2016

CONSOLIDATED FINANCIAL STATEMENTS

2016 consolidated financial statements

1 Consolidated statement of income

(in millions of euros)	*Notes*	**2016**	**2015**
SALES	*4.1*	**16,519**	**14,544**
Cost of sales	*4.3*	(13,499)	(11,971)
GROSS MARGIN	*4.3*	**3,020**	**2,573**
as a % of sales		*18.3%*	*17.7%*
Research and Development expenditure, net	*4.5.1*	(956)	(797)
Selling expenses		(258)	(230)
Administrative expenses		(533)	(486)
OPERATING MARGIN		**1,273**	**1,060**
as a % of sales		*7.7%*	*7.3%*
Share in net earnings of equity-accounted companies	*4.5.3.1*	61	56
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.5*	**1,334**	**1,116**
as a % of sales		*8.1%*	*7.7%*
Other income and expenses	*4.6.2*	(33)	(117)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**1,301**	**999**
Interest expense	*8.2.1*	(90)	(92)
Interest income	*8.2.1*	7	8
Other financial income and expenses	*8.2.2*	(46)	(35)
INCOME BEFORE INCOME TAXES		**1,172**	**880**
Income taxes	*9.1*	(189)	(106)
NET INCOME FOR THE YEAR		**983**	**774**
Attributable to:			
■ Owners of the Company		925	729
■ Non-controlling interests	*10.1.7*	58	45
Earnings per share[(1)]:			
■ Basic earnings per share *(in euros)*	*10.2*	3.91	3.11
■ Diluted earnings per share *(in euros)*	*10.2*	3.86	3.05

(1) Earnings per share shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).

Operating performance indicator

(in millions of euros)	*Notes*	**2016**	**2015[(1)]**
EBITDA	*3.2*	2,144	1,841
as a % of sales		*13.0%*	*12.7%*

(1) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA (see Note 3.1).

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

2 Consolidated statement of comprehensive income

(in millions of euros)	2016	2015
NET INCOME FOR THE YEAR	**983**	**774**
Share of changes in comprehensive income from equity-accounted companies recycled to income	(8)	10
o/w income taxes	-	-
Translation adjustment	45	97
Cash flow hedges:		
■ Gains (losses) taken to equity	(14)	16
■ (Gains) losses transferred to income for the year	4	(22)
o/w income taxes	*3*	*3*
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME	**27**	**101**
Share of changes in comprehensive income from equity-accounted companies not recycled to income	(1)	2
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(90)	66
o/w income taxes	*2*	*(27)*
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME	**(91)**	**68**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(64)**	**169**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**919**	**943**
Attributable to:		
■ Owners of the Company	860	892
■ Non-controlling interests	59	51

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

3 Consolidated statement of financial position

(in millions of euros)	*Notes*	December 31, 2016	December 31, 2015
ASSETS			
Goodwill	*6.1*	1,922	1,450
Other intangible assets	*6.2*	1,382	1,148
Property, plant and equipment	*6.3*	3,065	2,744
Investments in equity-accounted companies	*4.5.3.2*	461	192
Other non-current financial assets	*8.1.1*	223	55
Assets relating to pensions and other employee benefits	*5.3*	-	1
Deferred tax assets	*9.2*	626	526
NON-CURRENT ASSETS		**7,679**	**6,116**
Inventories, net	*4.4*	1,393	1,161
Accounts and notes receivable, net	*4.2*	2,462	1,964
Other current assets	*4.5.2*	427	371
Taxes recoverable		38	16
Other current financial assets	*8.1.1*	20	25
Cash and cash equivalents	*8.1.3.2*	2,359	1,725
Assets held for sale	*2.2.1.4*	-	62
CURRENT ASSETS		**6,699**	**5,324**
TOTAL ASSETS		**14,378**	**11,440**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	239	238
Additional paid-in capital	*10.1.2*	1,462	1,434
Translation adjustment	*10.1.3*	282	245
Retained earnings	*10.1.4*	2,134	1,556
STOCKHOLDERS' EQUITY		**4,117**	**3,473**
Non-controlling interests	*10.1.7*	236	219
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**4,353**	**3,692**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	983	914
Other provisions – long-term portion	*7.1*	351	255
Long-term portion of long-term debt	*8.1.2.1*	2,070	1,145
Other financial liabilities – long-term portion	*8.1.1*	116	1
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	23	-
Subsidies and grants – long-term portion		41	35
Deferred tax liabilities	*9.2*	66	39
NON-CURRENT LIABILITIES		**3,650**	**2,389**
Accounts and notes payable		3,884	3,224
Provisions for pensions and other employee benefits – current portion	*5.3*	89	87
Other provisions – current portion	*7.1*	300	190
Subsidies and grants – current portion		18	12
Taxes payable		107	69
Other current liabilities		1,128	1,012
Current portion of long-term debt	*8.1.2.1*	225	472
Other financial liabilities – current portion	*8.1.1*	26	90
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	56	39
Short-term debt	*8.1.2.3*	542	128
Liabilities held for sale	*2.2.1.4*	-	36
CURRENT LIABILITIES		**6,375**	**5,359**
TOTAL EQUITY AND LIABILITIES		**14,378**	**11,440**

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

4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		983	774
Share in net earnings of equity-accounted companies		(61)	(56)
Net dividends received from equity-accounted companies		43	44
Expenses (income) with no cash effect(1)	*11.1*	854	850
Cost of net debt		83	84
Income taxes (current and deferred)		189	106
GROSS OPERATING CASH FLOWS		**2,091**	**1,802**
Income taxes paid		(257)	(190)
Changes in working capital(1)	*11.2*	56	94
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,890**	**1,706**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(483)	(412)
Acquisitions of property, plant and equipment(1)		(817)	(684)
Disposals of property, plant and equipment and intangible assets		51	10
Net change in non-current financial assets		(38)	(10)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(630)	(8)
Acquisitions of investments in associates and/or joint ventures	*11.4*	(17)	-
Disposals of investments with loss of control, net of cash transferred	*11.5*	22	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,912)**	**(1,104)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(236)	(172)
Dividends paid to non-controlling interests in consolidated subsidiaries		(27)	(29)
Capital increase		29	-
Sale (purchase) of treasury stock		13	18
Issuance of long-term debt	*11.6*	1,112	104
Loan issue costs and premiums	*11.6*	(64)	-
Interest paid		(63)	(76)
Interest received		5	6
Repayments of long-term debt	*11.6*	(469)	(90)
Acquisitions of investments without gain of control	*11.7*	(24)	(3)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**276**	**(242)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(34)**	**(3)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**220**	**357**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,597**	**1,240**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,817**	**1,597**
Of which:			
▪ Cash and cash equivalents		2,359	1,725
▪ Short-term debt		(542)	(128)

(1) The consolidated statement of cash flows shown for 2015 differs from that presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities (see Note 11).

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

5 Consolidated statement of changes in stockholders' equity

						Total stockholders' equity including non-controlling interests restated		
Number of shares[(1)]	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Stockholders' equity	Non-controlling interests	Total
233,301,654	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2015**	**238**	**1,434**	**145**	**929**	**2,746**	**209**	**2,955**
	Dividends paid	-	-	-	(172)	(172)	(29)	(201)
2,060,901	Treasury stock	-	-	-	18	18	-	18
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	17	17	-	17
	Other movements	-	-	-	(28)	(28)	(12)	(40)
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(165)**	**(165)**	**(41)**	**(206)**
	Net income for the year	-	-	-	729	729	45	774
	Other comprehensive income (loss), net of tax	-	-	100	63	163	6	169
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**100**	**792**	**892**	**51**	**943**
235,362,555	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2015**	**238**	**1,434**	**245**	**1,556**	**3,473**	**219**	**3,692**
	Dividends paid	-	-	-	(236)	(236)	(27)	(263)
1,784,200	Treasury stock	-	-	-	13	13	-	13
755,511	Capital increase[(2)]	1	28	-	-	29	-	29
	Share-based payment	-	-	-	21	21	-	21
	Put options granted[(3)]	-	-	-	(18)	(18)	(3)	(21)
	Other movements	-	-	-	(25)	(25)	(12)	(37)
	TRANSACTIONS WITH OWNERS	**1**	**28**	**-**	**(245)**	**(216)**	**(42)**	**(258)**
	Net income for the year	-	-	-	925	925	58	983
	Other comprehensive income (loss), net of tax	-	-	37	(102)	(65)	1	(64)
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**37**	**823**	**860**	**59**	**919**
237,902,266	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016**	**239**	**1,462**	**282**	**2,134**	**4,117**	**236**	**4,353**

(1) The number of shares outstanding at January 1, 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).
(2) The terms and conditions of the November 15, 2016 capital increase reserved for employees are detailed in Note 10.1.
(3) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.1.2.2).

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

6 Notes to the consolidated financial statements

Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2016 include:

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

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

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

Valeo's consolidated financial statements for the year ended December 31, 2016 were authorized for issue by the Board of Directors on February 15, 2017.

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

1.1 Accounting standards applied

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

The financial statements include the information deemed material as required by the French accounting standards-setter (*Autorité des Normes Comptables* – ANC) in Standard no. 2016-09.

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2016

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

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2016	
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs 2010-2012 cycle	Various provisions
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to IAS 1	Disclosure initiative
Annual Improvements to IFRSs 2012-2014 cycle	Various provisions

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

(1) *http://ec.europa.eu/internal_market/accounting/ias/index_en.htm*

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2016 and not early adopted by the Group

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

Standards, amendments and interpretations	Effective date	Impacts for the Group
IFRS 15 Revenue from Contracts with Customers	January 1, 2018	IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition. It introduces a new model for accounting for revenue from contracts with customers. Clarifications to the standard were published by the IASB on April 12, 2016 following publication of the "Clarifications to IFRS 15" exposure draft in July 2015, and are subject to approval by the European Union in the near future. The European Union adopted IFRS 15 on September 22, 2016. Together with the Business Groups and Valeo Service, Valeo selected the principal transactions and contracts representing the Group's current and future activity. These were analyzed in light of the five-step model required by IFRS 15 in order to identify areas where it needs to exercise judgment and any potential changes resulting from application of the standard. The findings of this initial analysis are presented below and may change in light of the more detailed analysis currently in progress. For a given automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the initial analysis are: ▪ product development, which includes determining the intrinsic technical features of parts and those related to the relevant production process; ▪ supply of tooling such as molds and other equipment used to manufacture parts; ▪ supply of parts. The Group is continuing its analysis in order to determine whether each of these promises is distinct and whether they must be considered as performance obligations. Valeo also considers that the contractual promise made to the automaker in the form of warranties for the parts supplied does not meet the definition of a separate performance obligation as it does not give rise to an "additional service". Warranty costs will therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets". An analysis of the relationship with the end customer under certain specific contracts has led Valeo to consider that it acts as agent in such dealings and not as principal. The Group identified an impact on the presentation of its consolidated net income as a result of applying IFRS 15 but this has not yet been quantified. This concerns contributions received from customers in respect of development costs and prototypes, which are currently shown as a deduction from Research and Development costs, net. These costs are now to be included on the "Sales" line as they result from a contract with a customer with a view to obtaining goods or services that are an output of the Group's ordinary activities in exchange for consideration. The choice of transition method has not yet been decided. During the first half of 2017, Valeo will finalize its analyses and will estimate the impacts of applying the new standard (temporarily deferred recognition of revenue, treatment of pre-production activities, presentation, disclosure requirements in the financial statements, etc.).
IFRS 9 Financial instruments	January 1, 2018	On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39: ▪ the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question; ▪ the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses; ▪ the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy. Owing to the nature of its operations, the Group does not expect the classification and measurement of its financial assets to change significantly. A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, is to be carried out in 2017. The expected credit loss impairment model prescribed by IFRS 9 will result in recognizing impairment losses against accounts and notes receivable not yet due. The Group considers that its existing hedging relationships meeting the definition of effective hedges will continue to meet IFRS 9 hedge accounting criteria. These preliminary conclusions are based on the analyses carried out to date and may change during 2017.

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

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

Standards, amendments and interpretations	Effective date[(1)]	Impacts for the Group
IFRS 16 Leases	January 1, 2019	On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the different accounting treatment previously applicable to operating and finance leases. Lessees will be required to account for all leases with a term of over one year in the same way as currently required by IAS 17 for finance leases, thereby recognizing a right-of-use asset representing the right to use the underlying leased asset and a lease liability representing the obligation to make lease payments. In 2016, Valeo began to identify leases of its subsidiaries along with their main provisions, the aim being to analyze the qualitative and quantitative impacts of this future new standard on the Group's consolidated financial statements in 2017. Based on this analysis, the Group will be able to decide on its transition method and assess whether it is able to early adopt IFRS 16 at January 1, 2018 at the same time as IFRS 15.

(1) Subject to adoption by the European Union.

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

Standards, amendments and interpretations		Effective date[(1)]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	First-time application date postponed by the IASB; new date yet to be specified
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendments to IAS 7	Disclosure initiative	January 1, 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Annual Improvements to IFRSs 2014-2016 cycle	Various provisions	January 1, 2017/January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

(1) Subject to adoption by the European Union.

1.2 Basis of preparation

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

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

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

Key estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2016 chiefly concern:

- the measurement of intangible assets recognized in the allocation of the purchase price to the assets and liabilities of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively);
- the measurement of the disposal gains arising on the creation of the Valeo Siemens eAutomotive joint venture, and of the related put and call options recognized at the same time (see Note 2.2.1.3);
- the conditions for capitalizing Research and Development expenditure (see Note 4.5.1.1);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6);
- estimates of provisions, particularly for pensions and other employee benefits and for risks linked to product warranties (see Notes 5.3 and 7.1);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2).

Note 2 Scope of consolidation

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

2.1.1.1 Full consolidation

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

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

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

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

2.1.1.2 Equity-method accounting for joint ventures and associates

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

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

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

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

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

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

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

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

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

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

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

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

2.1.2.2 Foreign currency transactions

General principle

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

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

Net investment

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

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

2.1.3 Business combinations

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

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

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

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

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

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

Costs directly attributable to the combination are included within "Other income and expenses" in the period in which they are incurred.

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

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

2.1.4 Transactions involving non-controlling interests

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

2.1.5 Assets and liabilities held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statement of financial position. Any liabilities related to such assets are presented on the "Liabilities held for sale" line in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization.

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

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

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

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

2.2 Changes in the scope of consolidation

2.2.1 Transactions carried out in 2016

2.2.1.1 Acquisition of peiker

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

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

The purchase price was allocated to peiker's assets and liabilities on a provisional basis in 2016, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 202 million euros. The value of the goodwill chiefly reflects the expected operating synergies relative to onboard telematics and connectivity, mainly attributable to the improved industrial performance and efficiency of the Company's Sourcing, Logistics and Research & Development networks.

The main impacts of this acquisition are as follows:

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

(in millions of euros)	Allocation at June 30, 2016	Allocation at December 31, 2016
Net cash and cash equivalents acquired	6	6
Consideration paid	(299)	(299)
Earnout payment	-	(5)
Acquisition costs paid during the period	(3)	(3)
Net cash flows resulting from the acquisition	**(296)**	**(301)**

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

peiker contributed 266 million euros to consolidated sales in 2016.

2.2.1.2 Acquisition of Spheros

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

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

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

The purchase price was allocated to Spheros' assets and liabilities on a provisional basis in 2016, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 249 million euros. The value of the goodwill chiefly reflects the operating and tax synergies expected to result from the transaction.

The main impacts of this acquisition are as follows:

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

(in millions of euros)	Allocation at June 30, 2016	Allocation at December 31, 2016
Net cash and cash equivalents acquired	(58)	(66)
Consideration paid	(255)	(255)
Earnout payment	-	(1)
Acquisition costs paid during the period	(1)	(4)
Net cash flows resulting from the acquisition	**(314)**	**(326)**

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

Spheros contributed 184 million euros to consolidated sales in 2016.

2.2.1.3 Creation of joint venture with Siemens in the field of high-voltage powertrains

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

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

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

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

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

The Group recognized this contribution to a joint venture in accordance with IFRS 10. The loss of control of the assets and liabilities led to (i) derecognition of said assets and liabilities from the consolidated statement of financial position, (ii) recognition of the shares received in the new joint venture at their fair value, and (iii) recognition of a disposal gain equal to the difference between the fair value of the shares received and the net carrying amount of the assets and liabilities derecognized as a result of the loss of control. This disposal gain was recognized in full in "Other income and expenses" and represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment. The overall proceeds from this transaction including the disposal gain, the fair value of the put and call options and the transaction-related costs, total 159 million euros and are recorded in "Other income and expenses" (see Note 4.6.2).

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

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

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

The impacts of changes in key assumptions of the fair value of the equity-accounted investment are:

	Fair value	Impact on fair value		
(in millions of euros)	Based on assumptions for 2016	WACC of 12.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	Combination of both factors
Fair value of equity-accounted investment	241	(32)	(13)	(43)

At the time the joint venture was created, Siemens granted Valeo a call option and Valeo granted Siemens a put option. These options were valued by an independent expert using a probability-based approach at 35 million euros and 37 million euros, respectively (see Note 8.1.4.4).

2.2.1.4 Sale of the Engine Control business

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

In accordance with IFRS 5, the assets and liabilities relating to the Engine Control business were therefore classified within assets and liabilities held for sale in the consolidated statement of financial position published at June 30, 2015 and December 31, 2015. Valeo chose this classification for these assets and liabilities as their carrying amount was to be recovered principally through a sale transaction rather than through their continuing use. At December 31, 2015, this reclassification within assets and liabilities held for sale in an amount of 69 million euros and 36 million euros, respectively, also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business.

The Engine Control business contributed 10 million euros to consolidated sales in the first half of 2016 up until the date of sale, versus 52 million euros in 2015.

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

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

2.2.1.5 Acquisition of a stake in CloudMade

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

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

This acquisition resulted in an outflow of 16 million euros in the consolidated statement of cash flows for 2016.

2.2.1.6 Purchase of non-controlling interests in Valeo Unisia Transmissions

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

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

2.2.1.7 Other transactions in the year with no impact on the scope of consolidation at December 31, 2016

Acquisition of FTE automotive

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

FTE automotive, headquartered in Germany, is a leading producer of clutch and gear actuators. Its product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable the Group to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of dual-clutch technology and hybrid vehicles. FTE automotive will also strengthen Valeo's aftermarket business. The company has 3,700 employees and a diversified industrial footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China.

Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016.

In its Phase 1 review, the European Commission expressed concerns about the acquisition. Following discussions with the European Commission and in agreement with Bain Capital, Valeo decided to withdraw its merger notification and to promptly renotify the Commission with a view to obtaining clearance to acquire FTE and finalize the transaction in 2017.

Launch of a takeover bid for the shares of Ichikoh

On November 22, 2016, Valeo announced the launch of a takeover bid for the shares of Ichikoh, a Japanese company listed on the First Section of the Tokyo Stock Exchange. Valeo acquired an initial stake in Ichikoh on April 27, 2000 and at December 31, 2016 held 31.58% of its capital. Ichikoh is equity-accounted in the 2016 financial statements.

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

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

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

As of settlement-delivery on January 20, 2017 following Valeo's takeover bid, the Group holds 55.08% of Ichikoh's capital and therefore takes control of Japan's leading automotive lighting company. Ichikoh will be fully consolidated by Valeo as from February 1, 2017.

This acquisition had no accounting impact in 2016. Given the date on which control was acquired, a provisional valuation will be carried out in the first half of 2017 in accordance with the provisions of IFRS 3 applicable to acquisitions carried out in stages (step acquisitions).

2.2.2 Transactions carried out in 2015

2.2.2.1 Reorganization of the Wiper Systems business in China

On June 16, 2015, an addendum to a partnership agreement between STEC and Valeo changed the organization of the Group's Wiper Systems business in China. Under the terms of the amended agreement, STEC and Valeo respectively own 27% and 73% of Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, compared to a respective 45% and 55% previously.

Put and call options were also set up on STEC's interest in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd:

- Valeo was granted a call option on STEC's interest in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd;
- STEC was granted a put option allowing it to sell its entire interest in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd to Valeo for a sale price calculated based on an EBITDA multiple.

This agreement came into effect as of December 31, 2015 once all conditions precedent had been met. At December 31, 2015, the Group recognized debt for 39 million euros reflecting the estimated value of the put option granted to STEC. Recognition of this debt led to a 16 million euro decrease in the related non-controlling interests and a 23 million euro decrease in consolidated retained earnings attributable to the owners of the Company. Since the options are exercisable at any time over a ten-year period, the debt was classified within current liabilities in the consolidated statement of financial position.

The liability relating to the put option granted to STEC was remeasured at its fair value at December 31, 2016 (see Note 8.1.2.2).

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

2.3.1 Commitments given

2.3.1.1 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in 2012. At December 31, 2016, Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company.

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

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

2.3.1.2 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 28 million euros at December 31, 2016 (24 million euros at December 31, 2015) and mainly include commitments given on the creation of the joint venture with Siemens (see Note 2.2.1.3) and on the sale of the Engine Control business (see Note 2.2.1.4). The commitments given on the sale of the Access Mechanisms business expired in 2016.

2.3.2 Commitments received

Commitments received totaled 327 million euros at December 31, 2016 (28 million euros at December 31, 2015) and correspond to guarantees granted to Valeo in connection with its acquisitions. The increase is mainly attributable to vendor warranties received in connection with the acquisitions of Spheros, peiker and CloudMade during the period (see Note 2.2.1.2, Note 2.2.1.1 and Note 2.2.1.5, respectively). In addition, at the time the joint venture with Siemens was created, Valeo and Siemens gave each other mutual commitments.

Note 3 Segment reporting

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

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

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance, Interior Controls and Connected Cars. It focuses on the driver experience and develops a range of solutions to enable safer, greener and more connected intuitive driving by means of innovative interfaces between the driver, the vehicle and the surrounding environment.
- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics, organized around three activities: electrification, transmission automation and clean engines. This Business Group develops innovative powertrain solutions to reduce CO_2 emissions and fuel consumption without compromising driving performance or pleasure.
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Bus Systems. It develops and manufactures systems, modules and components to ensure thermal energy management of the powertrain and in-vehicle comfort during all phases of vehicle use and for all types of powertrain.
- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. This Business Group designs and produces efficient and innovative systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

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

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

3.1 Key segment performance indicators

The definition of EBITDA was revised in 2016 to exclude the income, recognized during the year within operating margin, relating to government subsidies and grants on non-current assets.

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

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

2016

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	3,343	3,975	4,622	4,545	34	**16,519**
■ intersegment (Group)	20	52	23	104	(199)	**-**
EBITDA	**496**	**534**	**463**	**645**	**6**	**2,144**
Research and Development expenditure, net	(334)	(183)	(184)	(235)	(20)	**(956)**
Investments in property, plant and equipment and intangible assets	342	357	302	330	30	**1,361**
Segment assets	1,981	2,107	2,024	2,028	83	**8,223**

2015

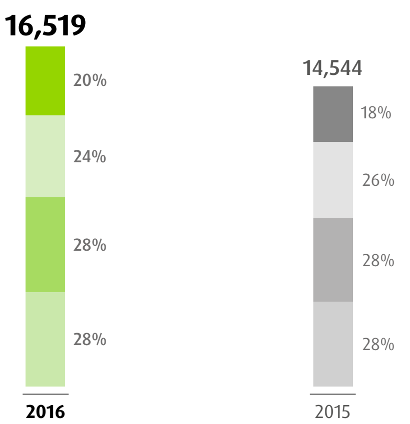
(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	2,702	3,706	4,032	4,073	31	**14,544**
■ intersegment (Group)	18	56	42	112	(228)	**-**
EBITDA(1)	**394**	**482**	**435**	**519**	**11**	**1,841**
Research and Development expenditure, net	(254)	(167)	(148)	(216)	(12)	**(797)**
Investments in property, plant and equipment and intangible assets	306	278	244	266	31	**1,125**
Segment assets	1,454	1,815	1,498	1,850	78	**6,695**

(1) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA.

Segment data

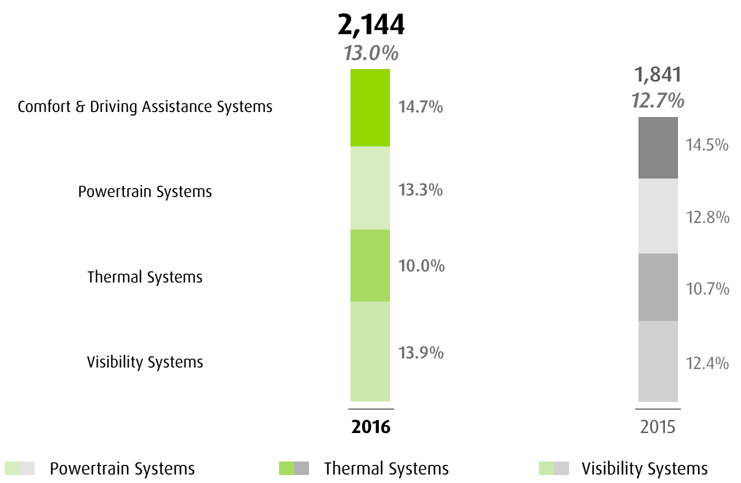
Breakdown of sales by Business Group (including intersegment sales)

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



EBITDA by Business Group(1)

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



(1) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA.

3.2 Reconciliation with Group data

The table below reconciles EBITDA with the consolidated operating margin:

(in millions of euros)	2016	2015[(2)]
Operating margin	**1,273**	**1,060**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[(1)]	841	743
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(13)	(6)
Dividends paid by equity-accounted companies	43	44
EBITDA	**2,144**	**1,841**

(1) Impairment losses recorded in operating margin only.
(2) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA (see Note 3.1).

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

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2016	December 31, 2015
Segment assets	**8,223**	**6,695**
Accounts and notes receivable	2,462	1,964
Other current assets	427	371
Taxes recoverable	38	16
Financial assets	2,602	1,806
Deferred tax assets	626	526
Assets held for sale[(1)]	-	62
TOTAL GROUP ASSETS	**14,378**	**11,440**

(1) At December 31, 2015, assets classified as held for sale corresponded to the assets of the Engine Control business (see Note 2.2.1.4).

3.3 Reporting by geographic area

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

2016

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

2015

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,174	2,899	694
Other European countries and Africa	6,109	4,791	1,277
North America	3,085	3,066	629
South America	351	298	37
Asia	3,825	4,107	1,447
Eliminations	-	(617)	-
TOTAL	**14,544**	**14,544**	**4,084**

3.4 Breakdown of sales by major customer

In 2016, two global automakers represented 29.1% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

In 2015, two global automakers represented 29.8% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

Note 4 Operating data

4.1 Sales

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

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

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

Group sales rose 13.6% to 16,519 million euros in 2016 from 14,544 million euros in 2015.

Exchange rates had a 0.9% negative currency effect, relating mainly to the depreciation of the Chinese renminbi, while changes in scope of consolidation during the year had a 3.1% positive impact. Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2016 climbed 11.4% on 2015.

4.2 Accounts and notes receivable

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

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

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

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

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	**December 31, 2016**	**December 31, 2015**
Accounts and notes receivable, gross	2,486	1,981
Impairment	(24)	(17)
Accounts and notes receivable, net	**2,462**	**1,964**

At December 31, 2016, Valeo's largest automotive customer accounted for 14% of the Group's accounts and notes receivable (15% at December 31, 2015).

The average days' sales outstanding stood at 47 days at December 31, 2016, stable compared with December 31, 2015.

The Group's credit risk management policy is described in the Management Report in section 9.1.1.7.

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

(in millions of euros)	**December 31, 2016**	**December 31, 2015**
93.5% – Not yet due	2,325	1,874
2.9% – Less than 1 month past due	72	53
2.9% – More than 1 month but less than 1 year past due	71	45
0.7% – More than 1 year past due	18	9
ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,486**	**1,981**

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2016 totaled 2,325 million euros and 72 million euros, respectively, and represented 96% of total gross accounts and notes receivable (97% at end-2015). Past due receivables were written down in an amount of 24 million euros at December 31, 2016 (17 million euros at December 31, 2015).

Accounts and notes receivable falling due after December 31, 2016, for which substantially all of the risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represented an amount of 301 million euros at December 31, 2016 versus 306 million euros at December 31, 2015. A total of 98 million euros out of the 301 million euros relates to sale operations carried out on a recurring basis (83 million euros at December 31, 2015). The financial cost of these transactions, recognized in cost of net debt, was around 3 million euros in 2016 (stable as compared to 2015).

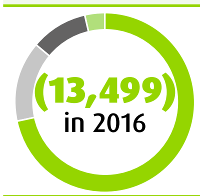
4.3 Gross margin and cost of sales

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

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

Gross margin for the period totaled 3,020 million euros, or 18.3% of sales (17.7% of sales in 2015).

Cost of sales can be analyzed as follows:



(in millions of euros)	2016	2015
58.6%[1] – Raw materials consumed	(9,681)	(8,510)
12.0%[1] – Labor	(1,975)	(1,806)
8.2%[1] – Direct production costs and production overheads	(1,358)	(1,209)
2.9%[1] – Depreciation and amortization[2]	(485)	(446)
Cost of sales	**(13,499)**	**(11,971)**

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

4.4 Inventories

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

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

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

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

At December 31, 2016, inventories break down as follows:

	December 31, 2016			December 31, 2015
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	622	(98)	**524**	**396**
Work-in-progress	147	(15)	**132**	**107**
Finished goods and supplies	524	(89)	**435**	**388**
Specific tooling	308	(6)	**302**	**270**
Inventories, net	**1,601**	**(208)**	**1,393**	**1,161**

Impairment losses taken against inventories amounted to 208 million euros at December 31, 2016 (168 million euros at December 31, 2015), including an allowance (net of reversals) of 29 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 16 million euros in 2015.

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

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

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

In 2016, operating margin including share in net earnings of equity-accounted companies totaled 1,334 million euros, or 8.1% of sales (7.7% of sales in 2015).

Share in net earnings of equity-accounted companies amounted to 61 million euros in 2016 and 56 million euros in 2015. Note 4.5.3 provides more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development costs

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

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

Development costs are capitalized where the Group can demonstrate that:

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

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

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

Changes in capitalized development costs in 2016 and 2015 are analyzed below:

(in millions of euros)	2016	2015
GROSS CARRYING AMOUNT AT JANUARY 1	**1,973**	**1,792**
Accumulated amortization and impairment	(1,080)	(1,026)
NET CARRYING AMOUNT AT JANUARY 1	**893**	**766**
Capitalized development expenditure	437	364
Disposals	(36)	-
Changes in scope of consolidation	-	-
Impairment	(20)	(8)
Amortization	(238)	(193)
Translation adjustment	-	13
Reclassifications	(43)	(49)
NET CARRYING AMOUNT AT DECEMBER 31	**993**	**893**

Reclassifications in 2016 chiefly concern intangible assets contributed to the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.3). Reclassifications in 2015 chiefly related to intangible assets within the Engine Control business recognized as held for sale (see Note 2.2.1.4).

4.5.1.2 Research and Development expenditure, net

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

Net Research and Development expenditure can be analyzed as follows for 2016 and 2015:

(in millions of euros)	2016	2015
Research and Development expenditure	(1,596)	(1,307)
Contributions received and subsidies and grants	456	353
Capitalized development expenditure	437	364
Amortization and impairment of capitalized development expenditure	(253)	(207)
Research and Development expenditure, net	**(956)**	**(797)**

The Group continued to step up its Research and Development efforts in 2016 to meet the sharp increase in its order book over the past few years and in line with its strategy geared to products incorporating innovative technologies.

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

The research tax credit in France represented income of 55 million euros in 2016 (51 million euros in 2015).

4.5.2 Other current assets

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

At December 31, 2016, amounts receivable in respect of the CICE tax credit for 2013, 2014, 2015 and 2016, and the 2013, 2014 and 2015 research tax credit in France are no longer carried in the consolidated statement of financial position, which now includes only the estimated 55 million euros receivable in respect of the 2016 research tax credit.

These derecognized receivables were transferred as follows:

- the 2013 CICE and research tax credit receivables on June 19, 2014 for an amount of 10 million euros and 55 million euros, respectively;
- the 2014 CICE tax credit receivable on December 16, 2014 for 15 million euros;
- the 2014 research tax credit receivable on June 26, 2015 for 56 million euros;
- the 2015 CICE tax credit receivable on December 18, 2015 for 15 million euros;
- the 2015 research tax credit receivable on June 22, 2016 for 54 million euros;
- the 2016 CICE tax credit receivable on December 21, 2016 for 15 million euros.

The cost of these transfers for the Group, recognized in cost of net debt for the period, was 1 million euros, compared to just under 3 million euros in 2015.

At December 31, 2015, only the 2015 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 51 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2016	2015
Share in net earnings of associates	27	21
Share in net earnings of joint ventures	34	35
Share in net earnings of equity-accounted companies	**61**	**56**

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

Share in net earnings of associates

(in millions of euros)	2016	2015
Ichikoh Industries Ltd	22	8
Detroit Thermal Systems	5	13
Valeo Pyeong Hwa Metals Co. Ltd	-	-
Share in net earnings of associates	**27**	**21**

Ichikoh Industries Limited, which is 31.6%-owned by Valeo, is listed on the Tokyo Stock Exchange and has a March 31 year-end. The financial statements of this associate used to apply the equity method are prepared at a different date to that of the consolidated financial statements. The difference between the year-end of the associate and the Group's own year-end is three months, which is permitted by the revised IAS 28. In 2016, the share in net earnings of associates covers a period of 12 months (October 1, 2015 to September 30, 2016, as in 2015).

On November 24, 2016, Valeo launched a takeover bid for the shares of Ichikoh. Following the close of the offer on January 12, 2017, Valeo controlled the Japan-based company. Ichikoh will be fully consolidated by Valeo as from February 1, 2017 (see Note 2.2.1.7).

Share in net earnings of joint ventures

(in millions of euros)	2016	2015
Share in net earnings		
▪ Chinese joint ventures	37	34
▪ Other joint ventures	(3)	1
Share in net earnings of joint ventures	**34**	**35**

4.5.3.2 Investments in equity-accounted companies

Investments in associates

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

(in millions of euros)	2016	2015
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**74**	**55**
Share in net earnings of associates	27	21
Dividend payments	(8)	(7)
Impact of changes in scope of consolidation	-	-
Translation adjustment	(3)	3
Other movements	(4)	2
Investments in associates at December 31	**86**	**74**

The Group's investments in associates are detailed below:

	% interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Ichikoh Industries Ltd	31.6	31.6	67	53
Detroit Thermal Systems	49.0	49.0	20	22
Valeo Pyeong Hwa Metals Co. Ltd (1)	49.0	49.0	(1)	(1)
Investments in associates			**86**	**74**

(1) The investment in Valeo Pyeong Hwa Metals Co. Ltd is recorded in "Other financial liabilities – long-term portion".

The market value of Valeo's interest in Ichikoh Industries Limited (listed on the Tokyo Stock Exchange) was 93 million euros at December 31, 2016 and 55 million euros at December 31, 2015.

Investments in joint ventures

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

(in millions of euros)	2016	2015
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**117**	**112**
Net earnings of joint ventures	34	35
Dividend payments	(35)	(37)
Impact of changes in scope of consolidation	260	-
Other movements	1	-
Translation adjustment	(4)	7
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**373**	**117**

Investments in joint ventures chiefly relate to Chinese joint ventures in an amount of 111 million euros (stable compared with end-2015) and the joint ventures created with Siemens in 2016 (see Note 2.2.1.3).

Changes in the scope of consolidation reflect the joint ventures created with Siemens during the year as well as the interest acquired in CloudMade (see Note 2.2.1.5).

4.5.3.3 Information on equity-accounted companies

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

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

Associates

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

(in millions of euros)	December 31, 2016	December 31, 2015
Non-current assets	426	380
Current assets	408	344
Non-current liabilities	290	272
Current liabilities	358	305

(in millions of euros)	2016	2015
Sales	1,151	973
Operating expenses	(1,066)	(909)

Joint ventures

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

(in millions of euros)	December 31, 2016	December 31, 2015
Non-current assets	403	133
Current assets	465	299
Non-current liabilities	48	23
Current liabilities	408	250

(in millions of euros)	2016	2015
Sales	749	711
Operating expenses	(670)	(630)

4.5.3.4 Transactions with equity-accounted companies (related parties)

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

Transactions with associates

(in millions of euros)	December 31, 2016	December 31, 2015
Accounts and notes receivable	9	5
Accounts and notes payable	15	8
Net debt (cash)	11	11

(in millions of euros)	2016	2015
Sales of goods and services	34	24
Purchases of goods and services	(67)	(48)

Transactions with joint ventures

(in millions of euros)	December 31, 2016	December 31, 2015
Accounts and notes receivable	21	13
Accounts and notes payable	17	3
Net debt (cash)	10	10

(in millions of euros)	2016	2015
Sales of goods and services	24	22
Purchases of goods and services	(10)	(8)

4.6 Operating income and other income and expenses

4.6.1 Operating income

Operating income includes all income and expenses other than:

- interest income and expense;
- other financial income and expenses;
- income taxes.

Operating income including share in net earnings of equity-accounted companies totaled 1,301 million euros in 2016 versus 999 million euros in 2015.

4.6.2 Other income and expenses

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

This caption mainly includes:

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

Other income and expenses can be analyzed as follows in 2016 and 2015:

(in millions of euros)	*Notes*	2016	2015
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:	*4.6.2.1*		
▪ Acquisition fees		(14)	(5)
▪ Sale of the Engine Control business		1	(8)
▪ Income relating to the creation of a joint venture with Siemens, net of costs		159	-
Claims and litigation:	*4.6.2.2*		
▪ Antitrust investigations		(99)	(2)
▪ Other disputes		(3)	(7)
Restructuring plans	*4.6.2.3*	(16)	(69)
Impairment of non-current assets	*4.6.2.4*	(61)	(27)
Other		-	1
Other income and expenses		**(33)**	**(117)**

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

Acquisition fees recognized in 2016 mainly relate to transactions carried out in the period, chiefly peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively), and to the planned acquisition of FTE Automotive (see Note 2.2.1.7).

Once the final loss on the disposal of the Engine Control business had been calculated (see Note 2.2.1.4), the Group recognized income of 1 million euros after the impairment loss of 8 million euros recognized in 2015.

The creation of the joint venture with Siemens resulted in a disposal gain of 159 million euros net of transaction costs and the impact of the put and call options recognized. The disposal gain represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment (see Note 2.2.1.3).

4.6.2.2 Claims and litigation

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

In 2016, claims and litigation mainly relates to the impacts of these investigations (see Note 7.2).

In 2015, it mainly comprised legal advisory costs relating to these investigations.

4.6.2.3 Restructuring plans

Restructuring costs for 2016 primarily relate to the costs of a phased shutdown of operations at a plant in Spain announced in 2015, a lay-off plan in Japan announced in second-half 2016, a curtailment of operations at a plant in France announced in the first half of 2016, and early retirement plans for employees at certain sites in Germany.

These costs were partially offset in an amount of 8 million euros by the impacts of the lump-sum program in the United States, net of administrative costs (see Note 5.3.4).

Restructuring costs for 2015 amounting to 69 million euros related mainly to early retirement plans for certain sites in Germany, a phased shutdown of operations at a plant in Spain, a new headcount adjustment plan in South America, a plan to restructure European Research and Development operations for the Wiper Systems Product Group, and a lay-off plan in Japan.

4.6.2.4 Impairment of non-current assets

As a result of the cash-generating unit (CGU) impairment tests carried out in 2016, an impairment loss of 49 million euros was recognized against the Compressors Product Group, and the Electronics Product Group was written down in an amount of 12 million euros (see Note 6.4).

In 2015, the Group recognized a non-recurring impairment loss against assets in Brazil and Argentina for 42 million euros, partly offset by the reversal of (i) an impairment loss previously recognized against the Interior Electronics Product Group for 8 million euros, and (ii) an impairment loss booked against specific property, plant and equipment at a site belonging to the Transmission Systems Product Group for 7 million euros.

Note 5 Personnel expenses and employee benefits

5.1 Headcount

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

	2016	2015
Total employees at December 31	91,800	82,800
Average employees during the year	89,125	82,125

5.2 Employee benefits

Employee benefits are measured in accordance with the amended IAS 19, effective as of January 1, 2014. They comprise both short- and long-term benefits.

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

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

Long-term benefits cover two categories of employee benefits:

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

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

These benefits are broken down into:

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

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

(in millions of euros)	2016	2015
Wages and salaries[1]	2,727	2,447
Social security charges	531	492
Share-based payment	21	18
Pension expenses under defined contribution plans	83	78
TOTAL	**3,362**	**3,035**

(1) Including temporary staff.

In France, the Group is eligible for the CICE (*Crédit d'impôt pour la compétitivité et l'emploi*) tax credit, which is calculated on a proportion of compensation paid by French companies to their employees. It is paid by the French state, regardless of an entity's income tax position. If an entity is not liable for income tax, it is paid by the State within a period of three years.

The CICE tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes". It is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 15 million euros in 2016, stable compared with 2015.

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

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

5.3 Provisions for pensions and other employee benefits

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

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

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

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

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

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

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

The expense recognized in the statement of income includes:

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

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2016, 94% of provisions are related to post-employment benefits, while the remaining 6% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, Japan, the United Kingdom and the United States, which top up the statutory pension plans in force in those countries:

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

  Most plans in the United States have been frozen and no longer give rise to any additional benefits;
- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:

  These benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) – as in Italy, Mexico and South Korea;
- health cover during retirement in the United States:

  Valeo pays into health plans and life insurance plans for certain retired employees in the United States. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France. Only one such plan is still in operation (since January 1, 2010) and concerns a specific level of Valeo management (*cadres hors catégorie*). The portion of these obligations relating to the Group's executive managers in France is detailed in Note 5.5.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each geographic area at December 31, 2016:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,303	16,850	7,600	8,100	**44,853**
Active employees having left the Group	-	1,840	1,880	2	**3,722**
Retirees	9	4,100	4,600	170	**8,879**
Total employees	**12,312**	**22,790**	**14,080**	**8,272**	**57,454**
Average duration of the defined benefit plans *(years)*	**12**	**22**	**12**	**8**	**15**

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

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2016, the Group used the same benchmarks as in previous years.

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

Country	Benchmark index *(%)*	December 31, 2016	December 31, 2015
Eurozone	iBoxx Euro-Corporate AA 10-year+	1.8	2.2
United Kingdom	iBoxx £-Corporate AA 15-year+	2.55	4.0
United States	iBoxx $-Corporate AA 10-year+	3.9	4.3
Japan	10-year government bonds	0.3	0.9
South Korea	10-year government bonds	2.8	2.7

The weighted average long-term salary inflation rate was around 3.2% at December 31, 2016, up on 2015.

The rate of increase for medical costs in the United States used to value the Group's main obligations was 8.0% at December 31, 2016, gradually falling to 5% by 2032. This assumption is unchanged from that used in 2015.

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

5.3.3 Breakdown and movements in obligations

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

2016

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

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

(2) Unfunded pension obligations in North America include medical plans in the United States representing 88 million euros.

2015

(in millions of euros)	France	Other European countries	North America[(2)]	Asia	Total
Present value of unfunded obligations	207	430	110	46	**793**
Present value of funded obligations	39	97	494	103	**733**
Market value of plan assets	(10)	(78)	(354)	(84)	**(526)**
Provisions recognized at December 31, 2015	**236**	**449**	**250**	**65**	**1,000**
Permanent employees at December 31, 2015[(1)]	12,129	22,178	10,357	12,998	57,662

(1) Permanent employees shown in the table above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.
(2) Unfunded pension obligations in North America include medical plans in the United States representing 86 million euros.

Movements in obligations in 2016 and 2015 are shown in the tables below by major geographic area:

2016

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

(1) Changes in the scope of consolidation relate to the acquisitions of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively).
(2) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

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

2015

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2015	**248**	**563**	**604**	**137**	**1,552**
Actuarial gains and losses recognized in other comprehensive income	(4)	(54)	(57)	2	**(113)**
Benefits paid	(16)	(17)	(37)	(17)	**(87)**
Translation adjustment	-	5	68	10	**83**
Reclassifications	(1)	-	-	-	**(1)**
Expenses (income) for the year:	19	30	26	17	**92**
▪ Service cost	17	18	2	14	**51**
▪ Interest cost	4	12	25	2	**43**
▪ Other	(2)	-	(1)	1	**(2)**
BENEFIT OBLIGATIONS AT DECEMBER 31, 2015	**246**	**527**	**604**	**149**	**1,526**

Actuarial gains totaling 113 million euros in 2015 primarily reflect the impacts of the rise in discount rates in eurozone countries and in the United States.

5.3.4 Movements in provisions

Movements in provisions in 2016 and 2015, including items relating to pensions and other employee benefits, are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2015	**242**	**491**	**259**	**67**	**1,059**
Actuarial gains and losses recognized in other comprehensive income	(4)	(52)	(39)	2	**(93)**
Amounts utilized during the year	(20)	(19)	(11)	(24)	**(74)**
Translation adjustment	-	1	29	6	**36**
Changes in scope of consolidation	(1)	-	-	-	**(1)**
Expenses (income) for the year:	19	28	12	14	**73**
■ *Service cost*	*17*	*18*	*2*	*14*	*51*
■ *Net interest cost*	*4*	*9*	*11*	*1*	*25*
■ *Other*	*(2)*	*1*	*(1)*	*(1)*	*(3)*
PROVISIONS AT DECEMBER 31, 2015	**236**	**449**	**250**	**65**	**1,000**
Actuarial gains and losses recognized in other comprehensive income	14	59	15	4	**92**
Amounts utilized during the year	(21)	(17)	(40)	(17)	**(95)**
Translation adjustment	-	(3)	7	3	**7**
Changes in scope of consolidation	-	2	1	-	**3**
Expenses (income) for the year:	26	22	1	16	**65**
■ *Service cost*	*18*	*17*	*3*	*14*	*52*
■ *Net interest cost*	*5*	*10*	*10*	*2*	*27*
■ *Other*	*3*	*(5)*	*(12)*	*-*	*(14)*
PROVISIONS AT DECEMBER 31, 2016	**255**	**512**	**234**	**71**	**1,072**
Of which current portion (less than one year)	19	18	44	8	**89**

The decrease in expenses in respect of pensions and other employee benefits in 2016 is chiefly attributable to the impact of the limited-term lump-sum program launched in the United States in the second half of 2016. The expenses totalled 65 million euros for the period, including 46 million euros recorded in operating margin, 27 million euros in other financial income and expenses, and a gain of 8 million euros net of administrative expenses in other income and expenses (see Note 4.6.2) in connection with the lump-sum program in the United States (see Note 5.3.3).

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2016 and 2015 is shown in the tables below:

2016

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

2015

(in millions of euros)	France	Other European countries	North America	Asia[1]	Total
Cash at bank	-	-	1	28	**29**
Shares	10	44	209	17	**280**
Government bonds	-	18	49	13	**80**
Corporate bonds	-	16	95	23	**134**
Real estate	-	-	-	3	**3**
Breakdown of plan assets at December 31, 2015	**10**	**78**	**354**	**84**	**526**

(1) At December 31, 2015, a Japanese plan was overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized a non-current financial asset for the amount of the surplus, i.e., 1 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

These assets are managed by specialized asset management companies.

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

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

Movements in the value of plan assets in 2016 and 2015 can be analyzed as follows:

2016

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

The decrease in the fair value of plan assets at December 31, 2016 is chiefly attributable to the lump-sum program in the United States (see Note 5.3.3). The actual return on plan assets represented 31 million euros and the expected return totaled 19 million euros, recognized in other financial income and expenses. The 12 million euro difference reflects actuarial gains resulting from experience adjustments and was recognized within other comprehensive income in 2016.

Contributions totaling 51 million euros were paid to external funds in 2016, representing a sharp increase compared with initial estimates due to the lump-sum program carried out in the United States. Contributions in 2017 are estimated at 29 million euros.

2015

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2015	**6**	**72**	**345**	**70**	**493**
Expected return on plan assets	-	3	14	1	**18**
Contributions paid to external funds	8	5	3	16	**32**
Benefits paid	(4)	(3)	(29)	(9)	**(45)**
Actuarial gains and losses	-	(2)	(18)	-	**(20)**
Translation adjustment	-	3	39	6	**48**
PLAN ASSETS AT DECEMBER 31, 2015	**10**	**78**	**354**	**84**	**526**

5.3.6 Data for previous years

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

(in millions of euros)	2016	2015	2014	2013[(1)]	2012[(1)]
Engagements	1,582	1,526	1,552	1,146	1,253
Financial assets	(510)	(526)	(493)	(368)	(358)
Net benefit obligations	**1,072**	**1,000**	**1,059**	**778**	**895**
Actuarial (losses) gains recognized in other comprehensive income	(92)	93	(225)	102	(153)

(1) The data shown for December 31, 2013 and 2012 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis.

Actuarial gains and losses recognized in other comprehensive income in 2016 include:

- 102 million euros in actuarial losses on changes in actuarial assumptions, chiefly due to the fall in discount rates, notably in the eurozone and in the United States;
- 2 million euros in actuarial losses resulting from experience adjustments on benefit obligations; and
- 12 million euros in actuarial gains resulting from experience adjustments arising on the return on plan assets.

5.3.7 Sensitivity of obligations

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

A 0.5-point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2016:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5-point increase	(11)	(61)	(32)	(6)	**(110)**
Impact of a 0.5-point decrease	16	64	34	6	**120**
Salary inflation rate					
Impact of a 0.5-point increase	16	3	1	4	**24**
Impact of a 0.5-point decrease	(14)	(2)	(1)	(4)	**(21)**

At December 31, 2016, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2017 service cost. A 0.5-point decrease in the discount rate would lead to an additional expense of 4 million euros, while a 0.5-point increase in the discount rate would reduce the expense by 5 million euros.

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

5.3.8 Estimated payouts over the next 10 years

Payouts due over the next 10 years in respect of pension plans and other employee benefits can be estimated as follows:

(in millions of euros)	France	Other European countries	North America	Asia	Total
2017	24	14	36	11	**85**
2018	8	15	35	15	**73**
2019	21	15	34	13	**83**
2020	12	16	34	14	**76**
2021	11	17	34	13	**75**
2022/2026	88	94	166	76	**424**
TOTAL	**164**	**171**	**339**	**142**	816

5.4 Share-based payment

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

Free share plans

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

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

Stock purchase option plans

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

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

An expense of 21 million euros was booked in 2016 in respect of stock purchase option and free share plans (18 million euros in 2015).

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by Valeo at December 31, 2016 are as follows:

Year in which plan was set up	Number of free shares authorized(1)	*of which subject to conditions(2)*	Outstanding shares not yet granted at Dec. 31, 2016	Year of vesting(3)
2011	980,580	379,440	-	2014/2016
2012	639,420	351,660	104,256	2015/2017
2013	1,421,442	669,942	464,946	2016/2018
2014	970,440	316,770	846,468	2017/2019
2015	957,027	260,805	848,481	2018/2020
2016	1,267,022	573,522	910,662	2019/2021
TOTAL	**6,235,931**	**2,552,139**	**3,174,813**	

(1) The number of authorized free shares along with their exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).
(2) These free shares are subject to the Group meeting performance conditions.
(3) The vesting year varies depending on the country in which the plan's beneficiaries are based.

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

	2016		2015(1)	
Free shares	France	Other countries	France	Other countries
Share price at grant date *(in euros)*	46.1	46.1	45.9	45.9
Risk-free rate *(%)*	(0.1)	-	0.1	0.3
Dividend rate *(%)*	3.3	-	2.7	-
Fair value of equity instruments *(in euros)*	**38.9**	**39.5**	**40.0**	**40.2**

(1) The share price at the grant date and the fair value of equity instruments shown for 2015 differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).

5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plans operated by the Valeo Group at December 31, 2016 were as follows:

Year in which plan was set up	Number of shares under option(1)	*of which subject to conditions(1)(2)*	Exercise price *(in euros)*(1)(3)	Outstanding options not yet exercised at Dec. 31, 2016	Expiration date
2010	3,000,000	1,834,095	8.02	331,913	2018
2011	878,520	631,110	14.14	117,905	2019
2012	1,101,480	795,690	13.59	376,855	2020
TOTAL	**4,980,000**	**3,260,895**		**826,673**	

(1) The number of authorized options along with their exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).
(2) These stock purchase options are subject to the Group meeting performance conditions.
(3) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.

5.4.3 Movements in stock purchase option and free share plans

Movements in stock purchase option and free share plans in 2016 and 2015 are detailed below:

2016

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

(1) The number of authorized options and free shares along with their weighted exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).

2015

	Number of options and free shares[1]	Weighted average exercise price[1]
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2015	**6,577,773**	**6.09**
Options/Free shares granted	957,027	-
Options/Free shares canceled	(169,944)	1.03
Options/Free shares expired	(176,250)	12.27
Options exercised/Free shares remitted	(2,113,428)	8.58
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2015	**5,075,178**	**3.86**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2015	**1,660,314**	**11.78**

(1) The number of authorized options and free shares along with their weighted exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).

5.4.4 Employee stock ownership plan: Shares4U

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

In 2016, a conventional plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on September 19, 2016. The subscription price of 38.12 euros is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price.

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

In all, 755,511 shares were subscribed at a price of 38.12 euros, representing a 29 million euro capital increase which took place on November 15, 2016 (see Note 10.1.1.2 and Note 10.1.2).

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

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

	2016
Date rights granted	September 19
Reference price	€47.65
Face value discount	20%
Subscription price	€38.12
Beneficiary's 5-year interest rate	3.87%
Risk-free interest rate	-0.105%
Repo rate	-0.147%

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2016 is 14 million euros, of which 6 million euros were recognized in personnel expenses for the period (excluding social security charges).

5.5 Executive compensation (Related party transactions)

The Group's key management personnel include the Chairman and Chief Executive Officer, the members of the Board of Directors, and the members of the Operations Committee. At December 31, 2016, the Operations Committee had 15 members.

Valeo's Board of Directors approved a number of agreements resulting in the eligibility of the Chief Executive Officer – now the Chairman and Chief Executive Officer following his appointment as Chairman of the Board of Directors and following the combination of the roles of Chairman and Chief Executive Officer on February 18, 2016 – for the following benefits:

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

On taking up the role of Chairman and Chief Executive Officer, Jacques Aschenbroich stated that he would waive the termination benefits for which he may have been eligible in respect of his duties as Chief Executive Officer. This was placed on record by the Board of Directors.

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

(in millions of euros)	2016	2015
SHORT-TERM BENEFITS		
■ Fixed, variable, exceptional and other compensation	13	13
■ Attendance fees	1	1
Other benefits		
■ Post-employment benefits	2	2
■ Share-based compensation	5	4

At December 31, 2016, provisions included in the Group’s statement of financial position in respect of pension obligations accruing to executive managers amounted to 14 million euros, compared with 15 million euros at December 31, 2015.

Note 6 Intangible assets and property, plant and equipment

6.1 Goodwill

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

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests in 2016 and 2015 were carried out as described in Note 6.4.

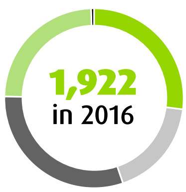
Changes in goodwill in 2016 and 2015 are analyzed below:

(in millions of euros)	2016	2015
NET GOODWILL AT JANUARY 1	**1,450**	**1,374**
Acquisitions during the year	453	2
Disposals during the year	(4)	-
Translation adjustment	23	74
NET GOODWILL AT DECEMBER 31	**1,922**	**1,450**
Including accumulated impairment losses at December 31	-	-

The increase in goodwill during the year primarily relates to the acquisitions of peiker (see Note 2.2.1.1) and Spheros (see Note 2.2.1.2) and, to a lesser extent, the increase in the value of the yen over the period. These impacts were very slightly offset by the derecognition of goodwill related to the high-voltage powertrain systems business following the creation of the joint venture with Siemens (see Note 2.2.1.3).

The translation adjustment in 2015 primarily reflects the impacts of exchange rate fluctuations regarding the US dollar (37 million euros), Japanese yen (24 million euros) and Chinese renminbi (6 million euros).

Goodwill can be broken down by Business Group as follows:



(in millions of euros)	December 31, 2016	December 31, 2015
27% – Comfort & Driving Assistance Systems	521	309
18% – Powertrain Systems	344	350
31% – Thermal Systems	590	329
24% – Visibility Systems	466	461
0% – Other	1	1
Goodwill	**1,922**	**1,450**

6.2 Other intangible assets

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

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

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

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

Other intangible assets can be analyzed as follows:

	December 31, 2016			December 31, 2015
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	308	(238)	**70**	43
Patents and licences	185	(95)	**90**	36
Capitalized development expenditure	2,300	(1,307)	**993**	893
Customer relationships and other intangible assets	354	(148)	**206**	145
Intangible assets in progress	23	-	**23**	31
Other intangible assets	**3,170**	**(1,788)**	**1,382**	**1,148**

Changes in intangible assets in 2016 and 2015 are analyzed below:

2016

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2016	**244**	**109**	**1,973**	**272**	**31**	**2,629**
Accumulated amortization and impairment	(201)	(73)	(1,080)	(127)	-	**(1,481)**
NET CARRYING AMOUNT AT JANUARY 1, 2016	**43**	**36**	**893**	**145**	**31**	**1,148**
Acquisitions	23	1	437	3	19	**483**
Disposals	-	-	(36)	-	-	**(36)**
Changes in scope of consolidation	2	64	-	75	-	**141**
Impairment	-	-	(20)	1	-	**(19)**
Amortization	(25)	(14)	(238)	(18)	-	**(295)**
Translation adjustment	1	(1)	-	1	(1)	**-**
Reclassifications	26	4	(43)	(1)	(26)	**(40)**
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**70**	**90**	**993**	**206**	**23**	**1,382**

Changes in the scope of consolidation result primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively).

Reclassifications chiefly relate to intangible assets contributed on creation of the joint venture with Siemens, which were recognized as held for sale (see Note 2.2.1.3).

2015

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2015	**212**	**96**	**1,792**	**277**	**37**	**2,414**
Accumulated amortization and impairment	(185)	(68)	(1,026)	(123)	-	**(1,402)**
NET CARRYING AMOUNT AT JANUARY 1, 2015	**27**	**28**	**766**	**154**	**37**	**1,012**
Acquisitions	10	6	364	6	25	**411**
Disposals	-	-	-	-	(1)	**(1)**
Impairment	(1)	-	(8)	(1)	-	**(10)**
Amortization	(19)	(5)	(193)	(15)	-	**(232)**
Translation adjustment	-	2	13	8	-	**23**
Reclassifications	26	5	(49)	(7)	(30)	**(55)**
NET CARRYING AMOUNT AT DECEMBER 31, 2015	**43**	**36**	**893**	**145**	**31**	**1,148**

Reclassifications to "Capitalized development expenditure" and "Customer relationships and other intangible assets" in 2015 chiefly relate to intangible assets within the Engine Control business recognized as held for sale (see Note 2.2.1.4).

6.3 Property, plant and equipment

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

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

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

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

Depreciation method and useful life

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

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

- buildings 20 years
- fixtures and fittings 8 years
- machinery and industrial equipment 8 to 15 years
- other property, plant and equipment 3 to 8 years

Tooling

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

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

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

Tax credits

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

Property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2016 Gross carrying amount	December 31, 2016 Depreciation and impairment losses	December 31, 2016 Net carrying amount	December 31, 2015 Net carrying amount
Land	256	(13)	**243**	**200**
Buildings	1,360	(905)	**455**	**439**
Machinery and industrial equipment	5,649	(4,114)	**1,535**	**1,354**
Specific tooling	1,837	(1,644)	**193**	**176**
Other property, plant and equipment	555	(493)	**62**	**57**
Property, plant and equipment in progress	578	(1)	**577**	**518**
Property, plant and equipment	**10,235**	**(7,170)**	**3,065**	**2,744**

Certain items of property, plant and equipment were pledged as security at December 31, 2016 (see Note 6.5.2).

Changes in property, plant and equipment in 2016 and 2015 are analyzed below:

2016

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2016	**212**	**1,283**	**5,170**	**1,713**	**488**	**522**	**9,388**
Accumulated depreciation and impairment	(12)	(844)	(3,816)	(1,537)	(431)	(4)	**(6,644)**
NET CARRYING AMOUNT AT JANUARY 1, 2016	**200**	**439**	**1,354**	**176**	**57**	**518**	**2,744**
Acquisitions	6	32	259	81	28	472	**878**
Disposals	-	(2)	(8)	(2)	(1)	(2)	**(15)**
Changes in scope of consolidation	8	22	23	-	15	4	**72**
Impairment	-	-	(43)	(1)	3	(2)	**(43)**
Depreciation	-	(57)	(330)	(116)	(42)	-	**(545)**
Translation adjustment	5	-	4	-	-	-	**9**
Reclassifications	24	21	276	55	2	(413)	**(35)**
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**243**	**455**	**1,535**	**193**	**62**	**577**	**3,065**

Changes in the scope of consolidation result primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively).

Reclassifications chiefly relate to assets brought into service during the year along with property, plant and equipment contributed on creation of the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.3).

2015

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2015	**208**	**1,179**	**4,731**	**1,601**	**480**	**458**	**8,657**
Accumulated depreciation and impairment	(14)	(776)	(3,535)	(1,428)	(406)	(1)	**(6,160)**
NET CARRYING AMOUNT AT JANUARY 1, 2015	**194**	**403**	**1,196**	**173**	**74**	**457**	**2,497**
Acquisitions	1	45	220	46	23	379	**714**
Disposals	-	-	(7)	(3)	(1)	(1)	**(12)**
Changes in scope of consolidation	-	-	5	-	-	-	**5**
Impairment	-	(2)	(27)	(3)	(3)	(1)	**(36)**
Depreciation	-	(55)	(297)	(101)	(39)	-	**(492)**
Translation adjustment	11	13	38	3	2	13	**80**
Reclassifications	(6)	35	226	61	1	(329)	**(12)**
NET CARRYING AMOUNT AT DECEMBER 31, 2015	**200**	**439**	**1,354**	**176**	**57**	**518**	**2,744**

Finance leases

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

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

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

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

(in millions of euros)	December 31, 2016	December 31, 2015
Buildings	12	6
Machinery and industrial equipment	4	3
Other property, plant and equipment	3	3
TOTAL	**19**	**12**

6.4 Impairment losses on non-current assets

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

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of production sites belonging to the same Product Line or Product Group. Two new CGUs were created in 2016 in connection with the acquisition of peiker (see Note 2.2.1.1) and Spheros (see Note 2.2.1.2). A total of 27 CGUs had been identified at the end of December 2016. CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

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

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

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

Impairment tests

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

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

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

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

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

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets).

  This rate corresponds to the post-tax weighted average cost of capital (WACC). The use of a post-tax rate applied to post-tax cash flows results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

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

Impairment losses recognized for goodwill may not be reversed.

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

6.4.1 Impairment testing

Following this review, tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2015 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9% (unchanged from 2015), calculated using the discount rate method reviewed by an independent expert in 2015. The sample of comparable companies includes around a dozen companies from the automotive equipment industry. The main components of WACC are a market risk premium, a risk-free rate corresponding to the average interest rate on long-term government bonds, and beta calculated based on a sample of companies in the industry, which came out at 1.09 (1.10 in 2015).

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

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

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

The medium-term business plans for 2017-2021 are underpinned by the following assumptions:

- world automotive production of 104 million vehicles in 2021, representing average annual growth of 2.3% for 2016-2021. This assumption is consistent with several independent external forecasts available in April 2016, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 24%, North America 18% and South America 3%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.25 US dollars, 8.06 Chinese renminbi, 144 Japanese yen, 1,425 South Korean won and 5.06 Brazilian real at the end of the plan;

- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2016 or 2015 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above.

6.4.3 Sensitivity of goodwill impairment tests

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

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

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

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

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

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on assumptions for 2016	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,730	(478)	(207)	(181)	(779)
Powertrain Systems Business Group	2,613	(574)	(245)	(213)	(930)
Thermal Systems Business Group	2,604	(561)	(239)	(225)	(923)
Visibility Systems Business Group	3,433	(639)	(272)	(232)	(1,030)

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

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) are a negative operating margin for 2016, a fall of more than 20% in 2016 sales compared to 2015, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans.

The scope of the CGUs tested for impairment was defined at the end of October 2016 and remained unchanged at the end of the period, since no adverse events occurred. Five CGUs were selected:

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

The assumptions used in the medium-term business plan for the Compressors Product Group were revised, mainly to take into account the downward revision of objectives under productivity plans aimed at significantly improving the profitability of certain products. The impairment test carried out on this basis led the Group to recognize an impairment loss of 49 million euros for this CGU in 2016.

The impairment test carried out on the Electronics Product Group led the Group to recognize an impairment loss of 12 million euros to reflect the operational difficulties of the Product Group in meeting its targets in terms of technical productivity gains.

These impairment losses were recognized in other income and expenses (see Note 4.6.2).

6.4.5 Sensitivity of CGU impairment tests

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

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

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

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on assumptions for 2016	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
Electronics Product Group CGU	(12)	(23)	(10)	(25)	(51)
Air Charging Systems Product Line CGU	83	(22)	(10)	(6)	(33)
Active Safety Systems Product Line CGU	25	(42)	(20)	(26)	(79)
Access & Remote Control Product Line CGU	4	(13)	(6)	(7)	(23)
Compressors Product Group CGU	(50)	(26)	(12)	(25)	(55)

6.4.6 Impairment of Brazilian and Argentinian assets

Since cash flow forecasts remain very weak for the whole of the 2017-2021 period, the Group has maintained the impairment losses it recognized against its Brazilian and Argentinian assets which had been included in other income and expenses in the 2015 consolidated statement of income (see Note 4.6.2.4).

6.5 Off-balance sheet commitments relating to operating activities

6.5.1 Leases

Future minimum lease payment commitments outstanding at December 31, 2016 and 2015 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2016	December 31, 2015
Less than 1 year	68	58
1 to 5 years	173	102
More than 5 years	87	30
TOTAL	**328**	**190**

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 84 million euros in 2016 and 73 million euros in 2015.

Lease commitments in respect of capital leases are as follows at December 31, 2016 and 2015:

(in millions of euros)	December 31, 2016	December 31, 2015
Future minimum lease payments:		
Less than 1 year	3	2
1 to 5 years	9	7
More than 5 years	7	1
TOTAL	**19**	**10**
Of which interest charges	-	(1)
Present value of future lease payments:		
Less than 1 year	3	1
1 to 5 years	9	7
More than 5 years	7	1
TOTAL	**19**	**9**

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 401 million euros at December 31, 2016, versus 253 million euros at December 31, 2015.

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

(in millions of euros)	December 31, 2016	December 31, 2015
Property, plant and equipment	11	11
Financial assets	2	2
TOTAL	**13**	**13**

Note 7 Other provisions and contingent liabilities

7.1 Other provisions

A provision is recognized when:

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

Provisions are measured in accordance with IAS 37 and take into account assumptions deemed most probable at the end of the reporting period.

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

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

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

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

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

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

Movements in provisions in 2016 and 2015 are shown in the table below:

(in millions of euros)	Provisions for product warranties	Provisions for restructuring costs	Other provisions	Total
PROVISIONS AT JANUARY 1	**183**	**82**	**180**	**445**
Additions	125	20	153	**298**
Amounts utilized during the year	(65)	(20)	(31)	**(116)**
Reversals	(21)	(1)	(24)	**(46)**
Changes in scope	20	-	32	**52**
Translation adjustment and other movements	-	3	15	**18**
PROVISIONS AT DECEMBER 31, 2016	**242**	**84**	**325**	**651**
Of which current portion (less than one year)	132	63	105	**300**

At December 31, 2016, the Group did not recognize any individually material income offsetting expected outflows of resources in respect of the above provisions.

At December 31, 2016 and 2015, provisions break down as follows:

(in millions of euros)	December 31, 2016	December 31, 2015
37% – Provisions for product warranties	242	183
14% – Provisions for tax-related disputes	89	79
13% – Provisions for restructuring costs	84	82
2% – Environmental provisions	14	14
6% – Provisions for loss-making contracts	40	9
28% – Provisions for employee-related and other disputes	182	78
Provisions for other contingencies	**651**	**445**

"Provisions for employee-related and other disputes", which totaled 182 million euros at December 31, 2016, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations. The increase during the period results mainly from developments in ongoing antitrust proceedings (see Note 7.2).

7.2 Antitrust investigations

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

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

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, which Valeo has settled. The first class action, which was brought by automotive dealers, was settled on August 25, 2016 and was definitively approved by the competent court on November 30, 2016. The second, which was brought by automotive end purchasers, was settled on September 28, 2016 (pending definitive approval by the competent court in 2017). The third class action in the United States, which was brought by a purported group of direct purchasers, was recently settled (pending definitive approval by the United States District Court for the Eastern District of Michigan in 2017). Separately, two class actions are still ongoing in Canada.

In Europe, investigations by the European antitrust authorities are also still in progress. Valeo is cooperating fully with the European Commission in connection with its investigations.

In 2016, Valeo recognized an expense of 99 million euros to cover the main risks associated with its global antitrust proceedings and cases.

7.3 Contingent liabilities

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

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

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

Note 8 Financing and financial instruments

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2);
- loans and other non-current financial assets (see Note 8.1.3.1);
- cash and cash equivalents (see Note 8.1.3.2);
- derivative instruments (see Note 8.1.4);
- other current and non-current financial assets and liabilities (see Note 8.1.5).

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2016 carrying amount under IAS 39			December 31, 2016	December 31, 2015
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
▪ Available-for-sale financial assets	-	44	-	**44**	31
▪ Loans	24	-	-	**24**	1
▪ Deposits and guarantees	24	-	-	**24**	19
▪ Other non-current financial assets	3	-	-	**3**	4
▪ Hedging derivatives	-	17	-	**17**	-
▪ Trading derivatives	-	-	111	**111**	-
Assets relating to pensions and other employee benefits	-	-	-	**-**	1
Accounts and notes receivable	2,462	-	-	**2,462**	1,964
Other current financial assets:					
▪ Hedging derivatives	-	15	-	**15**	8
▪ Trading derivatives	-	-	5	**5**	17
Cash and cash equivalents	-	-	2,359	**2,359**	1,725
LIABILITIES					
Non-current financial liabilities:					
▪ Hedging derivatives	-	4	-	**4**	-
▪ Trading derivatives	-	-	110	**110**	-
Bonds	2,131	-	-	**2,131**	1,138
Syndicated loan	-	-	-	**-**	250
EIB (European Investment Bank) loans	47	-	-	**47**	122
Other long-term debt	117	-	-	**117**	107
Liabilities associated with put options granted to holders of non-controlling interests	-	79	-	**79**	39
Accounts and notes payable	3,884	-	-	**3,884**	3,224
Other current financial liabilities:					
▪ Hedging derivatives	-	9	-	**9**	8
▪ Trading derivatives	-	-	17	**17**	82
Short-term debt	542	-	-	**542**	128

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

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

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

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

	December 31, 2016			December 31, 2015		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,359	2,359	1	1,725	1,725	1
Derivative financial instruments[(1)]	148	148	2-3	25	25	2
LIABILITIES						
Bonds	2,131	2,190	1	1,138	1,341	1
Syndicated loan	-	-	-	250	252	2
EIB (European Investment Bank) loan	47	47	2	122	129	2
Other long-term debt	117	117	2	107	107	1
Loans recognized at amortized cost	**2,295**	**2,354**		**1,617**	**1,829**	
Short-term debt	542	542	1-2	128	128	1
Derivative financial instruments[(1)]	140	140	2-3	90	90	2
Put options granted to holders of non-controlling interests	79	79	3	39	39	3

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

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

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

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

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

At December 31, 2015 and 2016, this has only a minimal impact on the Group.

8.1.2 Gross debt

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

At December 31, 2016, the Group's gross debt can be analyzed as follows:

	December 31, 2016			December 31, 2015		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	2,070	225	**2,295**	1,145	472	1,617
Put options granted to holders of non-controlling interests	23	56	**79**	-	39	39
Short-term debt	-	542	**542**	-	128	128
Gross debt	**2,093**	**823**	**2,916**	**1,145**	**639**	**1,784**

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

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

Analysis of long-term debt

(in millions of euros)	December 31, 2016	December 31, 2015
Bonds	2,131	1,138
Syndicated loan	-	250
EIB (European Investment Bank) loans	47	122
Lease obligations	19	9
Other borrowings	51	58
Accrued interest	47	40
Long-term debt	**2,295**	**1,617**

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	Syndicated loan	EIB (European Investment Bank) loans	Other loans and lease obligations	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2016	**1,138**	**250**	**122**	**67**	**40**	**1,617**
Increases/subscriptions	1,110	-	-	4	-	**1,114**
Redemptions/repayments	(100)	(250)	(80)	(39)	-	**(469)**
Changes in scope of consolidation	-	-	-	36	-	**36**
Value adjustments	(49)	-	3	1	-	**(45)**
Translation adjustment	32	-	2	1	-	**35**
Other movements	-	-	-	-	7	**7**
CARRYING AMOUNT AT DECEMBER 31, 2016	**2,131**	**-**	**47**	**70**	**47**	**2,295**

The Group carried out the following debt issues during the period:

- on March 18, 2016, Valeo issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%, under the Euro Medium Term Note program;
- on June 16, 2016, Valeo issued 450 million US dollars' worth of five-year non-dilutive convertible bonds paying a coupon of 0%. A further 125 million US dollars were added to this issue in November 2016, subject to the same terms and conditions. As the conversion rights (exercise price of 64.6137 euros) in respect of the bonds will be settled solely in cash, the bonds will not result in the issuance of new shares or the delivery of existing Valeo shares. To coincide with the bond issue, Valeo purchased cash-settled call options on its own shares to hedge the Group's exposure in the event that the bond conversion rights are exercised. The purchase of these options is shown under "Loan issue costs and premiums" within financing activities in the consolidated statement of cash flows.

  In accordance with IAS 39, the embedded conversion options were deemed to be derivative instruments and were recorded separately on initial recognition, with any subsequent change in value taken to income as an offsetting entry to the call options purchased. The bond debt excluding the option component was recognized at amortized cost.

  Euro/dollar cross currency swaps for 575 million US dollars were set up on inception of the transactions and with similar maturities. These currency swaps were designated as cash flow hedges (CFH).

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

- the 250 million euro syndicated loan taken out in 2011 to finance the acquisition of the Niles group was repaid in full on June 27, 2016;

- the two subscriptions to private placements in June 2015 were repaid in full for an aggregate amount of 100 million euros on July 1, 2016 and December 1, 2016, respectively. The matching interest rate swaps matured at the same dates;
- the two annual installments on the EIB loans were paid in August 2016 for 56 million euros and in November 2016 for 24 million euros (25 million US dollars). The matching interest rate swap matured in August 2016.

At December 31, 2016, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2016 *(in millions)*	Issuance	Maturity	Nominal *(in millions)*	Currency	Nominal interest rate	Other information
European Investment Bank	47	November 2011	November 2018	103	USD	6-month USD Libor +1.90%	Euro/dollar cross currency swaps for a total of 51 million US dollars with the same maturity
Bond (EMTN program)	145	January 2012	January 2017	500	EUR	5.75%	-
Bond (EMTN program)	273	May 2011	May 2018	500	EUR	4.875%	-
Convertible bond	493	June/ November 2016	June 2021	575	USD	0%	Euro/Dollar cross currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	629	January 2014	January 2024	700	EUR	3.25%	-
Bond (EMTN program)	591	March 2016	March 2026	600	EUR	1.625%	-
Other long-term debt(1)	117	-	-	-	-	-	-
TOTAL LONG-TERM DEBT	**2,295**						

(1) Other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

Covenants relating to borrowings and debt are detailed in Note 8.3.2.2.

In accordance with IAS 20, when the Group receives public financing at lower-than-market interest rates, a subsidy is calculated as the difference between the market interest rate for a similar loan at the date the loan was granted, and the interest rate granted by the lender.

The amount of the subsidy is recognized in liabilities in the statement of financial position. It is subsequently taken to income as a deduction of the costs financed by the subsidy as and when the costs are themselves recognized in income.

In previous years, the EIB had granted Valeo two reduced-rate loans to finance its Research and Development activities:

- for the first 225 million euro loan, the subsidy was initially estimated at 28 million euros. The impact of this loan on the 2016 statement of income was a gain of 1 million euros;
- for the second 103 million US dollar loan, the subsidy was estimated at 6 million euros for the new drawdown. Its impact on the 2016 statement of income was minimal.

Maturity of long-term debt

(in millions of euros)	Carrying amount	Maturity					
			≥ 1 year and ≤ 5 years				> 5 years
		< 1 year	2018	2019	2020	2021	2022 and beyond
Bonds	2,131	145	273	-	-	493	1,220
EIB (European Investment Bank) loans	47	23	24	-	-	-	-
Lease obligations	19	3	2	1	6	1	6
Other borrowings	51	7	6	6	5	6	21
Accrued interest	47	47	-	-	-	-	-
Long-term debt	**2,295**	**225**	**305**	**7**	**11**	**500**	**1,247**

At December 31, 2016, the current portion of long-term debt primarily includes:

- the redemption of the 145 million euro bond in January 2017; and
- the repayment of an installment on the EIB loan drawn in US dollars in November 2017 for 23 million euros.

Contractual maturity of long-term debt

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2016 was used for variable-rate interest.

(in millions of euros)	Carrying amount	Contractual cash flows						Total
			≥ 1 year and ≤ 5 years				> 5 years	
		< 1 year	2018	2019	2020	2021	2022 and beyond	
Bonds	2,131	200	319	33	33	578	1,417	**2,580**
EIB (European Investment Bank) loans	47	24	25	-	-	-	-	**49**
Other long-term debt	117	57	8	7	11	7	27	**117**
Long-term debt	**2,295**	**281**	**352**	**40**	**44**	**585**	**1,444**	**2,746**

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

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

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

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

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

(in millions of euros)	Total	Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	Spheros Climatização do Brasil SA
PUT OPTIONS GRANTED TO HOLDERS OF NON-CONTROLLING INTERESTS AT JANUARY 1, 2016	**39**	**39**	**-**
New transactions	**19**	-	19
Fair value adjustments recognized against non-controlling interests	**3**	1	2
Fair value adjustments recognized in retained earnings	**18**	16	2
Other movements	**-**	-	-
PUT OPTIONS GRANTED TO HOLDERS OF NON-CONTROLLING INTERESTS AT DECEMEBER 31, 2016	**79**	**56**	**23**

At December 31, 2016, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. STEC has been granted a put option which it may exercise at any time for a period of ten years. At December 31, 2016, Valeo recognized debt at the present value of the option exercise price, i.e., 56 million euros.

At December 31, 2016, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option which it may exercise at any time following an agreed period of one year. In the opening balance sheet after the acquisition of Spheros (see Note 2.2.1.2), a debt corresponding to the present value of the exercise price of this put option was recognized in an amount of 19 million euros. The remeasurement of this option at December 31, 2016 led to a 2 million euro decrease in the related non-controlling interests and a 2 million euro decrease in consolidated retained earnings attributable to owners of the Company.

The maturity of these financial liabilities is as follows:

(in millions of euros)	Carrying amount	Maturity						
		On demand	< 1 year	≥ 1 year and ≤ 5 years				> 5 years
				2018	2019	2020	2021	2022 and beyond
Liabilities associated with put options granted to holders of non-controlling interests	79	56	-	23	-	-	-	-

8.1.2.3 Short-term debt

This caption mainly includes credit balances with banks and commercial paper issued by Valeo for its short-term financing needs. Commercial paper has a maturity of between 3 and 12 months and is valued at amortized cost.

(in millions of euros)	December 31, 2016	December 31, 2015
Commercial paper	515	40
Short-term loans and overdrafts	27	88
Short-term debt	**542**	**128**

The 27 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 Net debt

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

	December 31, 2016			December 31, 2015		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	2,070	225	**2,295**	1,145	472	1,617
Put options granted to holders of non-controlling interests	23	56	**79**	-	39	39
Short-term debt	-	542	**542**	-	128	128
Gross debt	**2,093**	**823**	**2,916**	**1,145**	**639**	**1,784**
Long-term loans and receivables	(24)	-	**(24)**	(1)	-	(1)
Cash and cash equivalents	-	(2,359)	**(2,359)**	-	(1,725)	(1,725)
Derivative instruments associated with interest rate and currency risks[1]	**-**	**(7)**	**(7)**	**-**	**66**	**66**
Net debt	**2,069**	**(1,543)**	**526**	**1,144**	**(1,020)**	**124**

(1) At December 31, 2016, the fair value of derivatives hedging financial currency risk was 7 million euros compared to a negative 65 million euros at end-2015 (see Note 8.1.4.1). Derivatives hedging interest rate risk matured in 2016; the fair value of these instruments at December 31, 2015 was a negative 1 million euros (see Note 8.1.4.3).

8.1.3.1 Long-term loans and receivables

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

8.1.3.2 Cash and cash equivalents

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

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

(in millions of euros)	December 31, 2016	December 31, 2015
Marketable securities	1,691	1,025
Cash	668	700
Cash and cash equivalents	**2,359**	**1,725**

Marketable securities consist of money market funds (SICAV) for 1,691 million euros. Cash equivalents consist solely of bank deposits.

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

The remaining amount of cash and cash equivalents, corresponding to the share of the Group's partners in fully consolidated companies that are not wholly owned by Valeo, totaled 57 million euros at December 31, 2016 and 48 million euros at December 31, 2015.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2016	December 31, 2015
Euro	487	420
US dollar	497	75
Japanese yen	(21)	(59)
Brazilian real	23	(1)
South Korean won	(37)	(46)
Chinese renminbi	(245)	(209)
Other currencies	(178)	(56)
TOTAL	**526**	**124**

8.1.4 Derivative financial instruments

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

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

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

When hedge accounting is applied:

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

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

Foreign currency derivatives

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

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

Commodity derivatives

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

Interest rate derivatives

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

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

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

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

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

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

The Group's operating entities are responsible for identifying, measuring and hedging financial risks. However, the Group's Finance department is responsible for managing derivatives on behalf of subsidiaries with risk exposure. At monthly Treasury Committee meetings, the main risks and exposures are assessed, the required hedges are approved (in accordance with the strategy described in Chapter 2), and the results of these hedges are analyzed.

To reduce its exposure to market risk, the Group uses derivative financial instruments which had the following fair values at December 31, 2016 and 2015:

	Other financial assets		Other financial liabilities		December 31, 2016	December 31, 2015
(in millions of euros)	Non-current	Current	Non-current	Current	Total	Total
Cash flow hedge	17	8	(4)	(8)	**13**	7
Fair value hedge	-	-	-	-	**-**	-
Non-hedging derivatives and trading derivatives	3	5	-	(17)	**(9)**	(65)
Total foreign currency derivatives	**20**	**13**	**(4)**	**(25)**	**4**	**(58)**
Cash flow hedge	-	7	-	(1)	**6**	(6)
Fair value hedge	-	-	-	-	**-**	-
Non-hedging derivatives and trading derivatives	-	-	-	-	**-**	-
Total commodity derivatives	**-**	**7**	**-**	**(1)**	**6**	**(6)**
Cash flow hedge	-	-	-	-	**-**	-
Fair value hedge	-	-	-	-	**-**	(1)
Non-hedging derivatives and trading derivatives	-	-	-	-	**-**	-
Total interest rate derivatives	**-**	**-**	**-**	**-**	**-**	**(1)**
Other non-hedging derivatives and trading derivatives	108	-	(110)	-	**(2)**	-
Total other derivatives	**108**	**-**	**(110)**	**-**	**(2)**	**-**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**128**	**20**	**(114)**	**(26)**	**8**	**(65)**

8.1.4.1 Fair value of foreign currency derivatives

A detailed description of the Group's foreign currency risk management policy is set out in the Management Report in Section 9.1.4.3.

Operational currency risk management

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

Balance sheet exposure is systematically hedged. Subsidiaries principally hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties (leading banks). The corresponding currency instruments are classified in the trading book in accordance with the standard on financial instruments.

For specific, material transactions, the Group also enters into longer-term hedges (based on a budget or contractual period). In this case, it applies hedge accounting rules as permitted by the standard on financial instruments. The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies.

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

	December 31, 2016		December 31, 2015	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	297	11	484	17
Forward foreign currency sales	(18)	1	(148)	1
Total assets	**279**	**12**	**336**	**18**
Forward foreign currency purchases	455	(12)	220	(8)
Forward foreign currency sales	(264)	(3)	(218)	(3)
Total liabilities	**191**	**(15)**	**2**	**(11)**
Net impact		**(3)**		**7**

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

In 2016, an unrealized loss of 4 million euros related to these hedges of operational currency risk was recognized directly in other comprehensive income. In 2015, an unrealized gain of 7 million euros related to these hedges was recognized directly in other comprehensive income; a portion of this gain was reclassified to operating income during 2016.

Financial currency risk management

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

The 575 million US dollar convertible bond was hedged by currency swaps on the issuance of each tranche. The swaps had matching maturities with the bonds and were documented as cash flow hedges.

At December 31, 2016, derivative instruments hedging currency risk on debt essentially relate to currency swaps, with the following fair values:

	December 31, 2016		December 31, 2015	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Currency swaps	415	21	615	6
Total assets	**415**	**21**	**615**	**6**
Currency swaps	252	(14)	(415)	(71)
Total liabilities	**252**	**(14)**	**(415)**	**(71)**
Net impact		**7**		**(65)**

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

In 2016, an unrealized loss of 15 million euros related to hedges of the currency risk on the convertible bond was recognized directly in other comprehensive income.

Analysis of the Group's overall net exposure

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

	December 31, 2016				December 31, 2015
(in millions of euros)	USD	JPY	EUR	Total	Total
Accounts and notes receivable	142	10	416	**568**	**506**
Other financial assets	122	6	115	**243**	**183**
Accounts and notes payable	(253)	(47)	(571)	**(871)**	**(703)**
Long-term debt	(791)	(10)	(350)	**(1,151)**	**(462)**
Gross exposure	**(780)**	**(41)**	**(390)**	**(1,211)**	**(476)**
Forward sales	(404)	(25)	(38)	**(467)**	**(830)**
Forward purchases	1,076	104	146	**1,326**	**1,326**
Net exposure	**(108)**	**38**	**(282)**	**(352)**	**20**

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

At December 31, 2015, the breakdown by currency of the net exposure in the statement of financial position (20 million euros) was as follows:

- a positive amount of 305 million euros relating to the US dollar;
- a positive amount of 75 million euros relating to the Japanese yen;
- a negative amount of 360 million euros relating to the euro.

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.05 US dollars, 124.4 yen, and 27.02 Czech koruna for 1 euro at December 31, 2016 (1.09 US dollars, 131.07 yen and 27.02 Czech koruna, respectively, at December 31, 2015).

An increase of 10% in the value of the euro against these currencies at December 31, 2016 and December 31, 2015 would have had the following pre-tax impacts:

(in millions of euros)	December 31, 2016 Income Gain (loss)	December 31, 2016 Equity Gain (loss)	December 31, 2015 Income Gain (loss)	December 31, 2015 Equity Gain (loss)
Exposure US dollar	5	6	(6)	(24)
Exposure Japanese yen	-	(4)	(5)	(3)
Exposure euro	(10)	(5)	(11)	(6)
TOTAL	**(5)**	**(3)**	**(22)**	**(33)**

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

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against these currencies at December 31, 2016 would have the opposite effect to the one shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2016 were used to value foreign currency derivatives.

(in millions of euros)	Carrying amount	Contractual cash flows < 1 year	≥ 1 year and ≤ 5 years 2018	2019	2020	2021	> 5 years 2022 and beyond	Total
Forward foreign currency contracts used as hedges:								
■ Assets	12	11	1	-	-	-	-	**12**
■ Liabilities	(15)	(11)	(2)	(1)	(1)	-	-	**(15)**
Currency swaps used as hedges:								
■ Assets	21	2	2	-	-	17	-	**21**
■ Liabilities	(14)	(14)	-	-	-	-	-	**(14)**

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

The Group's commodity risk management policy is described in the Management Report in Section 9.I.4.2.

Commodity risk management

To hedge its commodity risk, Valeo favors hedging instruments which do not involve physical delivery of the underlying commodity, chiefly swaps based on the average monthly price.

Volumes of non-ferrous metals hedged at December 31, 2016 and December 31, 2015 break down as follows:

(in tons)	December 31, 2016	December 31, 2015
Aluminum	19,882	29,708
Secondary aluminum	9,102	11,904
Copper	8,556	13,906
Zinc	816	684
TOTAL	**38,356**	**56,202**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 6 million euros related to existing hedges was recognized directly in other comprehensive income for 2016 in accordance with IAS 39.

An unrealized loss of 6 million euros recognized in other comprehensive income in 2015 and arising on commodity hedges purchased in first-half 2016 was reclassified in full within operating income in 2016.

Fair value of commodity (non-ferrous metals) derivatives

	December 31, 2016		December 31, 2015	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	80	7	31	1
Swaps – Sales	-	-	-	-
Total assets	**80**	**7**	**31**	**1**
Swaps – Purchases	5	(1)	97	(7)
Swaps – Sales	-	-	-	-
Total liabilities	**5**	**(1)**	**97**	**(7)**
Net impact		**6**		**(6)**

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

Analysis of the sensitivity of the net exposure to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	7	-	9
Impact of a 10% fall in metal futures prices	-	(7)	-	(9)

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

Remaining contractual maturities of commodity derivatives

Forward prices on the London Metal Exchange (LME) at December 31, 2016 were used to determine contractual maturities for commodity derivatives.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2018	2019	2020	2021	2022 and beyond	Total
Commodity derivatives:								
■ Assets	7	7	-	-	-	-	-	7
■ Liabilities	(1)	(1)	-	-	-	-	-	(1)

8.1.4.3 Fair value of interest rate derivatives

The Group's interest rate risk management policy is described in the Management Report in Section 9.I.4.5.

Interest rate risk management

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

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

The interest rate swaps set up in August 2009 to hedge variable interest on the EIB loan matured in August 2016. The interest rate swaps hedging private placements matured in July 2016 and December 2016, respectively. The Group had no further outstanding interest rate swaps at December 31, 2016.

Fair value of interest rate derivatives

	December 31, 2016		December 31, 2015	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB (European Investment Bank) loan	-	-	56	(1)
Private placements	-	-	100	-
Total liabilities	**-**	**-**	**156**	**(1)**

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

Analysis of the Group's net exposure

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

2016

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	200	569	841	35	1,321	6	2,362	610	2,972
Loans	-	-	-	(24)	-	-	-	(24)	(24)
Cash and cash equivalents	-	(2,359)	-	-	-	-	-	(2,359)	(2,359)
Net position before hedging	**200**	**(1,790)**	**841**	**11**	**1,321**	**6**	**2,362**	**(1,773)**	**589**
Derivative instruments	-	-	-	-	-	-	-	-	-
Net position after hedging	**200**	**(1,790)**	**841**	**11**	**1,321**	**6**	**2,362**	**(1,773)**	**589**

2015

(in millions of euros)	Less than 1 year Fixed portion	Less than 1 year Variable portion	1 to 5 years Fixed portion	1 to 5 years Variable portion	More than 5 years Fixed portion	More than 5 years Variable portion	Total nominal amount Fixed portion	Total nominal amount Variable portion	Total
Financial liabilities	46	558	457	47	724	-	1,227	605	**1,832**
Loans	-	-	-	(1)	-	-	-	(1)	**(1)**
Cash and cash equivalents	-	(1,725)	-	-	-	-	-	(1,725)	**(1,725)**
Net position before hedging	**46**	**(1,167)**	**457**	**46**	**724**	**0**	**1,227**	**(1,121)**	**106**
Derivative instruments	156	(156)	-	-	-	-	156	(156)	-
Net position after hedging	**202**	**(1,323)**	**457**	**46**	**724**	**-**	**1,383**	**(1,277)**	**106**

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

Analysis of sensitivity to interest rate risk

At December 31, 2016, 98% of long-term debt is at fixed rates (75% at December 31, 2015).

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

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

(in millions of euros)	December 31, 2016 Income Gain (loss)	December 31, 2016 Equity Gain (loss)	December 31, 2015 Income Gain (loss)	December 31, 2015 Equity Gain (loss)
Impact of a 1-point increase in interest rates	18	-	11	-

Similarly, at December 31, 2016, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2016, other derivative financial instruments included mainly the following:

- Conversion options embedded in the June 2016 and November 2016 bond issues, along with call options purchased. These options are perfectly matched. They had a fair value of 73 million euros at December 31, 2016;
- Put and call options granted by Valeo and Siemens on the creation of their joint venture (see Note 2.2.1.3):
  - Valeo has a call option by virtue of which Siemens is required to sell part or all of its stake in the joint venture on exercise of the option. The fair value of this call option was 35 million euros at December 31, 2016,
  - Siemens has a put option by virtue of which Valeo is required to purchase its entire stake in the joint venture on exercise of the option. The fair value of this put option was 37 million euros at December 31, 2016.

  These options are not perfectly matched given the specific contractual terms that govern their exercise.

Contractual maturities of other derivative financial instruments

(in millions of euros)	Carrying amount	Contractual cash flows < 1 year	≥ 1 year and ≤ 5 years 2018	2019	2020	2021	> 5 years 2022 and beyond
Convertible bond options							
▪ Assets	73	-	-	-	-	73	-
▪ Liabilities	(73)	-	-	-	-	(73)	-
Put and call options relating to the Valeo-Siemens joint venture(1)							
▪ Assets	35	-	-	-	-	35	-
▪ Liabilities	(37)	-	-	(37)	-	-	-

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

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

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

Guarantee deposits are valued at amortized cost.

Available-for-sale financial assets include investments in non-consolidated companies and are initially recognized at fair value with any subsequent changes in fair value recognized through other comprehensive income or in income for the period in the event of a significant or prolonged decline in fair value. Unrealized gains and losses recognized in other comprehensive income are taken to income on the sale of the shares, unless the decline in value relative to the historical cost was considered prolonged or significant enough to entail an impairment loss, which is recognized in income.

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

Available-for-sale financial assets amounted to 44 million euros at December 31, 2016. Movements in this item were as follows:

(in millions of euros)	2016	2015
AVAILABLE-FOR-SALE SECURITIES AT JANUARY 1	**31**	**4**
Acquisitions	12	27
Changes in scope of consolidation	-	-
Changes in fair value recognized in equity	-	-
Translation adjustment	1	-
AVAILABLE-FOR-SALE SECURITIES AT DECEMBER 31	**44**	**31**

The main changes in 2016 related to the following:

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

Acquisitions totaling 27 million euros in 2015 related to the following:

- acquisition of a 10.5% stake in Aledia for an amount of 5 million euros by subscribing to Aledia's capital increase. Aledia is a technology start-up which develops cutting-edge 3D LED technology for general and automotive lighting. Valeo's aim is to accelerate and expand in the medium term its offering of innovative interior and exterior automotive lighting solutions;
- acquisition of a stake in Cathay Capital's Sino-French Innovation Fund. The Group recognized an available-for-sale asset of 22 million euros corresponding to Valeo's total commitment, of which 3 million euros was paid in 2015. The fund is a cross-border investment vehicle active across France, China and the United States, providing venture capital financing for innovative start-ups.

8.1.5.2 Other current financial assets and liabilities

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

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

Accounts and notes receivable are detailed in Note 4.2. In the ordinary course of its operations in China, Valeo may be paid by its customers or may pay its suppliers using a payment instrument specific to the Chinese market known as a "bank acceptance draft". Owing to their nature, receivables and payables under bank acceptance drafts continue to be recognized within accounts and notes receivable and payable until they fall due. At December 31, 2016, these instruments represented 140 million euros of accounts and notes receivable and 91 million euros of accounts and notes payable (54 million euros and 92 million euros, respectively, at December 31, 2015).

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

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

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

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

8.2 Financial income and expenses

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

8.2.1 Cost of net debt

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

(in millions of euros)	2016	2015
Interest expense(1)	(90)	(92)
Interest income	7	8
Cost of net debt	**(83)**	**(84)**

(1) Including in 2016 finance costs for 2 million euros on undrawn credit lines and financial expenses for 4 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under research and French CICE tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

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

(in millions of euros)	2016	2015
Net interest cost on provisions for pensions and other employee benefits	(27)	(25)
Currency gains (losses)	(6)	(6)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	(1)
Other	(11)	(2)
Other financial income and expenses	**(46)**	**(35)**

8.3 Risk management policy

A detailed description of the Group's risk management policy is set out in the Management Report in section 9.1.4.

8.3.1 Market risks

8.3.1.1 Foreign currency, commodity and interest rate risks

A detailed description of the Group's foreign currency, commodity and interest rate risk management policy is set out in Note 8.1.4 as well as in the Management Report in sections 9.1.4.3, 9.1.4.2 and 9.1.4.5.

8.3.1.2 Equity risk

The Group's equity risk management policy is described in the Management Report in section 9.1.4.7.

Assets financing pension plans (plan assets) are detailed in Note 5.3.5.

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

8.3.2 Liquidity risk

The Group's liquidity risk management policy is described in the Management Report in section 9.1.4.4.

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements. To do this, it borrows from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.

8.3.2.1 Analysis of available sources of funds

At December 31, 2016, Valeo had 2.4 billion euros in cash and cash equivalents (1.7 billion euros at December 31, 2015). Cash comprises bank deposits for 668 million euros and cash equivalents (mainly money market funds) for 1,691 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of three years, representing an aggregate amount of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2016. These bilateral credit lines were taken out with nine leading banks with an average rating of A from S&P and A1 from Moody's;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros;
- a Euro Medium Term Note financing program for a maximum amount of 3 billion euros, on which 1.7 billion euros had been drawn at December 31, 2016.

8.3.2.2 Financial covenants and credit ratings

Financial covenants

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

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2016[1]
Credit lines EIB (European Investment Bank) loans	Consolidated net debt/ consolidated EBITDA	<3.25	0.25

(1) *Calculated over 12 months.*

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

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

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default and early repayment called.

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

Credit ratings

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2016:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 31, 2017	BBB	Positive	A-2
Moody's	May 9, 2016	Baa2	Stable	P-2

8.3.3 Credit risk

The Group's credit risk management policy is described in the Management Report in section 9.1.1.7.

Counterparty risk

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

Customer credit risk

Valeo is exposed to credit risk and, more specifically, the risk of default by its manufacturing or retail customers. Valeo operates primarily in the automotive industry and works with all automakers. Valeo continued to closely monitor credit risk notwithstanding the broadly upbeat economic climate in 2016.

Note 4.2 presents an analysis of the amount and age of accounts and notes receivable.

8.4 Off-balance sheet commitments relating to Group financing

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

Note 9 Income tax expense

9.1 Income tax expense

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

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

9.1.1 Breakdown of income tax expense

(in millions of euros)	2016	2015
Current taxes	(253)	(268)
Deferred taxes	64	162
Income tax expense	**(189)**	**(106)**

The Group recognized income tax expense of 189 million euros in 2016, corresponding to an effective tax rate of 17%.

This includes a positive impact of 89 million euros relating to the partial recognition of deferred tax assets arising on the tax consolidation group in the United States. The deferred tax assets were recognized in view of the earnings performance for this scope and the sharp improvement in its five-year profitability outlook as per the fiscal plan since 2013. Valeo had recognized a deferred tax asset of 175 million euros on this tax consolidation group in 2015, and 73 million euros in prior periods.

This positive impact on income tax expense was partly offset by the cancelation of deferred taxes previously recognized in the Czech Republic in an amount of 10 million euros, in order to reflect the revised five-year profitability outlook.

9.1.2 Tax proof

(in millions of euros)	2016	2015
Net income before income taxes excluding share in net earnings (losses) of equity-accounted companies	**1,111**	**824**
Standard tax rate in France	34.43%	34.43%
Theoretical income tax expense	**(383)**	**(284)**
Impact of:		
▪ Unrecognized deferred tax assets and unused tax losses (current year)	(95)	(80)
▪ Recognition of previously unrecognized deferred tax assets	100	193
▪ Other tax rates	34	40
▪ Utilization of prior-year tax losses	84	85
▪ Permanent differences between accounting income and taxable income	87	(47)
▪ Tax credits	3	5
▪ *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE)	(19)	(18)
Group income tax expense	**(189)**	**(106)**

- In 2016, unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries result essentially from France for 34 million euros, Germany for 10 million euros and South America for 9 million euros, and from the write-down of deferred taxes in the Czech Republic in an amount of 10 million euros.
- Previously unrecognized deferred tax assets for 100 million euros essentially relate to deferred tax assets recognized for the US tax consolidation in 2016.
- The positive 34 million euro impact relating to other tax rates is broken down by major country in the table below:

Country	Current tax rate(1)	2016	2015
China	25.0%	14	8
Poland	19.0%	14	14
South Korea	24.2%	12	12
Thailand	20.0%	4	5
Turkey	20.0%	4	5
Spain	25.0%	7	-
Czech Republic	19.0%	1	4
Japan	32.8%	(2)	(3)
United States	40.0%	(7)	(9)
Germany	27.8%	(8)	3
Other countries		(5)	4
TOTAL		**34**	**43**

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

- Utilizations of prior-year tax losses for which no deferred tax assets have been recognized chiefly reflect the use of 56 million euros in tax losses on the US tax consolidation group.
- Permanent differences between accounting income and taxable income mainly result from the impact of the disposal gain relating to the creation of the joint venture with Siemens (see Note 2.2.1.3).
- The Group considers that the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) tax on company value-added meets the definition of income tax set out in IAS 12. Income tax in 2016 therefore includes a net expense of 19 million euros in respect of the CVAE tax (18 million euros in 2015).

9.2 Deferred taxes

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

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

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

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

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	December 31, 2016	December 31, 2015
Loss carryforwards	872	1,038
Capitalized development expenditure	(187)	(213)
Pensions and other employee benefits	259	242
Other provisions	112	59
Inventories	61	47
Provisions for restructuring costs	17	19
Tooling	(3)	(3)
Non-current assets	30	42
Other	130	144
Total deferred taxes, gross	**1,291**	**1,375**
Unrecognized deferred tax assets	(731)	(888)
Total deferred taxes	**560**	**487**
Of which:		
▪ Deferred tax assets	626	526
▪ Deferred tax liabilities	(66)	(39)

No net deferred tax assets were recognized on tax loss carryforwards or on the temporary differences linked to tax consolidation in France, resulting in an amount of 450 million euros at December 31, 2016.

In the United States, 381 million euros in deferred tax assets was recognized at December 31, 2016 as a result of tax consolidation (297 million euros at end-December 2015), reflecting a favorable economic outlook.

In contrast, due to particularly tough economic conditions, no deferred tax assets were recognized for Brazil. Residual unrecognized net deferred tax assets stood at 74 million euros at December 31, 2016.

Similarly, no deferred tax assets were recognized for Germany at December 31, 2016, since they were canceled in 2015 in order to reflect the five-year profitability outlook as per the fiscal plan. Residual unrecognized net deferred tax assets represented 62 million euros at December 31, 2016.

At December 31, 2016, deferred tax assets not recognized by the Group can be analyzed as follows:

(in millions of euros)	Tax basis	Potential tax saving
Tax losses available for carryforward from 2017 through 2021	64	15
Tax losses available for carryforward in 2021 and thereafter	155	49
Tax losses available for carryforward indefinitely	1,742	473
Current tax loss carryforwards	**1,961**	**537**
Unrecognized deferred tax assets on temporary differences		194
TOTAL		**731**

Note 10 Stockholders' equity and earnings per share

10.1 Stockholders' equity

10.1.1 Change in share capital

10.1.1.1 Three-for-one stock split

At the Ordinary and Extraordinary Shareholders' meeting of May 26, 2016, shareholders adopted the nineteenth resolution to carry out a three-for-one stock split and, as a result, to exchange each existing share (with a par value of 3 euros) for three new shares with a par value of 1 euro, with the same dividend rights. The operation will make the stock more accessible to new shareholders, particularly individual investors, thereby increasing its liquidity. The share's new par value took effect on June 6, 2016.

10.1.1.2 Capital increase reserved for employees

Pursuant to the delegation of authority granted by the Shareholders' Meeting of May 26, 2015 and to the decision of the Board of Directors of January 21, 2016, on November 15, 2016 the Chairman and Chief Executive Officer implemented a capital increase reserved for employees by issuing 755,511 new shares, each with a par value of 1 euro.

10.1.1.3 Position at December 31, 2016

Following these operations, Valeo's share capital totaled 239 million euros, divided into 239,143,131 shares with a par value of 1 euro each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,960,420 shares at December 31, 2016).

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

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Company savings plans and the liquidity agreement. The liquidity agreement was signed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2016, 44,364 shares and 23,171,495 euros had been allocated to the liquidity agreement (after taking into account the three-for-one stock split), compared with 79,500 shares and 18,958,006 euros at December 31, 2015. On the date the liquidity agreement was signed, 660,000 Valeo shares (taking account of the three-for-one stock split) and 6,600,000 euros were allocated for its implementation.

10.1.2 Additional paid-in capital

Under the Shares4U 2016 employee stock ownership plan (see Note 5.4), the Group's employees subscribed to 755,511 shares with a par value of 1 euro, at a per-share subscription price of 38.12 euros. Additional paid-in capital represents the difference between the par value of the shares issued and the net amount received by Valeo, either in cash or in assets, at the time of the issue. Additional paid-in capital represented 28 million euros in 2016.

10.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 37 million euros (unrealized gain of 100 million euros at December 31, 2015). In 2016, this essentially reflected (i) the rise in the value of the US dollar (43 million euros), Japanese yen (21 million euros) and to a lesser extent the Brazilian real (11 million euros), and (ii) the fall in the value of the renminbi (36 million euros) during the year.

10.1.4 Consolidated retained earnings

Consolidated retained earnings include attributable income for the year of 925 million euros prior to distribution.

10.1.5 Dividend per share

Parent company reserves available for distribution prior to the appropriation of 2016 earnings amounted to 1,999 million euros after deduction of the carrying amount of treasury shares held at December 31, 2016 for 27 million euros (67 million euros at December 31, 2015). Parent company reserves available for distribution amounted to 1,934 million euros in 2015.

A dividend of 3 euros per share was paid in 2016, representing a total payout of 236 million euros. The dividend paid in 2015 was 2.20 euros per share, representing a total payout of 172 million euros.

10.1.6 Treasury shares and share buyback program

At December 31, 2016, Valeo owned 1,240,865 of its own shares representing 0.5% of its share capital, compared with 3,025,065 shares (after taking into account the three-for-one stock split) representing 1.3% of its share capital at December 31, 2015.

10.1.7 Non-controlling interests

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

(in millions of euros)	2016	2015
Non-controlling interests at January 1	**219**	**209**
Equity in net earnings	58	45
Dividends paid	(27)	(29)
Changes in scope of consolidation	(12)	(12)
Fair value adjustments to put options granted to holders of non-controlling interests[1]	(3)	-
Other movements	(1)	-
Translation adjustment	2	6
Non-controlling interests at December 31	**236**	**219**

(1) See Note 8.1.2.2.

Changes in the scope of consolidation during the year primarily reflect the impacts of the acquisition of Hitachi's stake in Valeo Unisia Transmissions (see Note 2.2.1.6).

Changes in the scope of consolidation in 2015 chiefly reflected the impacts of the reorganization of the Wiper Systems business in China (see Note 2.2.2.1) and changes in the percent interest held in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd and Taizhou Valeo – Wenling Automotive Systems Company Ltd.

Non-controlling interests can be analyzed as follows:

	Carrying amount of non-controlling interests *(in millions of euros)*	
Partner	**December 31, 2016**	**December 31, 2015**
Pyeong Hwa Company	143	118
Ichikoh Alliance entities	36	32
Other	57	69
Non-controlling interests	**236**	**219**

10.2 Earnings per share

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

Diluted earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, plus the weighted average number of ordinary shares that would be outstanding had all the potentially dilutive ordinary shares been converted. Stock purchase options and free shares have a dilutive impact when their exercise price is below market price. This calculation method – known as the treasury stock method – serves to determine the "unpurchased" shares to be added to the shares of common stock outstanding for the purposes of computing the dilution.

	2016	2015[(1)]
Net income attributable to owners of the Company *(in millions of euros)*	925	729
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	236,352	234,332
Basic earnings per share *(in euros)*	**3.91**	**3.11**

	2016	2015[(1)]
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	236,352	234,332
Dilutive effect from *(in thousands)*:		
■ Stock options	860	1,842
■ Free shares	2,159	2,797
Weighted average number of ordinary shares outstanding adjusted for impact of dilutive shares *(in thousands of shares)*	**239,371**	**238,971**
Diluted earnings per share *(in euros)*	**3.86**	**3.05**

(1) Earnings per share shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1).

Note 11 Breakdown of cash flows

11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows in 2016 and 2015:

(in millions of euros)	2016	2015[(1)]
Depreciation, amortization and impairment of non-current assets	890	764
Net additions to (reversals from) provisions	107	51
Losses (gains) on sales of non-current assets	(2)	10
Expenses related to share-based payment	21	17
Impairment of assets and liabilities held for sale	-	8
Losses (gains) on remeasurement of previously held interests	(162)	-
TOTAL	**854**	**850**

(1) The 6 million euro decrease in the depreciation, amortization and impairment of non-current assets in relation to the amount shown in the 2015 consolidated financial statements published in February 2016 reflects the impact of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

Depreciation, amortization and impairment of non-current assets takes into account the 13 million euro gain recognized in the year in relation to government subsidies and grants on non-current assets (see Note 3.2).

The 162 million euro capital gain recognized in 2016 relates to the creation of the joint venture with Siemens and does not include transaction costs (see Note 2.2.1.3).

In 2015, Valeo had recognized an 8 million euro impairment loss against assets classified as held for sale relating to its Engine Control business (see Note 2.2.1.4).

11.2 Changes in working capital

Changes in the main components of working capital in 2016 and 2015 are shown in the table below:

(in millions of euros)	2016	2015(1)
Inventories	(155)	(201)
Accounts and notes receivable	(425)	(207)
Accounts and notes payable	608	409
Other receivables and payables	28	93
TOTAL	**56**	**94**

(1) *Other receivables and payables shown for 2015 differ from those shown in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.*

Accounts and notes receivable falling due after December 31, 2016 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2 (accounts receivable) and in Note 4.5.2 (French research and CICE tax credit receivables).

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

In 2016, the net cash outflow of 630 million euros mainly relates to the impacts of acquiring peiker (301 million euros – see Note 2.2.1.1) and Spheros (326 million euros – see Note 2.2.1.2).

Acquisitions of controlling interests in 2015 resulted in a cash outflow of 8 million euros.

11.4 Acquisitions of investments in associates and/or joint ventures

In 2016, the net cash outflow of 17 million euros mainly relates to the acquisition of a stake in CloudMade (16 million euros – see Note 2.2.1.5).

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

In 2016, the net cash inflow of 22 million euros chiefly relates to the impact of the sale of the Engine Control business on February 29, 2016 (see Note 2.2.1.4).

11.6 Issuance and repayment of long-term debt

On March 18, 2016, the Group issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. On June 16, 2016, the Group issued 450 million US dollars' worth of five-year non-dilutive convertible bonds maturing in 2021. The Group added 125 million US dollars to the issue in November 2016. Repayments during the period mainly relate to the syndicated loan for 250 million euros, two subscriptions to private placements for 100 million euros, and two annual installments on loans contracted with the European Investment Bank (EIB) (see Note 8.1.2.1).

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

On June 1, 2015, within the scope of the EMTN program, Valeo subscribed to a 30 million euro bond maturing on July 1, 2016 (paying interest at 1-month Euribor +0.22% up to June 30, 2015 and 3-month Euribor +0.22% thereafter) and a 70 million euro bond maturing on December 1, 2016 (paying interest at 3-month Euribor +0.30%). Repayments made on long-term borrowings chiefly concern the partial repayment of EIB loans for 56 million euros on August 5, 2015 and for 26 million US dollars on November 3, 2015.

11.7 Acquisitions of investments without gain of control

The net cash outflow of 24 million euros chiefly relates to the impact of acquiring non-controlling interests in Valeo Unisia Transmissions from Hitachi (see Note 2.2.1.6).

11.8 Free cash flow and net cash flow

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

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

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2016 and 2015:

(in millions of euros)	2016	2015
Gross operating cash flows(1)	2,091	1,802
Income taxes paid	(257)	(190)
Changes in working capital(1)	56	94
Net cash flows from operating activities	**1,890**	**1,706**
Net payments for purchases of intangible assets and property, plant and equipment(1)	(1,249)	(1,086)
Elimination of change in non-recurring sales of accounts and notes receivable(2)	20	(55)
FREE CASH FLOW	**661**	**565**
Change in non-recurring sales of accounts and notes receivable(2)	(20)	55
Net change in non-current financial assets	(38)	(10)
Acquisitions of investments with gain of control, net of cash acquired	(630)	(8)
Acquisitions of investments in associates and/or joint ventures	(17)	-
Disposals of investments with loss of control, net of cash transferred	22	-
Acquisitions of investments without gain of control	(24)	(3)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(263)	(201)
Capital increase in cash	29	-
Sale (purchase) of treasury stock	13	18
Net interest paid/received	(58)	(70)
Loan issue costs and premiums	(64)	-
NET CASH FLOW	**(389)**	**346**

(1) Gross operating cash flows, changes in working capital and net payments for purchases of intangible assets and property, plant and equipment shown for 2015 differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

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

Note 12 Fees paid to the Statutory Auditors

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

	Ernst & Young		Mazars	
(in millions of euros)	2016	2015	2016	2015
AUDIT				
Statutory audit, certification and review of the individual and consolidated financial statements	1.8	1.8	1.3	1.3
Audit-related services	0.4	0.2	0.2	0.1
TOTAL AUDIT	**2.2**	**2.0**	**1.5**	**1.4**
OTHER SERVICES	-	-	-	-
TOTAL OTHER SERVICES	**-**	**-**	**-**	**-**
TOTAL FEES	**2.2**	**2.0**	**1.5**	**1.4**

Note 13 Subsequent events

Bond issue

On January 4, 2017, the Group issued 500 million euros' worth of bonds paying a coupon of 0.625% and maturing on January 11, 2023.

Takeover of Ichikoh

Following the settlement on January 20, 2017 further to Valeo's takeover bid, the Group holds 55.08% of Ichikoh's capital and controls Japan's leading automotive lighting company (see Note 2.2.1.7).

Creation of a 50/50 joint venture: Valeo-Kapec

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

The new company will employ some 3,000 people and will be controlled and therefore fully consolidated by Valeo. It is forecast to generate sales of around 1 billion euros in 2017 on an annualized basis and will be accretive to Valeo's operating margin from year one.

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

The agreement is subject to approval by the competent authorities.

Note 14 List of consolidated companies

Company	December 31, 2016		December 31, 2015	
	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
FRANCE				
Valeo (parent company)				
DAV	FC	100	FC	100
Équipement 1	FC	100	FC	100
Équipement 2	FC	100	FC	100
Équipement 11	FC	100	FC	100
Équipement 15	FC	100	FC	100
Équipement 16	FC	100	FC	100
Équipement 21 SAS	FC	100	-	-
SC2N	FC	100	FC	100
Société de Participations Valeo	FC	100	FC	100
Valeo Bayen	FC	100	FC	100
Valeo Embrayages	FC	100	FC	100
Valeo Équipements Électriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Plastic Omnium SNC[7]	-	-	EM	50
Valeo Comfort and Driving Assistance (formerly Valeo Sécurité Habitacle)	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
peiker France SAS[1]	FC	100	-	-
Valeo Siemens eAutomotive France SAS (formerly Équipement 17)[3]	EM	50	-	-
Spheros Climatechnics France SAS[2]	FC	100	-	-
SPAIN				
Valeo Climatización, SAU	FC	100	FC	100
Valeo España, SAU	FC	100	FC	100
Valeo Iluminación, SAU	FC	100	FC	100
Valeo Service España, SAU	FC	100	FC	100
Valeo Termico, SAU	FC	100	FC	100
ITALY				
Valeo Service Italia, SpA	FC	100	FC	99.9
Valeo, SpA	FC	100	FC	100

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

(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2016 Consolidation method	December 31, 2016 % interest	December 31, 2015 Consolidation method	December 31, 2015 % interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH(9)	FC	100	FC	100
Valeo GmbH(9)	FC	100	FC	100
Valeo Holding GmbH(9)	FC	100	FC	100
Valeo Klimasysteme GmbH(9)	FC	100	FC	100
Valeo Schalter und Sensoren GmbH(9)	FC	100	FC	100
Valeo Service Deutschland GmbH(9)	FC	100	FC	100
Valeo Wischersysteme GmbH(9)	FC	100	FC	100
peiker acustic GMBH & Co KG(1)	FC	100	-	-
Valeo peiker Telematik GmbH(1)	FC	100	-	-
CloudMade Deutschland GmbH(4)	EM	50	-	-
Smexx GmbH	FC	100	-	-
Spheros Holding GmbH(2)	FC	100	-	-
Spheros GmbH(2)	FC	100	-	-
Spheros Europa GmbH(2)	FC	100	-	-
Valeo Siemens eAutomotive GmbH(3)	EM	50	-	-
Valeo Siemens eAutomotive Germany GmbH(3)	EM	50	-	-
Valeo Siemens eAutomotive BSAES Holding GmbH(3)	EM	50	-	-
UNITED KINGDOM				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
Cloud Made Holdings Limited(4)	EM	50	-	-
Cloud Made Limited(4)	EM	50	-	-
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited(6)	FC	90	FC	90
BELGIUM				
Valeo Service Belgique	FC	100	FC	100
Valeo Vision Belgique	FC	100	FC	100
LUXEMBOURG				
Coreval	FC	100	FC	100
NORWAY				
Valeo Siemens eAutomotive Norway AS (formerly Valeo Powertrain Energy Conversion AS)(3)	EM	50	FC	100
FINLAND				
Spheros-Parabus Oy(2)	FC	100	-	-

FC: Fully consolidated/EM: equity method (see Note 2.1.1)
(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2016 Consolidation method	December 31, 2016 % interest	December 31, 2015 Consolidation method	December 31, 2015 % interest
NETHERLANDS				
Valeo CV (Netherlands)	FC	100	FC	100
Valeo Holding Netherlands BV	FC	100	FC	100
Valeo International Holding BV	FC	100	FC	100
Valeo Service Benelux BV	FC	100	FC	100
CZECH REPUBLIC				
Valeo Automotive ks (7)	-	-	FC	100
Valeo Autoklimatizace ks	FC	100	FC	100
Valeo Compressor Europe Sro	FC	100	FC	100
Valeo Vymeniky Tepla ks	FC	100	FC	100
POLAND				
Valeo Autosystemy SpZOO	FC	100	FC	100
Valeo Electric and Electronic Systems SpZOO	FC	100	FC	100
Valeo Service Eastern Europe SpZOO	FC	100	FC	100
Valeo Siemens eAutomotive Poland SpZOO (3)	EM	50	-	-
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo Siemens eAutomotiveHungary Kft. (3)	EM	50	-	-
ROMANIA				
Valeo Lighting Injection SA	FC	100	FC	100
Valeo Sisteme Termice SRL	FC	100	FC	100
RUSSIA				
Valeo Climate Control Tomilino LLC	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100
UKRAINE				
CloudMade Ukraine LLC(4)	EM	50	-	-
Spheros-Elektron TzOV(2)	EM	20	-	-
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret AS	FC	100	FC	100
Spheros Termo Sistemleri AS (2)	FC	100	-	-
AFRICA				
TUNISIA				
DAV Tunisie SA	FC	100	FC	100
Valeo Embrayages Tunisie SA	FC	100	FC	100
Valeo Tunisie SA	FC	100	FC	100
MOROCCO				
Cablinal Maroc, SA	FC	100	FC	100
Valeo Vision Maroc, SA	FC	100	FC	100
EGYPT				
Valeo Internal Automotive Software Egypt (formerly Valeo Interbranch Automotive Software Egypt)	FC	100	FC	100
SOUTH AFRICA				
Valeo Systems South Africa (Proprietary) Ltd	FC	51	FC	51
Spheros SA (Pty) Ltd (2)	FC	100	-	-

FC: Fully consolidated/EM: equity method (see Note 2.1.1)
(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2016 Consolidation method	December 31, 2016 % interest	December 31, 2015 Consolidation method	December 31, 2015 % interest
NORTH AMERICA				
UNITED STATES				
Valeo Climate Control Corp.	FC	100	FC	100
Valeo North America, Inc	FC	100	FC	100
Valeo Radar Systems, Inc.	FC	100	FC	100
Detroit Thermal Systems LLC	EM	49	EM	49
Detroit Thermal Systems Leverage Lender LLC	EM	49	EM	49
Cloud Made, Inc.(4)	EM	50	-	-
Automotive Climate Control, Inc.(2)	FC	100	-	-
Spheros North America, Inc.(2)	FC	100	-	-
peiker acustic, Inc(1)	FC	100	-	-
CANADA				
Valeo Canada, Inc.	FC	100	FC	100
MEXICO				
Delmex de Juarez S de RL de CV	FC	100	FC	100
Valeo Climate Control de Mexico Servicios, S de RL de CV(7)	-	-	FC	100
Valeo Sistemas Automotrices de México, SA de CV	FC	100	FC	100
Valeo Sistemas Electricos Servicios, S de RL de CV(7)	-	-	FC	100
Valeo Sistemas Electricos, SA de CV	FC	100	FC	100
Valeo Sistemas Electronicos, S de RL de CV	FC	100	FC	100
Valeo Iluminacion Servicios, S de RL de CV	FC	100	FC	100
Valeo Termico Servicios, S de RL de CV	FC	100	FC	100
Valeo Transmisiones Servicios de Mexico S de RL de CV(7)	-	-	FC	100
Valeo Technical Center(2)	FC	100	-	-
Spheros Mexico, SA de CV (2)	FC	60	-	-
peiker acustic de Mexico, SA de CV (1)	FC	100	-	-
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Spheros Climatização do Brasil SA(2)	FC	60	-	-
Reparts Industria E Comercio de Peças para veiculos Ltda (2)	FC	60	-	-
Setbus Soluções Automotivas Ltda (2)	EM	32.9	-	-
ARGENTINA				
Cibie Argentina, SA	FC	100	FC	100
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia Ltda(2)	FC	60	-	-

FC: Fully consolidated/EM: equity method (see Note 2.1.1)
(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2016 Consolidation method	December 31, 2016 % interest	December 31, 2015 Consolidation method	December 31, 2015 % interest
ASIA-PACIFIC				
THAILAND				
Valeo Niles (Thailand) Co. Ltd	FC	100	FC	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	FC	100	FC	99.4
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
SOUTH KOREA				
Valeo Automotive Korea	FC	100	FC	100
Valeo Electrical Systems Korea, Ltd	FC	100	FC	100
Valeo Pyeong HWA Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA International Co. Ltd	FC	50	FC	50
Valeo Samsung Thermal Systems Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA Metals Co. Ltd	EM	49	EM	49
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
VPH Indonesia Ltd	FC	50	-	-
MALAYSIA				
Valeo Malaysia SDN.BHD.	FC	100	FC	100
UNITED ARAB EMIRATES				
Spheros Middle East FZE(2)	FC	100	-	-
HONG KONG				
Spheros Ltd (2)	FC	100	-	-
TAIWAN				
Niles CTE Electronic Co. Ltd	FC	51	FC	51
AUSTRALIA				
Valeo Service Australia PTY Ltd	FC	100	FC	100
Spheros Australia Pty Ltd(2)	FC	100	-	-
JAPAN				
Ichikoh Industries Limited(6)	EM	31.6	EM	31.6
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Unisia Transmissions KK (5)	FC	100	FC	66
Nitto Manufacturing Co. Ltd	FC	87.2	FC	87.2

FC: Fully consolidated/EM: equity method (see Note 2.1.1)
(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2016 Consolidation method	December 31, 2016 % interest	December 31, 2015 Consolidation method	December 31, 2015 % interest
CHINA				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd(6)	FC	89.7	FC	89.7
Fuzhou Niles Electronic Co. Ltd	FC	51	FC	51
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	EM	45	EM	45
Nanjing Valeo Clutch Co. Ltd	FC	55	FC	55
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd(6)	FC	89.7	FC	89.7
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd	FC	100	FC	100
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	FC	73	FC	73
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Shashi) Co. Ltd	FC	100	FC	100
Valeo Compressor (Changchun) Co. Ltd	FC	100	FC	100
Valeo Friction Materials (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Ichikoh (China) Auto Lighting Co., Ltd(6)	FC	89.7	FC	89.7
Valeo Interior Controls (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Interior Controls (Shenzhen) Co. Ltd	FC	100	FC	100
Valeo Lighting Hubei Technical Center Co. Ltd(6)	FC	89.7	FC	89.7
Valeo Management (Beijing) Co. Ltd	FC	100	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Niles (Guangzhou) Electronics Co. Ltd	FC	100	FC	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	FC	73	FC	73
Wuhu Valeo Automotive Lighting Systems Co. Ltd(6)	FC	89.7	FC	89.7
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	73	-	-
Shanghai VPHI Co. Ltd	FC	50	-	-
Valeo ePowertrain (Shenzhen) Co. Ltd(3)	EM	50	-	-
Valeo Siemens eAutomotive Shanghai Co. Ltd (3)	EM	50	-	-
Beijing Valeo Siemens Automotive E-Drive Systems Co. Ltd Changzhou(3)	EM	30	-	-
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	-	-
Spheros (Suzhou) Co. Ltd(2)	FC	100	-	-
Spheros (Yangzhou) Limited(2)	FC	100	-	-
peiker (Shanghai) Automotive Technology Co. Ltd (1)	FC	100	-	-

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

(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2016 Consolidation method	December 31, 2016 % interest	December 31, 2015 Consolidation method	December 31, 2015 % interest
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo Lighting Systems (India) Private Ltd	FC	100	FC	100
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Ltd	FC	60	FC	60
Spheros Motherson Thermal Systems Ltd (1)	EM	51	-	-

FC: Fully consolidated/EM: equity method (see Note 2.1.1)
(1) See Note 2.2.1.1
(2) See Note 2.2.1.2
(3) See Note 2.2.1.3
(4) See Note 2.2.1.5
(5) See Note 2.2.1.6
(6) See Note 2.2.1.7
(7) Mergers and liquidations
(8) See Note 2.2.2.1
(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

At December 31, 2016, all entities that could have a material impact on the Group's financial statements had been consolidated.

7 Statutory Auditors' report on the consolidated financial statements

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

Year ended December 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your annual shareholders meeting, we hereby report to you, for the year ended December 31, 2016, on:

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

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

I. Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at December 31, 2016 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

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

- Note 2.1.3 to the consolidated financial statements sets out the methods of valuing intangible assets, related to customer relationships and technologies, which may be recognized as part of the business combinations. In the cases of the acquisitions of control over peiker and Spheros that occurred in 2016 and that are described in notes 2.2.1.1 and 2.2.1.2 to the financial statements respectively, our work consisted in examining the valuation methodologies applied to those intangible assets and assessing the reasonableness of the hypotheses and estimates used.
- Note 2.2.1.3 to the consolidated financial statements describes the accounting impacts related to the formation of the joint venture called Valeo Siemens eAutomotive. In this context, our work consisted in reviewing the valuation methods used to compute the fair value, on initial recognition, of the equity-accounted investment owned by Valeo in this joint venture and in assessing the reasonableness of the hypotheses used. We also examined the methodology used to compute the value of the call and put options relating to the investment of Siemens in this joint venture and verified that the aforementioned note provides appropriate information.
- Note 5.3 to the consolidated financial statements specifies the methods of valuing provisions for pensions and other employee benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as verifying that the aforementioned note provides appropriate information.
- Note 6.4 to the consolidated financial statements sets out the methods implemented to test goodwill and cash generating units ("CGUs"). Our work consisted in examining the implementation of these tests, reviewing the reasonableness of the hypotheses used and verifying that the aforementioned note to the consolidated financial statements provides appropriate information.

- Note 7.1 to the consolidated financial statements describes the methods of valuing provisions intended to cover your group’s obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in reviewing the reasonableness of the assumptions and estimates used.
- Note 9.2 to the consolidated financial statements specifies the methods of recognizing and valuing deferred tax assets. Our work consisted in assessing the hypotheses underlying the probability of future recovery of such assets, verifying the quantified impact of the aforementioned hypotheses and assessing, on those bases, the reasonableness of the estimates made.

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

III. Specific verification

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

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

Paris-La Défense, February 15, 2017

The Statutory Auditors

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