the opposite effect for the same amount.

5.3.1.4. Equity risk

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

5.3.2. Liquidity risk

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

Valeo also has several confirmed bank credit lines totaling 1.2 billion euros, with an average maturity of 2.3 years. None of these credit lines had been drawn down at December 31, 2008.
The Group also has a short-term commercial paper financing program for a maximum amount of 1.2 billion euros, and a medium- and long-term Euro Medium Term Notes financing program for a maximum amount of 2 billion euros. Valeo's access to the commercial paper market has been restricted since Moody's cut its credit rating on January 7, 2009. Since that date, its short-term debt has been rated "not prime".

Covenants: The credit lines in place, together with the two syndicated loans, carry an early repayment clause related to the Group's debt/equity ratio. This clause stipulates that the Group's net debt should not exceed 120% of stockholders' equity after appropriation of income (loss) and excluding minority interests. Non-compliance with this ratio would cause the credit lines to be suspended – triggering early repayment of any drawdowns already made – and the syndicated loans to be repaid. At December 31, 2008, the Group's ratio is 63% (46% at December 31, 2007).
Credit lines with banks and the Group's long-term debt include a cross default clause that causes all long-term financial debts to be repaid should one financial debt be subject to early repayment. However, the agreements allow a grace period before the cross default clause becomes enforceable. At the issuance date of these consolidated accounts, the Group believes these covenants will be respected over the following 12 months.

The Euro Medium Term Note includes an option granted to the bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo which leads to a downgrade in the bond's rating to below investment grade. Such a change of control is deemed to occur if a stockholder (or several stockholders acting together) acquires more than 50% of Valeo's share capital or holds more than 50% of voting rights.

The residual contractual maturity of non-derivative financial instruments can be analyzed as follows:

At December 31, 2008

	Carrying amount	**Contractual cash flows**	**Contractual cash flows Payment schedule**			
(In millions of euros)		**Total**	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Bonds	1,040	**1,264**	33	67	1,142	-
Syndicated loans	222	**252**	7	6	239	-
Other long-term debt	63	**63**	32	17	14	-
Accounts and notes payable	1,454	**1,454**	1,454	-	-	-
Short-term debt	166	**166**	166	-	-	-

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

(In millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows Payment schedule Less than 1 year	1 to 2 years	2 to 5 years
Forward foreign currency contracts used as hedges:					
• Assets	10	**10**	10	-	-
• Liabilities	(6)	**(6)**	(6)	-	-
Foreign currency swaps used as hedges:					
• Assets	4	**4**	4	-	-
• Liabilities	(5)	**(5)**	(5)	-	-
Commodity derivatives:					
• Assets	1	**1**	1	-	-
• Liabilities	(24)	**(24)**	(24)	-	-
Interest rate swaps:					
• Assets	-	**-**	-	-	-
• Liabilities	(3)	**-**	-	-	-

5.3.2.1. Credit risk

- **Counterparty risk**

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

- **Commercial credit risk**

Valeo is exposed to credit risk arising on its commercial operations, particularly the risk of default by its customers. Valeo operates exclusively in the automotive industry, which has been considerably weakened by the current crisis. As a result, Valeo has reinforced its oversight of credit risk and payment delays, which can be the focus of bilateral negotiations with customers on a case-by-case basis. The average days sales outstanding were 69 days at December 31, 2008.

Valeo works with all automakers in the industry, including the three largest automakers in the US. At December 31, 2008, the Group was owed 57 million euros from these three firms (5% of the total accounts and notes receivable).

At December 31, 2008, Valeo's largest customer accounts for 18% of the Group's accounts and notes receivable.

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

(In millions of euros)	Carrying amount 2008	Carrying amount 2007
Not yet due	1,045	1,617
Less than 1 month past due	107	67
More than 1 month but less than 12 months past due	33	34
More than 1 year past due	15	10
Total	**1,200**	**1,728**

A depreciation allowance of 32 million euros was taken against past due balances.

5.4. Commitments given

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

5.4.1. Lease commitments

Future minimum lease commitments existing at December 31, 2008 (excluding capital leases) are as follows:

(In millions of euros)	**2008**	**2007**
Less than 1 year	36	32
1 to 5 years	52	29
More than 5 years	12	10
Total	**100**	**71**

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

(In millions of euros)	**2008**	**2007**
Rent	49	56

Lease commitments in respect of capital leases are as follows:

At December 31

(In millions of euros)	**2008**	**2007**
Future minimum lease payments		
Less than 1 year	2	3
1 to 5 years	4	5
More than 5 years	1	1
Total future minimum lease payments	**7**	**9**
Of which interest charges	(1)	(1)
Present value of future lease payments		
Less than 1 year	2	3
1 to 5 years	3	5
More than 5 years	1	1
Total present value of future lease payments	**6**	**9**

5.4.2. Other commitments given

Valeo has also given the following commitments:

(In millions of euros)	**2008**	**2007**
Guarantees given	55	19
Non-cancelable purchase commitments for fixed assets	93	108
Other commitments given	140	124
Total	**288**	**251**

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

The following items recognized in assets in the Group's balance sheet have been pledged as security:

(In millions of euros)	**2008**	**2007**
Property, plant and equipment	1	2
Financial assets	13	12
Total	**14**	**14**

5.4.3. Claims and litigation

Known claims and litigation involving Valeo or its subsidiaries have been reviewed as of the date these financial statements were authorized for issue. Based on the advice of counsel, all necessary provisions have been made to cover the estimated contingencies and potential losses.

5.5. Commitments received

When Valeo purchased the Engine Electronics business of Johnson Controls Inc. on March 1, 2005, Johnson Controls granted a warranty concerning the division's liabilities, including a four-year warranty in respect of quality and product liability claims related to the activities of this division.

5.6. Contingent liabilities

The Group has contingent liabilities relating to legal proceedings arising in the normal course of its business.

The Group does not expect these items to give rise to material liabilities other than those for which a provision has already been recognized in its financial statements.

5.7. French statutory training entitlement

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

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,240,976 hours at December 31, 2008 (1,008,800 at December 31, 2007), representing a usage rate of around 5%.

5.8. Related party transactions

5.8.1. Management remuneration

Management is comprised of the members of the Group's Management Committee. Remuneration paid during the year is broken down as follows:

(In millions of euros)	**2008**	**2007**
Salaries and other short-term benefits	14	13
Contract termination payments	-	-
Total	**14**	**13**

The Group recognized 3 million euros related to stock subscription and stock option plans and free share awards in 2008 (unchanged from 2007). It also recorded expenses in relation to pension obligations for management personnel in an amount of 3 million euros (2 million euros in 2007). At December 31, 2008, provisions included in the Group's balance sheet in respect of these obligations amounted to 18 million euros (15 million euros at December 31, 2007).

5.8.2. Transactions with associates

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

(In millions of euros)	**2008**	**2007**
Sales of goods and services	22	22
Purchases of goods and services	(12)	(6)
Interest and dividends received	3	2

(In millions of euros)	**2008**	**2007**
Operating receivables	3	3
Operating payables	6	4

5.8.3. Transactions with joint ventures

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

(In millions of euros)	**2008**	**2007**
Sales of goods and services	25	31
Purchases of goods and services	(14)	(9)
Interest and dividends received	17	6

(In millions of euros)	**2008**	**2007**
Operating receivables	10	15
Operating payables	5	6
Net debt	1	-

5.9. Joint ventures

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

(In millions of euros)	**2008**	**2007**
Non-current assets	91	70
Current assets	127	113
Non-current liabilities	26	9
Current liabilities	94	107
Operating revenues	351	285
Operating expenses	337	280

6. Restatement of prior year financial information

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

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

No events occurred in 2008 requiring the 2007 statement of income published in February 2008 to be restated.

7. List of consolidated companies

Company	2008		2007	
	% voting rights	% interest	% voting rights	% interest
EUROPE				
FRANCE				
Valeo S.A. (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 2	100	100	-	-
Equipement 11	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Telma	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Etudes Electroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Four Seasons (2)	50	50	50	50
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium S.N.C. (2)	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Interior Controls (formerly VSDS)	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Thermique Habitacle	100	100	100	100
Valeo Ventures	100	100	100	100
Valeo Vision	100	100	100	100
SPAIN				
Valeo España, S.A.	100	100	100	100
Telma Retarder España, S.A.	100	100	100	100
Valeo Climatización, S.A.	100	100	100	100
Valeo Iluminación, S.A.	99.8	99.8	99.8	99.8
Valeo Materiales de Fricción, S.A.	100	100	100	100
Valeo Plastic Omnium S.L. (2)	50	50	50	50
Valeo Service España, S.A.	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre, S.A.	100	100	100	100
Valeo Sistemas Electricos, S.L.	100	100	100	100
Valeo Termico, S.A.	100	100	100	100
Valeo Cableados SL (3)	-	-	100	100

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportional basis.

(3) Company sold or liquidated in 2008.

(4) Cf. note 2.1.1.

Company	2008		2007	
	% voting rights	% interest	% voting rights	% interest
PORTUGAL				
Cablagens do Ave	100	100	100	100
ITALY				
Valeo Service Italia, S.p.A.	99.9	99.9	99.9	99.9
Valeo, S.p.A.	99.9	99.9	99.9	99.9
Valeo Sicurezza Abitacolo, S.p.A. (merged into Valeo Sistemi di Climatizzazione, S.p.A. in 2008)	-	-	100	100
Valeo Sistemi di Climatizzazione, S.p.A.	99.9	99.9	99.9	99.9
Valeo Commutazione S.r.l.	99.9	99.9	99.9	99.9
GERMANY				
Valeo Auto-Electric GmbH	100	100	100	100
Valeo Auto-Electric Beteiligungs GmbH	100	100	100	100
Valeo Germany Holding GmbH	100	100	100	100
Valeo Holding Deutschland GmbH	100	100	100	100
Valeo Grundvermogen Verwaltung GmbH	100	100	100	100
Valeo Beleuchtung Deutschland GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH	100	100	100	100
Valeo Verwaltungs-Beteiligungs GmbH & Co. KG	100	100	100	100
Valeo Wischersysteme GmbH	100	100	100	100
Valeo Compressor Europe GmbH	100	100	100	100
UNITED KINGDOM				
Valeo (UK) Limited	100	100	100	100
Labauto Ltd (3)	-	-	100	100
Telma Retarder Ltd	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Ltd (formerly Valeo Security Systems Ltd.)	100	100	100	100
Valeo Service UK Limited	100	100	100	100
IRELAND				
Connaught Electronics Limited	100	100	100	100
HI-KEY Limited	100	100	100	100
C.E.L. (Sales) Limited	100	100	100	100
CEL Limited	100	100	100	100
SEWS-CEL Limited	50	50	-	-
BELGIUM				
Valeo Vision Belgique	100	100	100	100
Valeo Service Belgique	100	100	100	100
LUXEMBOURG				
Coreval	100	100	100	100

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportional basis.

(3) Company sold or liquidated in 2008.

(4) Cf. note 2.1.1.

Company	2008 % voting rights	2008 % interest	2007 % voting rights	2007 % interest
NETHERLANDS				
Valeo Holding Netherlands B.V.	100	100	100	100
Valeo International Holding B.V.	100	100	100	100
Valeo Service Benelux B.V.	100	100	100	100
CZECH REPUBLIC				
Valeo Vymeniky Tepla k.s.	100	100	100	100
Sylea Tchequia S.r.o.	100	100	100	100
Valeo Autoklimatizace k.s.	100	100	100	100
Valeo Compressor Europe S.r.o.	100	100	100	100
Connaught Electronics CZ Spol S.r.o.	100	100	100	100
SLOVAKIA				
Valeo Slovakia S.r.o.	100	100	100	100
SWEDEN				
Valeo Engine Cooling A.B. (3)	-	-	100	100
POLAND				
Valeo Autosystemy Sp.zo.o.	100	100	100	100
Valeo Service Eastern Europe Sp.zo.o.	100	100	100	100
Valeo Electric and Electronic Systems Sp.zo.o.	100	100	100	100
HUNGARY				
Valeo Auto-Electric Hungary Spare Parts Production LLC	100	100	100	100
SLOVENIA				
Valeo Kabli, d.o.o. (3)	-	-	100	100
ROMANIA				
Valeo Lighting Assembly S.r.l	100	100	100	100
Valeo Lighting Injection S.A	51	51	51	51
Valeo Sisteme Termice S.r.l.	100	100	100	100
RUSSIA				
Valeo Climate Control Tomilino LLC	95	95	-	-
Valeo Service LLC	100	100	-	-
TURKEY				
Nursan OK (1)	40	40	40	40
Valeo Otomotiv Dagitim A.S.	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi A.S.	100	100	100	100
AFRICA				
TUNISIA				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie S.A.	100	100	100	100
MOROCCO				
Cablinal Maroc, S.A.	100	100	100	100
EGYPT				
Valeo Interbranch Automotive Software Egypt	100	100	100	100
SOUTH AFRICA				
Valeo Systems South Africa (Proprietary) Ltd.	51	51	51	51

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportional basis.

(3) Company sold or liquidated in 2008.

(4) Cf. note 2.1.1.

Company	2008		2007	
	% voting rights	% interest	% voting rights	% interest
NORTH AMERICA				
UNITED STATES				
Valeo Aftermarket, Inc.	100	100	100	100
Valeo Electrical Systems, Inc.	100	100	100	100
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc. (4)	100	100	77.8	77.8
Valeo Compressor North America, Inc.	100	100	100	100
Telma Retarder Inc.	100	100	100	100
Valeo Acustar Thermal Systems, Inc. (3)	-	-	51	51
Valeo Climate Control Corp.	100	100	100	100
Valeo Friction Materials, Inc.	100	100	100	100
Valeo, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC (2)	50	50	50	50
Valeo Thermal Systems NA, Inc.	100	100	100	100
MEXICO				
Delmex de Juarez S de RL de CV	100	100	100	100
Telma Retarder de Mexico, SA de CV	100	100	100	100
Valeo Automotive Electrical Systems de Mexico, SA de CV	100	100	100	100
Valeo Sistemas Electricos, SA de CV	100	100	100	100
Valeo Sistemas Electricos Servicios S de RL de CV	100	100	100	100
Valeo Sistemas Electronicos, S de RL de CV	100	100	100	100
Valeo Sylvania Iluminacion, S de RL de CV (2)	50	50	50	50
Valeo Sylvania Services S de RL de CV (2)	50	50	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico, SA de CV	100	100	100	100
Valeo Climate Control de Mexico Servicios S de RL de CV	100	100	100	100
Valeo Materiales de Friccion de Mexico, SA de CV	100	100	100	100
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	100	100	100	100
ARGENTINA				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100
ASIA				
THAILAND				
Valeo Compressor (Thailand) Co. Ltd	98.5	98.5	98.5	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	97.3	97.3	97.3	97.3
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thaïland) Co. Ltd	74.9	74.9	74.9	74.9

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportional basis.

(3) Company sold or liquidated in 2008.

(4) Cf. note 2.1.1.

Company	2008 % voting rights	2008 % interest	2007 % voting rights	2007 % interest
SOUTH KOREA				
Valeo Electrical Systems Korea, Ltd	100	100	100	100
Valeo Pyeong Hwa Co. Ltd (2)	50	50	50	50
Valeo Pyeong Hwa Distribution Co., Ltd (3)	-	-	50	50
Valeo Samsung Thermal Systems Co., Ltd (2)	50	50	50	50
Valeo Compressor Korea Co., Ltd	100	100	100	100
Dae Myong Precision Corporation	100	100	100	100
Valeo Thermal Systems Korea Co. Ltd	100	100	100	100
Valeo Pyeong Hwa International Ltd (2)	50	50	-	-
JAPAN				
Ichikoh Industries Ltd (1)	31.6	31.6	31.6	31.6
Valeo Engine Cooling Japan Co. Ltd	100	100	100	100
Valeo Unisia Transmissions K.K.	66	66	66	66
Valeo Thermal Systems Japan Corporation	100	100	100	100
CHINA				
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	100	100	100	100
Hubei Valeo Autolighting Company Ltd	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	55	55	55	55
Faw-Valeo Climate Control Systems Co. Ltd (1)	36.5	36.5	36.5	36.5
Huada Automotive Air Conditioner Co. Ltd (1)	30	30	30	30
Valeo Lighting Hubei Technical Center Co. Ltd	100	100	100	100
Nanjing Valeo Clutch Co. Ltd (2)	55	55	55	55
Shanghai Valeo Automotive Electrical Systems Company Ltd (2)	50	50	50	50
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd	55	55	55	55
Taizhou-Valeo Wenling Automotive Systems Company Ltd	100	100	100	100
Telma Vehicle Braking System (Shanghai) Company Ltd	70	70	70	70
Valeo Interior Controls (Shenzhen) Co., Ltd	100	100	75	75
Valeo Automotive Security Systems (Wuxi) Co. Ltd	100	100	100	100
Valeo Fawer Compressor (Changchun) Co. Ltd (2)	60	60	60	60
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Valeo Auto Parts Trading (Shanghai). Co. Ltd	100	100	100	100
Valeo Compressor (Beijing) Co. Ltd	100	100	100	100
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (2)	50	50	50	50
Valeo Engine Cooling (Shashi) Co. Ltd	100	100	100	100
Hubei Valeo Autolighting Company Ltd	100	100	100	100
INDONESIA				
PT Valeo AC Indonesia (1)	49	49	49	49
IRAN				
Valeo Armco Engine Cooling Co. (3)	-	-	51	51
INDIA				
Valeo Lighting Systems (India) Private Ltd.	100	100	-	-
Valeo Minda Electrical Systems India Private Limited	66.7	66.7	66.7	66.7
Minda Valeo Security Systems Private Limited (2)	50	50	50	50
Valeo Engineering Center (India) Private Limited	100	100	100	100
Amalgamations Valeo Clutch Private Ltd (2)	50	50	50	50
Valeo Friction Materials India Limited	60	60	60	60

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportional basis.

(3) Company sold or liquidated in 2008.

(4) Cf. note 2.1.1.