Valeo - 2023 Consolidated financial statements

1. Consolidated statement of income

(in millions of euros)	Notes	2023	2022
SALES	*4.1*	**22,044**	**20,037**
Cost of sales	*4.3*	(18,093)	(16,590)
Research and Development expenditure	*4.5.1.2*	(2,029)	(1,880)
Selling expenses		(324)	(286)
Administrative expenses		(760)	(646)
OPERATING MARGIN		**838**	**635**
as a % of sales		*3.8%*	*3.2%*
Share in net earnings of equity-accounted companies	*4.5.3.1*	17	115
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.5*	**855**	**750**
as a % of sales		*3.9%*	*3.7%*
Other income and expenses	*4.6.2*	(111)	(106)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**744**	**644**
Cost of net debt	*8.2*	(243)	(131)
Other financial income and expenses	*8.2*	(47)	(4)
INCOME BEFORE INCOME TAXES		**454**	**509**
Income taxes	*9.1*	(154)	(214)
NET INCOME FOR THE YEAR		**300**	**295**
Attributable to:			
• Owners of the Company		221	230
• Non-controlling interests	*10.1.3*	79	65
Attributable earnings per share:			
• Basic earnings per share *(in euros)*	*10.2*	0.91	0.95
• Diluted earnings per share *(in euros)*	*10.2*	0.90	0.94

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

2. Consolidated statement of comprehensive income

(in millions of euros)	2023	2022
NET INCOME FOR THE YEAR	**300**	**295**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	(7)	9
o/w income taxes	—	—
Translation adjustment	(375)	28
Cash flow hedges:		
• Gains (losses) taken to equity	45	41
• (Gains) losses transferred to income for the year	(43)	2
o/w income taxes	*(4)*	*(10)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**(380)**	**80**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	—	—
o/w income taxes	—	—
Actuarial gains on defined benefit plans	(79)	242
o/w income taxes	*(3)*	*(7)*
Remeasurement of long-term investments	(1)	(4)
o/w income taxes	—	—
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**(80)**	**238**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(460)**	**318**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(160)**	**613**
Attributable to:		
• Owners of the Company	(189)	551
• Non-controlling interests	29	62

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

3. Consolidated statement of financial position

(in millions of euros)	Notes	December 31, 2023	December 31, 2022
ASSETS			
Goodwill	*6.1*	3,112	3,245
Other intangible assets	*6.2*	3,057	2,774
Property, plant and equipment	*6.3*	5,065	5,309
Investments in equity-accounted companies	*4.5.3.2*	110	110
Other non-current financial assets	*8.1.5*	392	483
Assets relating to pensions and other employee benefits	*5.3*	45	49
Deferred tax assets	*9.2*	603	555
NON-CURRENT ASSETS		**12,384**	**12,525**
Inventories, net	*4.4*	2,365	2,383
Accounts and notes receivable, net	*4.2*	2,734	2,759
Other current assets		852	829
Taxes receivable		33	30
Other current financial assets	*8.1.1.1*	138	96
Cash and cash equivalents	*8.1.3.2*	3,025	3,329
Assets held for sale	*2.2.2*	225	78
CURRENT ASSETS		**9,372**	**9,504**
TOTAL ASSETS		**21,756**	**22,029**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	245	244
Additional paid-in capital	*10.1.1*	1,588	1,573
Translation adjustment	*10.1.2*	(163)	175
Retained earnings		1,905	1,830
STOCKHOLDERS’ EQUITY		**3,575**	**3,822**
Non-controlling interests	*10.1.3*	785	790
STOCKHOLDERS’ EQUITY INCLUDING NON-CONTROLLING INTERESTS		**4,360**	**4,612**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	819	747
Other provisions – long-term portion	*7.1*	486	682
Subsidies and grants – long-term portion		139	120
Long-term portion of long-term debt	*8.1.2*	5,057	5,074
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	—	7
Other financial liabilities – long-term portion	*8.1.4*	1	35
Deferred tax liabilities	*9.2*	46	58
NON-CURRENT LIABILITIES		**6,548**	**6,723**
Provisions for pensions and other employee benefits – current portion	*5.3*	79	77
Other provisions – current portion	*7.1*	502	494
Accounts and notes payable	*8.1.6*	5,449	5,586
Other current liabilities		2,462	1,986
Subsidies and grants – current portion		63	68
Taxes payable		112	103
Current portion of long-term debt	*8.1.2*	957	1,029
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	—	5
Other financial liabilities – current portion	*8.1.4*	59	42
Short-term financing	*8.1.2.3*	922	1,162
Bank overdrafts	*8.1.2.3*	135	77
Liabilities held for sale	*2.2.2*	108	65
CURRENT LIABILITIES		**10,848**	**10,694**
TOTAL EQUITY AND LIABILITIES		**21,756**	**22,029**

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

4. Consolidated statement of cash flows

(in millions of euros)	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		300	295
Share in net earnings of equity-accounted companies	*4.5.3.1*	(17)	(115)
Net dividends received from equity-accounted companies		14	16
Expenses (income) with no cash effect	*11.1*	1,715	1,427
Cost of net debt	*8.2*	243	131
Income taxes (current and deferred)	*9.1.1*	154	214
GROSS OPERATING CASH FLOWS		**2,409**	**1,968**
Income taxes paid		(225)	(291)
Changes in working capital	*11.2*	278	231
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,462**	**1,908**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(1,037)	(682)
Acquisitions of property, plant and equipment		(964)	(807)
Investment subsidies and grants received		36	50
Disposals of intangible assets and property, plant and equipment		40	30
Net change in non-current financial assets	*11.3*	(11)	(166)
Acquisitions of investments with gain of control, net of cash acquired	*11.4*	—	(352)
Acquisitions of investments in equity-accounted companies and/or joint ventures		(8)	—
Disposals of investments with loss of control, net of cash transferred	*11.5*	38	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,906)**	**(1,927)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(92)	(84)
Dividends paid to non-controlling interests in consolidated subsidiaries		(35)	(59)
Capital increase	*10.1.1*	16	14
Sale (purchase) of treasury stock	*10.1.1.3*	—	(50)
Issuance of long-term debt	*11.6*	748	1,474
Interest paid		(261)	(154)
Interest received		52	54
Repayment of long-term debt	*11.6*	(975)	(744)
Change in short-term financing	*8.1.2.3*	(239)	411
Acquisitions of investments without gain of control		(2)	—
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(788)**	**862**
CASH AND CASH EQUIVALENTS RELATING TO OPERATIONS HELD FOR SALE	*2.2.2*	**(14)**	**(2)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(116)**	**(4)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(362)**	**837**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,252**	**2,415**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,890**	**3,252**
Of which:			
• Cash and cash equivalents	*8.1.3.2*	3,025	3,329
• Bank overdrafts	*8.1.2.3*	(135)	(77)

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[1]		
Number of shares outstanding	*(in millions of euros)*	**Share capital**	**Additional paid-in capital**	**Cumulative translation adjustment**	**Retained earnings**	**Stockholders' equity**	**Non-controlling interests**	**Total**
241,726,165	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2021[1]**	**243**	**1,560**	**(14)**	**1,906**	**3,695**	**796**	**4,491**
	Application of amendments to IAS 37[1]	—	—	—	(343)	(343)	(3)	(346)
	First-time application of IAS 29[1]	—	—	—	12	12	—	12
241,726,165	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2022**	**243**	**1,560**	**(14)**	**1,575**	**3,364**	**793**	**4,157**
	Dividends paid[2]	—	—	—	(84)	(84)	(52)	(136)
(3,031,189)	Treasury shares[3]	—	—	—	(50)	(50)	—	(50)
927,163	Capital increase	1	13	—	—	14	—	14
1,494,228	Share-based payment	—	—	—	21	21	—	21
	Put options granted[4]	—	—	—	7	7	(2)	5
	Other movements	—	—	—	(1)	(1)	(11)	(12)
	TRANSACTIONS WITH OWNERS	**1**	**13**	**—**	**(107)**	**(93)**	**(65)**	**(158)**
	Net income for the year	—	—	—	230	230	65	295
	Other comprehensive income (loss), net of tax	—	—	189	132	321	(3)	318
	TOTAL COMPREHENSIVE INCOME	**—**	**—**	**189**	**362**	**551**	**62**	**613**
241,116,367	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2022**	**244**	**1,573**	**175**	**1,830**	**3,822**	**790**	**4,612**
	Dividends paid[2]	—	—	—	(92)	(92)	(33)	(125)
—	Treasury shares	—	—	—	—	—	—	—
1,131,560	Capital increase[5]	1	15	—	—	16	—	16
1,673,193	Share-based payment	—	—	—	25	25	—	25
	Put options granted[4]	—	—	—	(6)	(6)	(3)	(9)
	Other movements	—	—	(2)	1	(1)	2	1
	TRANSACTIONS WITH OWNERS	**1**	**15**	**(2)**	**(72)**	**(58)**	**(34)**	**(92)**
	Net income for the year	—	—	—	221	221	79	300
	Other comprehensive income (loss), net of tax	—	—	(336)	(74)	(410)	(50)	(460)
	TOTAL COMPREHENSIVE INCOME (LOSS)	**—**	**—**	**(336)**	**147**	**(189)**	**29**	**(160)**
243,921,120	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2023**	**245**	**1,588**	**(163)**	**1,905**	**3,575**	**785**	**4,360**

(1) *The consolidated statement of changes in stockholders' equity at December 31, 2022 takes into account the impact of applying the amendments to IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" and of applying IAS 29 – "Financial Reporting in Hyperinflationary Economies" to Turkish entities for the first time as of January 1, 2022 without restatement of comparative periods. Valeo applied these amendments and standards as from first-half 2022.*

(2) *A cash dividend of 0.38 euros per share was paid in June 2023, representing a total payout of 92 million euros. The dividend paid in July 2022 was 0.35 euros per share.*

(3) *Changes in stockholders' equity attributable to treasury stock for 2022 included the impact of the share buyback program entered into with an investment services provider on March 24, 2022 in an amount of 50 million euros (see Note 10.1.1.3).*

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

(5) *The terms and conditions of the November 15, 2023 capital increase reserved for employees are detailed in Note 10.1.1.1.*

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

6. Notes to the consolidated financial statements

NOTE 1 ACCOUNTING POLICIES

The consolidated financial statements of the Valeo Group for the year ended December 31, 2023 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 that designs, produces and sells innovative products and systems contributing to the reduction of greenhouse gas emissions and to the development of safer, more autonomous, more connected, more intelligent and more diverse mobility. As a technology company, Valeo is present in the areas of electrification, advanced driving assistance systems (ADAS), reinvention of the interior experience and lighting everywhere, all of which are growth drivers. Valeo is one of the world's leading automotive suppliers and is a partner to all automakers and new mobility players across the globe.

Valeo is a European company listed on the Paris Stock Exchange. Its head office is located at 100, rue de Courcelles, 75017 Paris, France.

Valeo's consolidated financial statements for the year ended December 31, 2023 were authorized for issue by the Board of Directors on February 29, 2024.

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 standards can be consulted on the European Commission's website(1).

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

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2023

Standards, amendments and interpretations	**Amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules** Effective as of January 1, 2023
Presentation and general principles	Under the Global Anti-Base Erosion Rules defined at international level by the OECD Inclusive Framework (the "GloBE rules"), multinational enterprises with turnover (sales) of more than 750 million euros are subject to a 15% global minimum tax rate. These rules are set out in the European Union directive adopted on December 14, 2022, which was transposed into French law in the Finance Act for 2024, applicable for reporting periods beginning on or after January 1, 2024. On May 23, 2023, the IASB published final amendments to IAS 12 – "Income Taxes". The amendments provide for temporary mandatory relief from recognizing deferred taxes for the impact of the top-up tax arising from the Pillar Two rules and require new disclosures to be provided in the notes to the financial statements. The amendments do not specify for how long the relief will be available to companies.
Impacts and applications for the Group	The Valeo Group does not use aggressive tax schemes and does not operate in any tax havens. Consequently, based on the country-by-country report, few of the jurisdictions in which the Group operates have an effective tax rate below 15%. Furthermore, the Group's manufacturing entities use significant material and human resources, generating considerable substance-based income. Under these conditions, the estimates made to date show no significant impact from the implementation of the GloBE rules.

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

Other standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2023	
IFRS 17	Insurance Contracts
Amendments to IAS 1	Presentation of Financial Statements – Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2024 and not early adopted by the Group

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

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2024	
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IAS 1	Presentation of Financial Statements: • Classification of Liabilities as Current or Non-current; • Non-current Liabilities with Covenants.

Valeo does not expect these amendments to have a material impact on the Group's consolidated financial statements.

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

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

Standards, amendments and interpretations not yet adopted by the European Union		Effective date[1]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to IAS 21	Lack of Exchangeability	January 1, 2025

(1) Subject to adoption by the European Union.

1.2 Basis of preparation

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

1.2.1 Estimates and judgments

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

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

The significant estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2023 chiefly concern:

- the measurement of goodwill as well as assets and liabilities recognized as part of the final allocation of the purchase price of Valeo eAutomotive (see Note 2.2.1.1);
- the conditions for capitalizing development expenditure (see Note 4.5.1.1);
- the estimation of provisions (see Notes 5.3 and 7.1);
- the measurement of the recoverable amount of intangible assets and property, plant and equipment (see Note 6);
- lease terms, as regards optional periods, and determination of discount rates (see Note 6.3);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2).

1.2.2 Going concern basis and liquidity management

The financial statements have been prepared on a going concern basis. The Group has sufficient cash and financing sources, and has demonstrated its debt issuance capacity.

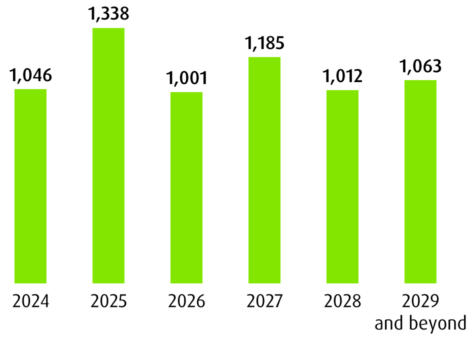
At December 31, 2023, the Group had 1.7 billion euros available in undrawn credit lines, plus a stable financial position:

- net cash and cash equivalents of 2.9 billion euros;
- average debt maturity of three years;
- net debt to EBITDA ratio (EBITDA calculated over a 12-month rolling period) of 1.5, i.e., below the 3.5 threshold.

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile.

CONTRACTUAL MATURITY OF LONG-TERM DEBT

(in millions of euros)



The future cash outflows presented above, comprising both interest payments and principal repayments, are not discounted. The forward curve at December 31, 2023 was used for variable-rate interest.

The Group carried out a number of financing transactions in 2023, including a 600 million euro bond issue in October 2023 as part of the Euro Medium Term Note (EMTN) program. This bond matures in 2029.

As part of its Move Up plan, the Group aims to divest some 500 million euros' worth of non-strategic assets through 2025. At the date on which the consolidated financial statements were authorized for issue, various assets had been divested or were subject to purchase commitments for a total amount of around 400 million euros.
Details of the Group's borrowings and debt and significant transactions during the year are presented in Note 8.

1.3 Consideration of the impacts of climate change

On February 4, 2021, the Group unveiled CAP 50, its plan for achieving net-zero emissions across its entire value chain by 2050. CAP 50 covers suppliers, operating activities and the end use of products sold by the Group (direct and indirect emissions, known as Scope 1, 2 and 3 emissions). Valeo uses 2019 as the baseline year, as 2020 was shaped by Covid-19 (decline in business, etc.).

Under the CAP 50 plan, Valeo commits to:

- advance towards carbon neutrality through to 2050 across all of its operating activities and its supply chain worldwide (Scopes 1 and 2 and upstream Scope 3), and across its entire value chain in Europe (Scopes 1, 2 and 3, including the end use of its products);
- reduce emissions from its operating activities (Scopes 1 and 2) by 75%, and its upstream (supply chain) and downstream (product use) emissions (Scope 3) by 15%, in absolute terms, by 2030 compared with a 2019 baseline. This represents a reduction of 17% across all SBTi scopes.

Valeo's technologies are expected to enable third parties to avoid 13.6 $MtCO_2$eq. of greenhouse gas emissions, equivalent to 27% of the Group's emissions (2019 baseline).

1.3.1 Asset measurement

Physical risks

An increase in the frequency of extreme and/or chronic weather events (such as extreme heat, water stress and flooding) could disrupt or even interrupt certain operations at different levels of the production and supply chains, and could also have an adverse impact on employees' working conditions.

A number of adaptation measures have already been taken to address these risks, particularly at industrial sites which are already facing these types of weather events. Several sites, for example, have rainwater harvesting basins, making them less vulnerable to the risk of chronic drought.

A global framework for assessing the physical risks associated with climate change is currently being developed at Valeo. The aim of this framework is to provide the Group with a more precise, comprehensive and consistent mapping of these risks and of the effectiveness of the adaptation measures taken or planned. The risks inherent to the location and geography of each of the Group's sites were analyzed in 2022 with the assistance of an expert advisory firm. The risk analysis was based on two IPCC global warming scenarios (SSP2-4.5 and SSP5-8.5) and two time horizons (2030 and 2050). In 2023, the Group carried out a pilot audit at one site to review the effectiveness of the local adaptation measures taken or planned. Valeo is currently developing a global approach for drawing up and assessing the adaptation plan, which should start to be rolled out in 2024.

Based on the assessments carried out to date, the Group has not identified any significant impacts linked to the physical risks resulting from climate change in terms of either the useful life or the value of its assets.

Transition risks

Climate transition risks refer to the potential financial impact of changing Valeo's business model as part of a strategy to reduce greenhouse gas emissions.

The transition to a low-carbon economy goes hand in hand with stricter regulatory requirements at all levels (national, regional and local government). Across the globe, new regulations are being introduced to promote the electrification of mobility as a whole. As a result, the proportion of electrified vehicles in overall global production is gradually increasing.

To prepare for this transformation, Valeo has put together a comprehensive range of technologies for electric vehicles, from powertrains to battery thermal management systems. Electrification represents an opportunity for growth and diversification for the Group, as the value of the content per vehicle increases and new forms of mobility are developed.

Focusing on electrification enables the Group to reduce emissions from the use of its products, which represents the main source of its emissions. In 2019, the baseline used to prepare its CAP 50 plan to contribute to carbon neutrality, Valeo emitted nearly 50 $MtCO_2$eq., including 39 $MtCO_2$eq. from the use of its products.

The Research and Development expenditure resulting from this technological shift, together with the financial implications linked to changes in the product mix in terms of sales, production costs and production capex, are reflected in the medium-term business plan. This plan was used as the basis for the impairment tests carried out on cash-generating units (CGUs) and goodwill (see Note 6.4).

Other measures to be undertaken by Valeo as part of its CAP 50 plan to contribute to carbon neutrality will be implemented gradually and will not therefore have a sudden impact on the Group's cost structure. Any increases in supply costs that may result from these measures in the medium or long term are expected to be fully or largely passed on to the prices of the products sold by the Group. On this basis, Valeo currently expects the financial impact of putting these measures in place to be limited over the period covered by its medium-term plan.

The rapid pace of change in the automotive sector also gives rise to uncertainty that could have financial implications for the Group. This notably results from the reconfiguration of the automotive market, with the emergence of new automakers and the reorganization of the value chain. When testing goodwill for impairment, a simulation was carried out to determine the potential impact of such uncertainty in a pessimistic scenario (see Note 6.4.6).

1.3.2 Compensation

The free share plans for Group executive managers set up in 2021, 2022 and 2023 (see Note 5.4) include a carbon footprint objective for end-2023, 2024 and 2025, respectively.

Furthermore, 20% of the variable compensation awarded to Group executives and managers is conditional on achieving quantitative and qualitative non-financial targets, including an objective relating to the Group's carbon footprint in 2023.

In preparing the financial statements for the year ended December 31, 2023, Valeo considered that each of its carbon footprint targets would be met.

1.3.3 Financing

In 2021 and 2022, Valeo set up financing linked to a carbon footprint objective of 37.95 $MtCO_2eq$ for end-2025. If this objective is not met, the interest rate (coupon) payable on this financing after December 31, 2025 will be raised by 0.1% to 0.75%, depending on the debt. At December 31, 2023, the carrying amount of the debt including this indexation clause represented 1.6 billion euros (see Note 8.1.2.1).

In 2023, Valeo also carried out a 600 million euro green bond issue. The issue is not subject to any indexation or early redemption clauses tied to the achievement of environmental targets.

In preparing its financial statements for the year ended December 31, 2023, Valeo considered that its carbon footprint objective for end-2025 would be met.

NOTE 2 SCOPE OF CONSOLIDATION

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

2.1.1.1 Full consolidation

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

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

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

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

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. An arrangement in which the parties have rights to the net assets of that arrangement is called a joint venture. An arrangement in which the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, is known as a joint operation.

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

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

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

The procedure used to measure investments in equity-accounted companies is governed by IFRS 9 – "Financial Instruments: Recognition and Measurement" and IAS 28 (revised) – "Investments in Associates and Joint Ventures".

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

A list of consolidated companies is provided in Note 13.

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

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

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

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

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

The Group applies the provisions of IAS 29 – "Financial Reporting in Hyperinflationary Economies" to entities whose functional currency is considered to be the currency of a hyperinflationary economy. The financial statements of the companies concerned are restated for the impacts of inflation (historical cost convention) and then translated into the Group's presentation currency at the closing exchange rate.

2.1.2.2 Foreign currency transactions

General principle

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

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

Net investment

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

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

2.1.3 Business combinations

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

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

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

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

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

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

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

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

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

2.1.4 Transactions involving non-controlling interests

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

2.1.5 Assets and liabilities held for sale and discontinued operations

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

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

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

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

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

2.2 Changes in the scope of consolidation

2.2.1 Transactions completed during the year

2.2.1.1 Valeo Siemens eAutomotive takeover in 2022

On July 4, 2022, Valeo acquired Siemens' 50% stake in the Valeo Siemens eAutomotive joint venture. Valeo eAutomotive (formerly Valeo Siemens eAutomotive) has been fully consolidated by Valeo since July 1, 2022, within the Powertrain Systems Business Group.

The allocation of the purchase price to the assets and liabilities was finalized during the first half of 2023, leading to an adjustment in the value of certain intangible assets recognized at December 31, 2022. The adjustments relate to additional information confirming facts and circumstances that existed at July 4, 2022. The information, which concerns the measurement of a technology and several order books, had not been taken into account in the provisional allocation at December 31, 2022.

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

(in millions of euros)	Provisional allocation December 2022	Final allocation June 30, 2023
PURCHASE PRICE/FAIR VALUE OF CONSIDERATION TRANSFERRED (INCLUDING FAIR VALUE OF PREVIOUSLY-HELD INTEREST)[(1)]	**(1,619)**	**(1,619)**
Identifiable assets acquired at the acquisition date	993	993
Identifiable liabilities assumed at the acquisition date	(3,342)	(3,342)
Order book[(2)]	169	107
Technology[(3)]	231	291
Unfavorable contracts[(4)]	(198)	(198)
Other provisions	(141)	(141)
Other individually non-material fair value remeasurements[(5)]	(15)	(15)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**(2,303)**	**(2,305)**
GOODWILL ARISING ON THE ACQUISITION	**684**	**686**

(1) The fair value of the consideration transferred was determined on the basis of (i) the purchase price of 403 million euros paid by Valeo net of financial receivables amounting to 1,226 million euros transferred by Siemens, (ii) plus 27 million euros corresponding to the value of the call option held by Valeo at December 31, 2021.
(2) Intangible assets recognized in respect of the order book are amortized over an average period of five years and are presented within customer relationships and other intangible assets (see Note 6.2).
(3) Technology is amortized over a period of five to ten years.
(4) Amounts will be written back from provisions for unfavorable contracts as the contracts concerned are executed.
(5) Other fair value remeasurements include non-current assets, lease liabilities and provisions for pensions and other employee benefits.

Valeo eAutomotive contributed 1,447 million euros to consolidated sales in 2023.

2.2.1.2 Asaphus Vision GmbH

In 2021, Valeo acquired a 60% controlling interest in Asaphus Vision GmbH, along with a call option for the remaining share capital, worth 5 million euros. Valeo exercised this option in 2023 and now holds the company's entire share capital (see Note 8.1.2.2).

This transaction between owners did not affect the control of Asaphus Vision GmbH, which was already fully consolidated in the Group's financial statements.

2.2.1.3 Sale of Ichikoh's Mirror business

On September 26, 2022, Ichikoh signed an agreement to sell its Mirror business in Japan, which is part of the Visibility Systems Business Group. In accordance with IFRS 5, the assets and liabilities relating to this business were therefore classified as held for sale in the consolidated statement of financial position at December 31, 2022, in an amount of 75 million euros and 65 million euros, respectively.

The sale took place on August 1, 2023, with the related amounts recognized in other income and expenses (see Note 4.6.2.1).

2.2.1.4 Sale of APG-FTE

The assets and liabilities relating to APG-FTE were classified as held for sale in the consolidated statement of financial position at December 31, 2022. The effective sale took place in July 2023. The transaction did not have a material impact on the Valeo Group's consolidated financial statements for the year ended December 31, 2023.

2.2.1.5 Sale of Kuantic

In the second half of 2022, the Group acquired all of the share capital of Kuantic. In November 2023, Valeo sold its stake in the company, which had been part of the Comfort & Driving Assistance Systems Business Group, with the related amounts recognized in other income and expenses (see Note 4.6.2.1).

This business represented sales of 15 million euros in 2023 (ten months of operations) and 9 million euros in 2022 (six months of operations).

2.2.2 Transactions that have not yet been completed

2.2.2.1 Sale of the Thermal Commercial Vehicles business

In January 2024, Valeo secured a purchase commitment from a buyer for its Thermal Commercial Vehicles Product Group. The regulatory procedures required to complete this transaction are currently in progress.

In accordance with IFRS 5, the assets and liabilities relating to this business were therefore classified as assets and liabilities held for sale in the consolidated statement of financial position at December 31, 2023. At that date, the amounts reclassified as assets and liabilities held for sale represented 217 million euros and 98 million euros, respectively. Based on the information available at the reporting date, Valeo has not identified any indication of impairment.

This business represented sales of 303 million euros in 2023 and 265 million euros in 2022.

2.2.2.2 Sale of industrial operations in Russia

As part of its decision to divest its production activities in Russia, in 2023 the Group signed two agreements with NPK Avtopribor for the sale of all the production assets of its Thermal Systems and Transmission Systems businesses in Russia.

This transaction was completed on January 18, 2024 after obtaining the requisite regulatory approvals.

The sale of these businesses had no material impact on the Group's earnings for the year ended December 31, 2023.

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

2.3.1 Commitments given

Valeo and V. Johnson Enterprises set up Detroit Thermal Systems in 2012. At December 31, 2023, Valeo and V. Johnson Enterprises had respective 49% and 51% interests in this company.

V. Johnson Enterprises has a put option that may be exercised if certain contractually defined events – not relating to a level of earnings – occur. For example, the option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sells all or part of its interest to a third party. If the put were to be exercised, all of the shares owned by V. Johnson Enterprises at that time would be sold to Valeo, with the price to be determined according to the provisions of the agreement defining the company's governance arrangements.

At December 31, 2023, Valeo also granted a 3 million euro vendor warranty as part of a partial asset disposal.

2.3.2 Commitments received

At December 31, 2023, Valeo had not received any commitments relating to the scope of consolidation. At December 31, 2022, commitments received totaled 7 million euros and mainly corresponded to guarantees granted to Valeo in connection with its acquisition of gestigon.

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 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 two Product Groups: ADAS and Reinvention of the Interior Experience. In a fast-changing environment, regulations are pushing for the construction of ever-safer vehicles. At the same time, driving is becoming increasingly autonomous and drivers and passengers are looking for continuity of their digital lives and a more intuitive user experience inside the vehicle. The Comfort & Driving Assistance Systems Business Group develops a wide range of sensors to improve safety and driving comfort as well as electronic equipment to enhance life on-board and vehicle connectivity;
- Powertrain Systems, comprising two Product Groups: Powertrain Electrified Mobility, which includes the Business Group's High- and Low-Voltage activities, and Powertrain Systems Driveline, which includes transmission automation activities. This Business Group was reorganized following the integration of the Valeo Siemens eAutomotive joint venture in July 2022. Leveraging the combined expertise of these two Product Groups, the Powertrain Systems Business Group develops and produces innovative powertrain solutions to improve today's engines and motors and design the electric mobility of tomorrow;
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain and Batteries, Thermal Compressor, Thermal Front End and Thermal Commercial Vehicles. The strategic objectives of the Thermal Systems Business Group address the emerging challenges facing the automotive industry in two fields: intelligent management of thermal systems for electrified vehicles, and passenger health and well-being;
- Visibility Systems, comprising two Product Groups and one Product Line: the Lighting Systems Product Group, the Wiper Systems Product Group and the Electronics for Visibility Systems Product Line. The Visibility Systems Business Group designs and produces smart exterior and interior lighting systems, wiper systems and sensor cleaning systems to support the driver in all driving situations. This innovative, efficient technology enables all vehicles, including automated vehicles, to drive in all conditions and provide a highly immersive experience for all vehicle passengers.

Each of these Business Groups is also responsible for production and for some of the distribution of products in the aftermarket segment. A significant portion of income and expenses for Valeo Service, which almost exclusively sells products manufactured by the Group, is reallocated among the Business Groups identified. The external trading operations of Valeo Service and the Top Column Module business are presented within "Other", along with the holding companies and eliminations between the four operating segments.

In January 2024, the Group presented its plan to reorganize the operations of the Powertrain Systems and Thermal Systems Business Groups to employee representative bodies. The plan, which would be implemented in the first half of 2024, aims to create a new Business Group focused on the development of electrification technologies and the overhaul of conventional technologies dedicated to internal combustion engines.

3.1 Key segment performance indicators

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

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

2023

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales	**4,655**	**6,865**	**4,719**	**5,541**	**264**	**22,044**
• segment (excluding Group)	4,618	6,767	4,652	5,536	471	22,044
• intersegment (Group)	37	98	67	5	(207)	—
EBITDA	**690**	**812**	**359**	**736**	**50**	**2,647**
Research and Development expenditure	(712)	(585)	(310)	(396)	(26)	(2,029)
Investments in intangible assets and property, plant and equipment	881	395	320	563	54	2,213
Segment assets(1)	3,519	4,586	2,362	2,967	275	13,709

(1) The segment assets shown for the Thermal Systems Business Group do not include the amount of the assets of the Thermal Commercial Vehicles business reclassified as assets held for sale at December 31, 2023 (see Note 2.2.2.1).

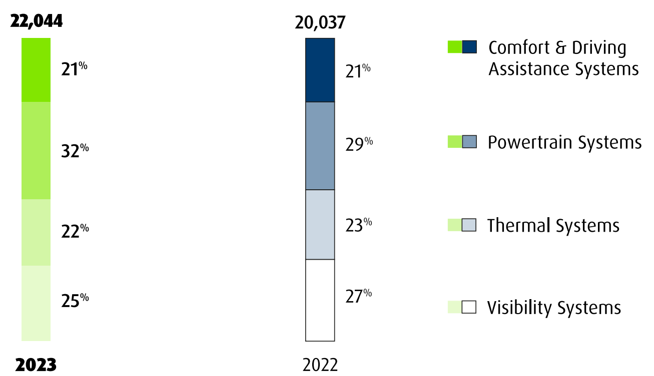
2022

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales	**4,234**	**5,689**	**4,543**	**5,363**	**208**	**20,037**
• segment (excluding Group)	4,192	5,574	4,463	5,331	477	20,037
• intersegment (Group)	42	115	80	32	(269)	—
EBITDA	**671**	**619**	**333**	**705**	**73**	**2,401**
Research and Development expenditure	(724)	(434)	(313)	(379)	(30)	(1,880)
Investments in intangible assets and property, plant and equipment	634	293	289	453	23	1,692
Segment assets(1)	3,131	4,903	2,625	2,857	305	13,821

(1) The segment assets shown for the Visibility Systems Business Group do not include the amount relating to the assets of the Mirror business reclassified as held for sale at December 31, 2022 (see Note 2.2.1.3).

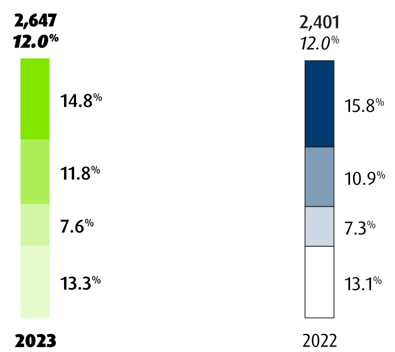
SALES BY BUSINESS GROUP (INCLUDING INTERSEGMENT SALES)

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



EBITDA BY BUSINESS GROUP

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



3.2 Reconciliation with Group data

EBITDA is used by General Management to monitor and track Business Group performance (see Note 3.1) and to decide on the allocation of resources. The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2023	2022
Operating margin	**838**	**635**
Amortization and depreciation of intangible assets and property, plant and equipment, and impairment losses[(1)]	1,836	1,783
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(41)	(33)
Dividends paid by equity-accounted companies	14	16
EBITDA	**2,647**	**2,401**
as a % of sales	12.0%	12.0%

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2023	December 31, 2022
Segment assets	**13,709**	**13,821**
Accounts and notes receivable	2,734	2,759
Other current assets	852	829
Taxes receivable	33	30
Financial assets	3,600	3,957
Deferred tax assets	603	555
Assets held for sale[(1)]	225	78
TOTAL GROUP ASSETS	**21,756**	**22,029**

(1) At December 31, 2023, assets held for sale correspond to the assets of the Thermal Commercial Vehicles business (see Note 2.2.2.1). At December 31, 2022, assets held for sale corresponded to the assets of the Mirror business (see Note 2.2.1.3) and APG-FTE (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 that operate in several geographic areas.

2023

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,308	2,968	989
Other European countries and Africa	9,324	8,092	3,692
North America	4,092	3,972	1,140
South America	506	430	49
Asia	6,814	7,340	2,365
o/w China	*3,239*	*3,966*	*1,283*
Eliminations	—	(758)	(3)
TOTAL	**22,044**	**22,044**	**8,232**

In 2022 and 2023, the main countries contributing to the Group's consolidated sales are China, France, Germany, Mexico and the United States.

2022

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,172	2,716	987
Other European countries and Africa	7,902	6,747	3,498
North America	3,866	3,812	1,046
South America	487	388	31
Asia	6,610	7,057	2,633
o/w China	*3,189*	*3,728*	*1,409*
Eliminations	—	(683)	(2)
TOTAL	**20,037**	**20,037**	**8,193**

NOTE 4 OPERATING DATA

4.1 Sales

For each automotive project, the three main typically identified promises made by Valeo to an automaker are:

- Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is usually considered to be related to the supply of parts; any contributions from customers in respect of Product Development are therefore recognized in sales over the period of series production as the promise to deliver the parts is fulfilled, within a period of four years. However, the accounting treatment applied may vary based on each project's specific contractual or operational features;
- Supply of Tooling such as molds and other equipment used to manufacture parts:
  - for certain businesses, the supply of molds may be considered to be a distinct promise in view of the manner in which control is transferred. In such cases, sales are recognized at the start of series production for the project,
  - the supply of other equipment used to manufacture parts is considered to be related to the Supply of Parts. Any contributions received in this respect are therefore deferred and recognized over the duration of the manufacturing phase of the project as the promise to deliver the parts is fulfilled, within a period of four years,
- Supply of Parts, sales of which are recognized when control of the parts is transferred to the customer, i.e., generally upon delivery.

In this respect, sales primarily include sales of finished goods and all tooling revenues and customer contributions to Research and Development expenditure and prototypes. Sales are measured at the fair value of the consideration receivable, net of any trade discounts and volume rebates and excluding any VAT or other taxes.

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

In general, customers award Valeo contracts to supply all the parts required for a specific project. Estimated future volumes cannot be included in the order book as defined by IFRS 15 until the customer has placed an order for a firm volume. Accordingly, disclosure of this information is not considered relevant.

Group sales rose by 10.0% to 22,044 million euros in 2023, from 20,037 million euros in 2022.

Changes in exchange rates had a negative 3.3% impact on sales, primarily due to the appreciation of the euro against the US dollar, Chinese renminbi and Japanese yen. Changes in Group structure during the year had a positive impact of 4.0% on sales, mainly attributable to the takeover of Valeo eAutomotive's activities. Like for like (comparable Group structure and exchange rate basis), consolidated sales for 2023 advanced by 9.3% compared with 2022. This growth was supported by price increases secured in connection with inflation and volume reductions.

Sales can be analyzed as follows:

(in millions of euros)	2023	2022
Original equipment	18,701	16,748
Aftermarket	2,267	2,256
Other	1,076	1,033
SALES	**22,044**	**20,037**

Customer contributions to research and development expenditure and prototypes amounted to 534 million euros in 2023, compared with 524 million euros in 2022. They are presented under "Other".

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. The Group uses two impairment testing methods:

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

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

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

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

Upstream price reductions granted to automakers are recognized within contract assets under accounts and notes receivable in the consolidated statement of financial position at the time of payment. They are subsequently recognized in the statement of income on a straight-line basis as a deduction from sales as from the start of volume production.

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	December 31, 2023	December 31, 2022
Contract assets	245	205
Accounts and notes receivable, gross	2,515	2,582
Impairment	(26)	(28)
ACCOUNTS AND NOTES RECEIVABLE, NET	**2,734**	**2,759**

At December 31, 2023, Valeo's largest automotive customer accounted for 11% of the Group's accounts and notes receivable (10% at December 31, 2022).

The average days' sales outstanding stood at 46 days at December 31, 2023, compared to 47 days at December 31, 2022.

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, 2023	December 31, 2022
90.3%	Not yet due	2,270	2,398
3.6%	Less than 1 month past due	91	81
4.9%	More than 1 month but less than 1 year past due	122	81
1.2%	More than 1 year past due	32	22
	ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,515**	**2,582**

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2023 totaled 2,270 million euros and 91 million euros, respectively, and represented 94% of total gross accounts and notes receivable (96% at end-December 2022). Past due receivables were written down in an amount of 26 million euros at December 31, 2022 (28 million euros at December 31, 2022).

Accounts and notes receivable falling due after December 31, 2023, for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, break down as follows:

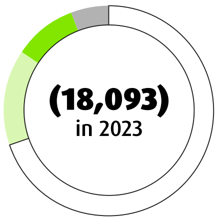
(in millions of euros)	December 31, 2023	December 31, 2022
Receivables sold:		
• Recurring sales of receivables	123	127
• Non-recurring sales of receivables	217	174
ACCOUNTS AND NOTES RECEIVABLE SOLD	**340**	**301**
Financial cost	14	5

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, 2023, these instruments represented 182 million euros of accounts and notes receivable and 303 million euros of accounts and notes payable (175 million euros and 355 million euros, respectively, at December 31, 2022).

4.3 Cost of sales

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

Cost of sales can be analyzed as follows:



(in millions of euros)			2023	2022
57.4%	(1)	Raw materials consumed	(12,643)	(11,568)
12.0%	(1)	Labor	(2,643)	(2,469)
8.1%	(1)	Direct production costs and production overheads	(1,796)	(1,602)
4.6%	(1)	Depreciation, amortization and impairment losses(2)	(1,011)	(951)
		COST OF SALES	**(18,093)**	**(16,590)**

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

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are booked when the probable realizable value of inventories is lower than their cost price. Inventories of raw materials and goods for resale are carried at purchase cost. Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. These costs are determined by the "First-in-First-out" method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Tooling specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3 "Property, plant and equipment") when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred). A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

At December 31, 2023, inventories break down as follows:

	December 31, 2023			December 31, 2022
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	1,323	(243)	1,080	1,191
Work-in-progress	293	(51)	242	242
Finished goods and supplies	818	(160)	658	635
Specific tooling	397	(12)	385	315
INVENTORIES, NET	**2,831**	**(466)**	**2,365**	**2,383**

Impairment losses taken against inventories amounted to 466 million euros at December 31, 2023 (448 million euros at December 31, 2022), including an allowance (net of reversals) of 45 million euros during the year. Allowances for impairment of inventories (net of reversals) amounted to 37 million euros in 2022.

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

Operating margin is equal to sales less costs to sell, Research and Development expenditure and selling and administrative expenses.

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

In 2023, operating margin including share in net earnings of equity-accounted companies was 855 million euros (or 3.9% of sales), compared with 3.7% of sales in 2022.

Share in net earnings of equity-accounted companies represented a gain of 17 million euros in 2023 and a gain of 115 million euros in 2022. In 2022, share in net earnings of equity-accounted companies included a gain of 99 million euros on the Valeo Siemens eAutomotive joint venture.

Further details of the Group's share in earnings of equity-accounted companies are provided in Note 4.5.3

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development expenditure

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 expenditure is capitalized where the Group can demonstrate that:

- it has the intention and the technical and financial resources to complete the development, evidenced in particular 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 in particular on whether the project is expected to generate an adequate margin;
- and the cost of the intangible asset can be measured reliably.

Capitalized development expenditure recorded in assets in the statement of financial position therefore corresponds 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 opposite. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of series production are considered production costs.

Capitalized development expenditure related to projects that have not yet resulted in the start of series production is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Following the start of series production, capitalized development expenditure is tested at the level of the cash-generating units (CGUs) (see Note 6.4).

Capitalized development expenditure is amortized on a straight-line basis over a maximum period of four years as from the start of series production.

Changes in capitalized development expenditure in 2022 and 2023 are analyzed below:

(in millions of euros)	2023	2022
GROSS CARRYING AMOUNT AT JANUARY 1	**5,303**	**4,708**
Accumulated amortization and impairment	(3,295)	(2,775)
NET CARRYING AMOUNT AT JANUARY 1	**2,008**	**1,933**
Capitalized development expenditure	995	657
Disposals	—	(2)
Changes in scope	—	1
Impairment	16	27
Amortization	(554)	(614)
Reclassifications	(12)	—
Translation adjustment	(36)	6
NET CARRYING AMOUNT AT DECEMBER 31	**2,417**	**2,008**

4.5.1.2 Research and Development expenditure

Research and Development expenditure comprises the costs incurred during the period, including amortization charged against capitalized development expenditure, less research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income.

Research and Development expenditure can be analyzed as follows for 2022 and 2023:

(in millions of euros)	2023	2022
Gross Research and Development expenditure	(2,607)	(2,077)
Subsidies and grants, and other income(1)	114	122
Capitalized development expenditure	995	657
Amortization and impairment of capitalized development expenditure(2)	(531)	(582)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(2,029)**	**(1,880)**

(1) *The impact of French research tax credits (*Crédits d'Impôt Recherche*), or any other similar tax arrangements in other jurisdictions outside the scope of IAS 12, as well as the impact of the subsidy calculated on the loan taken out with the European Investment Bank (EIB) in 2021, are presented on this line.*

(2) *Impairment losses recorded in operating margin only.*

The Group continued its Research and Development efforts in 2023 in order to fulfill the sharp increase in the order intake recorded over the past two years and in line with its strategy geared to technological innovation.

Customer contributions to research and development expenditure and prototypes are recognized in sales and presented under "Other" (see Note 4.1.1).

The research tax credit in France is calculated based on certain research expenditure on "eligible" projects and is paid by the French State, regardless of the entity's income tax position. If the company collecting the research tax credit is liable for income tax, the credit will be deducted from its income tax liability. Otherwise, it will be paid by the French State within a period of three years.

The French research tax credit, or any other similar tax provision in other jurisdictions, does not therefore fall within the scope of IAS 12 – "Income Taxes" and is recognized as a deduction from Research and Development expenditure within the Group's operating margin as and when the related costs are taken to income.

The French research tax credit recognized in income for the year totaled 45 million euros in respect of 2023 (36 million euros in 2022).

4.5.2 Other current assets

Amounts receivable in respect of the French research tax credit as well as VAT credits may be discounted and sold to banks. The Group applies the principles for derecognizing financial assets in the same way as for accounts and notes receivable. 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, 2023, amounts receivable in respect of the French research tax credit for 2020, 2021, 2022 and 2023 are no longer carried in the consolidated statement of financial position.

These receivables were transferred as follows:

- the prospective 2020 research tax credit receivable on December 16, 2020 for 48 million euros, and in June 2021 for the remaining 5 million euros;
- the prospective 2021 research tax credit receivable on December 15, 2021 for 51 million euros, and in June 2022 for the remaining 4 million euros;
- the prospective 2021 Valeo eAutomotive research tax credit receivable on September 8, 2022 for 4 million euros;
- the prospective 2022 research tax credit receivable on December 16, 2022 for 45 million euros, and in July 2023 for the remaining 1 million euros;
- the prospective 2023 research tax credit receivable on December 20, 2023 for 53 million euros.

At December 31, 2023 and December 31, 2022, receivables in respect of the VAT credit in France and Hungary were sold and, as a result, are no longer recorded in the consolidated statement of financial position. These receivables represented an amount of 20 million euros at December 31, 2023 versus 16 million euros at December 31, 2022.

The cost of selling these receivables, recognized in cost of net debt for the year, amounted to 5 million euros for the Group, compared to 4 million euros in 2022.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

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

(in millions of euros)	2023	2022
Share in net earnings of associates	**8**	**2**
Of which Detroit Thermal Systems	*7*	*4*
Of which Other	*1*	*(2)*
Share in net earnings of joint ventures	**9**	**113**
Of which Valeo Siemens eAutomotive(1)	*—*	*99*
Of which Other	*9*	*14*
SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**17**	**115**

(1) Valeo eAutomotive has been fully consolidated in the Valeo Group's financial statements since July 1, 2022. In 2022, the share in net earnings of the Valeo Siemens eAutomotive joint venture included its income for the six-month period from January 1 to June 30, 2022, along with the gain arising on the remeasurement of Valeo's previously-held interest for 181 million euros.

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)	2023	2022
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**14**	**20**
Share in net earnings of associates	8	2
Dividend payments	(3)	(1)
Impact of changes in scope of consolidation	4	(4)
Other movements(1)	—	(3)
Translation adjustment	(1)	—
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**22**	**14**

(1) At December 31, 2022, other movements mainly corresponded to the classification of APG-FTE within assets held for sale (see Note 2.2.1.4).

The Group's investments in associates are detailed below:

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Detroit Thermal Systems	49.0	49.0	14	10
Other investments in associates	N/A	N/A	8	4
INVESTMENTS IN ASSOCIATES			**22**	**14**

Investments in joint ventures

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

(in millions of euros)	2023	2022
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**96**	**90**
Share in net earnings of joint ventures(1)	9	113
Dividend payments	(11)	(16)
Impact of changes in scope of consolidation(2)	—	(85)
Other movements	1	—
Translation adjustment	(7)	(6)
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**88**	**96**

(1) The share in net earnings of the Valeo Siemens eAutomotive joint venture in 2022 includes the net earnings over the six-month period from January 1 to June 30, 2022 along with the gain arising on the remeasurement of Valeo's previously-held interest for 181 million euros.

(2) Changes in the scope of consolidation in 2022 mainly include the impacts of the change in the consolidation method for Valeo Siemens eAutomotive following its takeover on July 4, 2022 (see Note 2.2.1.1).

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

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Shanghai Valeo Automotive Electrical Systems Company Ltd	50.0	50.0	30	37
Faw-Valeo Climate Control Systems Co. Ltd	36.5	36.5	22	23
Other	N/A	N/A	36	36
INVESTMENTS IN JOINT VENTURES			**88**	**96**

4.5.3.3 Financial information on equity-accounted companies

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

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

Associates

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

(in millions of euros)	December 31, 2023	December 31, 2022
Non-current assets	49	38
Current assets	77	82
Non-current liabilities	(13)	(19)
Current liabilities	(55)	(66)

(in millions of euros)	2023	2022
Sales	327	323
Operating expenses	(311)	(311)

Joint ventures

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

(in millions of euros)	December 31, 2023	December 31, 2022
Non-current assets	160	186
Current assets	366	366
Non-current liabilities	(40)	(76)
Current liabilities	(367)	(400)

(in millions of euros)	2023	2022
Sales	735	742
Operating expenses	(696)	(713)

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, 2023	December 31, 2022
Accounts and notes receivable	5	5
Accounts and notes payable	(8)	(6)
Financial receivables/(net debt)	7	11

(in millions of euros)	2023	2022
Sales of goods and services	30	8
Purchases of goods and services	(42)	(48)

Transactions with joint ventures

(in millions of euros)	December 31, 2023	December 31, 2022
Accounts and notes receivable	79	70
Accounts and notes payable	(9)	(9)

(in millions of euros)	2023	2022[1]
Sales of goods and services	121	182
Purchases of goods and services	(29)	(21)

(1) Valeo eAutomotive has been fully consolidated in the Valeo Group's financial statements since July 1, 2022. The amounts shown for 2022 include transactions carried out between January 1 and June 30, 2022.

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 comprising cost of net debt;
- other financial income and expenses;
- income taxes.

In 2023, the Group recorded operating income including share in net earnings of equity-accounted companies of 744 million euros, versus 644 million euros in 2022.

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 (excluding, therefore, the cost of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- net costs relating to restructuring plans;
- impairment losses on fixed assets chiefly recognized as a result of impairment tests on CGUs and goodwill.

Other income and expenses can be analyzed as follows in 2022 and 2023:

(in millions of euros)	Notes	2023	2022
Capital gains and losses and transaction costs arising on changes in the scope of consolidation	4.6.2.1	(9)	(7)
Claims and litigation	4.6.2.2	(8)	(25)
Restructuring plans	4.6.2.3	(90)	(31)
Reversals of/(additions to) impairment of assets	4.6.2.4	(4)	(43)
OTHER INCOME AND EXPENSES		**(111)**	**(106)**

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

This item includes capital gains and losses on disposals of operations completed in 2023, representing a net loss of 2 million euros (see Note 2.2.1).

In 2022, this item included the costs associated with the takeover of the Valeo Siemens eAutomotive joint venture and the planned sale of the Mirror business in Japan.

4.6.2.2 Claims and litigation

In 2023, this item includes the impacts of various disputes and the related legal advisory costs.

4.6.2.3 Restructuring plans

In 2023, restructuring costs mainly comprise expenses relating to the plan to adapt the Amiens site following the decline in business related to internal combustion engines and to the costs of the planned closure of production activity at the Bad Neustadt site. Restructuring costs also include the cost of early retirement plans in Germany.

4.6.2.4 Impairment of assets

Following the impairment tests performed at December 31, 2023, the Group recognized an impairment loss of 20 million euros against the Top Column Module cash-generating unit (see Note 6.4.2). An impairment loss previously recognized against assets in Brazil was also reversed for 17 million euros, thereby increasing the carrying amount of the assets to the value that would have been determined (net of amortization and depreciation) had no impairment loss been recognized (see Note 6.4.7).

At December 31, 2022, the Group recognized an impairment loss of 43 million euros to reflect the impacts of international sanctions applied against Russia in response to the military conflict in Ukraine.

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

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

	2023	2022
Total employees at December 31	112,700	109,900
Average employees during the year	112,275	107,250

5.2 Employee benefits

Employee benefits are measured in accordance with IAS 19. They comprise both short- and long-term benefits.

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

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

Long-term benefits cover two categories of employee benefits:

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

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

These benefits are broken down into:

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

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

(in millions of euros)	2023	2022
Wages and salaries[1]	3,755	3,433
Social security charges	762	702
Share-based payment	25	21
Pension expenses under defined contribution plans	182	167
TOTAL	**4,724**	**4,323**

(1) Including temporary staff.

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

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

5.3 Provisions for pensions and other employee benefits

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

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

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

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

Discount rates are determined by reference to market yields at the valuation date on high-quality corporate bonds (rated AA) with a term consistent with that of the employee benefits concerned. In countries where the market for investment-grade corporate bonds is insufficient, discount rates are determined by reference to the yield on government bonds.

The 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 defined benefit plan or amendments to an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, actuarial gains and losses arising on long-term benefits payable during employment and the impact of any plan curtailments, amendments or settlements;
- net interest cost on pension obligations recognized in financial income (including the impact of unwinding) and the expected yield on hedging assets.

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) vary depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2023, 91% of provisions are related to post-employment benefits, while the remaining 9% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, the United States, Japan and the United Kingdom, which top up the statutory pension plans in force in those countries:
  - pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to local legal requirements in some countries (United States/South Korea/United Kingdom) or as a result of the choice made by the company on setting up the plan (Japan),
  - most plans in the United States have been frozen and no longer give rise to any additional benefits;
- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:
  - these benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) (as in South Korea, Mexico and Italy);
- health cover during retirement in the United States:
  - Valeo pays into health plans and life insurance plans for certain retired employees in the United States. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France:
  - these plans are now closed to new entrants (the last plan in force concerning a specific level of Valeo management *(cadres hors catégorie)* was closed to new entrants on June 30, 2017). With effect from July 3, 2019, no further conditional top-up pension rights may accrue under these defined benefit plans in respect of employment periods beyond January 1, 2020. For retirees, these plans are covered by an insurance company. A provision has been recognized in respect of the related obligation based on the probable present value of the future benefits payable, determined considering the number of years' service at the year-end relative to the number of years' service at retirement, it being specified that the beneficiaries must still finish their careers at Valeo,
  - the portion of the obligation relating to the Group's executive managers is detailed in Note 5.5.

New laws amending the retirement age of certain employees were adopted in France and Turkey in the first half of 2023. In France, the minimum legal retirement age was raised to 64, with special provisions for employees who started working before the age of 21. Under the new law in Turkey, employees who started paying contributions before September 1999 and who have completed more than 20 years of employment for women and more than 25 years for men are eligible for retirement. The impact of the new laws on the Group's provisions for pensions and other employee benefits at December 31, 2023 was not material.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2023:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	11,721	21,753	11,908	8,350	53,732
Active employees having left the Group	—	3,069	836	587	4,492
Retirees	2	5,243	5,060	1,370	11,675
TOTAL EMPLOYEES	**11,723**	**30,065**	**17,804**	**10,307**	**69,899**
Average duration of post-employment benefit plans *(in years)*	9	15	9	9	11

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

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

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

Country	December 31, 2023	December 31, 2022
Eurozone	3.20	3.75
United Kingdom	4.50	4.80
United States	5.00	5.35
Japan	1.80	1.30
South Korea	4.80	5.75

The weighted average long-term salary inflation rate was around 3% at December 31, 2023, stable compared to December 31, 2022.

The sensitivity of the Group's main obligations to a 1-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:

2023

(in millions of euros)	France	Other European countries	North America(1)	Asia	Total
Present value of unfunded obligations	142	457	105	108	812
Present value of funded obligations	32	147	311	140	630
Market value of plan assets	(18)	(97)	(309)	(165)	(589)
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2023	**156**	**507**	**107**	**83**	**853**
Permanent employees at December 31, 2023(2)	12,263	36,356	15,318	21,704	85,641

(1) Unfunded pension obligations in North America include medical plans in the United States representing 47 million euros.

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

2022

(in millions of euros)	France	Other European countries	North America(1)	Asia	Total
Present value of unfunded obligations	135	398	95	111	739
Present value of funded obligations	31	134	320	135	620
Market value of plan assets	(12)	(92)	(312)	(168)	(584)
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2022	**154**	**440**	**103**	**78**	**775**
Permanent employees at December 31, 2022(2)	12,195	35,126	14,935	21,417	83,673

(1) Unfunded pension obligations in North America include medical plans in the United States representing 49 million euros.

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

Movements in obligations in 2023 and 2022 are shown in the tables below by major geographic area:

2023

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2023	**166**	**532**	**415**	**246**	**1,359**
Actuarial gains and losses recognized in other comprehensive income	5	62	19	15	101
Benefits paid	(15)	(28)	(35)	(29)	(107)
Translation adjustment	—	(1)	(15)	(22)	(38)
Changes in scope	—	—	—	(5)	(5)
Reclassifications	—	—	—	8	8
Expenses (income) for the year:	18	39	32	35	124
• *Service cost*	*14*	*17*	*5*	*27*	*63*
• *Interest cost*	*7*	*19*	*22*	*6*	*54*
• *Other*(1)	*(3)*	*3*	*5*	*2*	*7*
BENEFIT OBLIGATIONS AT DECEMBER 31, 2023	**174**	**604**	**416**	**248**	**1,442**

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

Actuarial losses totaling 101 million euros in 2023 primarily resulted from lower discount rates, particularly in the eurozone, the United States, the United Kingdom and South Korea.

2022

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2022	**220**	**738**	**522**	**322**	**1,802**
Actuarial gains and losses recognized in other comprehensive income	(40)	(215)	(129)	(24)	(408)
Benefits paid	(27)	(24)	(34)	(60)	(145)
Translation adjustment	—	(5)	35	(15)	15
Changes in scope	2	15	—	1	18
Reclassifications(1)	—	—	—	(8)	(8)
Expenses (income) for the year:	11	23	21	30	85
• *Service cost*	*19*	*16*	*5*	*28*	*68*
• *Interest cost*	*2*	*9*	*13*	*3*	*27*
• *Other*(2)	*(10)*	*(2)*	*3*	*(1)*	*(10)*
BENEFIT OBLIGATIONS AT DECEMBER 31, 2022	**166**	**532**	**415**	**246**	**1,359**

(1) Benefit obligations relating to the Mirror business were reclassified within liabilities held for sale at December 31, 2022.
(2) The "Other" line mainly includes actuarial gains and losses recognized immediately in income, the impacts of past service costs and gains on settlements.

Actuarial gains totaling 408 million euros in 2022 primarily reflected the increase in discount rates in most regions of the world.

5.3.4 Movements in provisions

Movements in provisions in 2023 and 2022, including assets 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
NET PROVISIONS AT JANUARY 1, 2022	**205**	**620**	**107**	**111**	**1,043**
Actuarial gains and losses recognized in other comprehensive income	(39)	(177)	(17)	(16)	(249)
Amounts utilized during the year	(25)	(23)	(7)	(31)	(86)
Translation adjustment	—	(1)	8	(7)	—
Changes in scope	2	—	—	1	3
Reclassifications(1)	—	—	—	(8)	(8)
Expenses (income) for the year:	11	21	12	28	72
• *Service cost*	*19*	*16*	*4*	*28*	*67*
• *Net interest cost*	*2*	*6*	*5*	*1*	*14*
• *Other*	*(10)*	*(1)*	*3*	*(1)*	*(9)*
NET PROVISIONS AT DECEMBER 31, 2022	**154**	**440**	**103**	**78**	**775**
Actuarial gains and losses recognized in other comprehensive income	5	62	—	9	76
Amounts utilized during the year	(20)	(28)	(9)	(32)	(89)
Translation adjustment	—	(2)	(4)	(7)	(13)
Reclassifications	—	—	—	4	4
Expenses (income) for the year:	17	35	17	31	100
• *Service cost*	*14*	*17*	*5*	*27*	*63*
• *Net interest cost*	*6*	*15*	*7*	*2*	*30*
• *Other*	*(3)*	*3*	*5*	*2*	*7*
NET PROVISIONS AT DECEMBER 31, 2023	**156**	**507**	**107**	**83**	**853**
Of which current portion (less than one year)	22	27	13	17	79

(1) Benefit obligations relating to the Mirror business were reclassified within liabilities held for sale at December 31, 2022.

An expense of 100 million euros was recognized in 2023 in respect of pensions and other employee benefits (up compared to 2022), of which 69 million euros was included in operating margin, 30 million euros in other financial income and expenses and income of 1 million euros in other income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2023 and 2022 is shown in the tables below:

2023

(in millions of euros)	France	Other European countries(1)	North America	Asia(1)	Total
Cash at bank	—	1	6	36	43
Shares	18	8	122	27	175
Government bonds	—	51	131	65	247
Corporate bonds	—	35	50	30	115
Real estate	—	—	—	1	1
Other	—	2	—	6	8
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2023	**18**	**97**	**309**	**165**	**589**

(1) At December 31, 2023, plans in Japan, South Korea and Europe were overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized non-current financial assets for the amount of the surplus, i.e., 45 million euros, as it considers the right to a refund is unconditional for each plan within the meaning of IFRIC 14.

2022

(in millions of euros)	France	Other European countries[(1)]	North America	Asia[(1)]	Total
Cash at bank	—	1	3	59	63
Shares	12	8	131	29	180
Government bonds	—	51	132	65	248
Corporate bonds	—	30	46	12	88
Real estate	—	—	—	1	1
Other	—	2	—	2	4
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2022	**12**	**92**	**312**	**168**	**584**

(1) At December 31, 2022, plans in Japan, South Korea and Europe were overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized non-current financial assets for the amount of the surplus, i.e., 49 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

These assets are managed by specialized asset management companies.

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

Movements in the value of plan assets in 2023 and 2022 can be analyzed as follows:

2023

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2023	**12**	**92**	**312**	**168**	**584**
Expected return on plan assets	1	4	15	4	24
Contributions paid to external funds	6	3	—	14	23
Benefits paid	(1)	(3)	(26)	(11)	(41)
Actuarial gains and losses	—	—	19	6	25
Translation adjustment	—	1	(11)	(15)	(25)
Changes in scope	—	—	—	(5)	(5)
Reclassifications	—	—	—	4	4
PLAN ASSETS AT DECEMBER 31, 2023	**18**	**97**	**309**	**165**	**589**

The increase in the fair value of plan assets in 2023 is chiefly attributable to a good fund performance. The actual return on plan assets in the year represented a gain of 49 million euros.

Contributions totaling 23 million euros were paid to external funds in 2023, down 3 million euros compared to estimates. Contributions are estimated at 10 million euros for 2024.

2022

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2022	**15**	**118**	**415**	**211**	**759**
Expected return on plan assets	—	2	9	2	13
Contributions paid to external funds	10	4	—	14	28
Benefits paid	(12)	(5)	(27)	(43)	(87)
Actuarial gains and losses	(1)	(38)	(112)	(8)	(159)
Translation adjustment	—	(4)	27	(8)	15
Changes in scope	—	15	—	—	15
PLAN ASSETS AT DECEMBER 31, 2022	**12**	**92**	**312**	**168**	**584**

The decrease in the fair value of plan assets in 2022 was chiefly attributable to a weaker fund performance. The actual return on plan assets in the year represented a loss of 146 million euros.

5.3.6 Data for previous years

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

(in millions of euros)	2023	2022	2021	2020	2019
Benefit obligations	1,442	1,359	1,802	1,829	1,933
Financial assets	(589)	(584)	(759)	(716)	(692)
NET BENEFIT OBLIGATIONS	**853**	**775**	**1,043**	**1,113**	**1,241**
Actuarial (losses) gains recognized in other comprehensive income	(76)	249	71	(18)	94

Actuarial losses recognized in other comprehensive income in 2023 reflected:

- 44 million euros in net actuarial losses on changes in financial assumptions, mainly related to the decrease in discount rates in most countries and comprising 69 million euros in actuarial losses on changes in assumptions on obligations and 25 million euros in actuarial gains on the return on plan assets;
- 32 million euros in actuarial losses resulting from experience adjustments.

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 1-point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2023:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 1-point increase	(14)	(79)	(36)	(18)	(147)
Impact of a 1-point decrease	15	91	37	19	162
Salary inflation rate					
Impact of a 1-point increase	15	1	2	8	26
Impact of a 1-point decrease	(12)	(1)	(3)	(7)	(23)

At December 31, 2023, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans that have now been frozen and that only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2023 service cost. A 1-point decrease in the discount rate would have led to an additional expense of 5 million euros, while a 1-point increase in the discount rate would have reduced the expense by 5 million euros.

5.3.8 Estimated payouts over the next ten years

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

(in millions of euros)	France	Other European countries	North America	Asia	Total
2024	18	24	11	5	58
2025	10	22	11	7	50
2026	12	24	11	8	55
2027	9	25	11	10	55
2028	15	27	12	8	62
2029/2033	101	141	60	38	340
TOTAL	**165**	**263**	**116**	**76**	**620**

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 when the shares are subject to post-vesting transfer restrictions.

The overall cost of equity-settled plans is calculated and fixed at the grant date of the plan concerned. The number of instruments that Valeo expects to remit to beneficiaries factors in the turnover of the beneficiary populations concerned by each plan.

Since the final allotment of free shares is subject to a presence condition, this personnel expense is recognized against equity on a straight-line basis over the vesting period of the rights. The Group periodically reviews the number of free shares to be allotted in light of expectations as regards the achievement of performance conditions. Where appropriate, the consequences of revising the number of free shares are reflected in the statement of income. The number of free shares that may be allotted based on total shareholder return (TSR) is determined on the date on which the plan is approved by the Board of Directors.

Free shares are included in the calculation of diluted earnings per share, as described in Note 10.2.

An expense of 25 million euros was recognized in 2023 in respect of free share plans, compared to an expense of 21 million euros in 2022.

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2023 were as follows:

Year in which plan was set up	Number of free shares authorized	*of which subject to conditions*(1)	December 31, 2023	Year of vesting(2)
2019	1,699,281	*779,496*	241,811	2022/2024
2020	2,342,306	*1,134,116*	259,786	2023/2025
2021	2,070,829	*904,339*	1,478,912	2024/2026
2022	2,308,057	*1,143,042*	2,153,694	2025/2027
2023	2,794,057	*1,295,347*	2,749,714	2026
TOTAL	**11,214,530**	***5,256,340***	**6,883,917**	

(1) These free shares are subject to the Group meeting performance conditions over the three years following their allotment.
(2) For the 2019 to 2021 plans, only free shares allotted to the former Chairman of the Board of Directors and to the Chief Executive Officer are subject to a two-year holding period. As from the 2022 plan, this holding period applies to free shares granted to the Chief Executive Officer.

At the date it was set up, the fair value of the 2023 free share plan was measured based on a par value of 16.18 euros per share allocated. This amount was determined based on a share price of 18.52 euros at the date on which the plan was set up and a risk-free interest rate of 3.42%.

5.4.2 Movements in free share plans

Movements in free share plans in 2023 are detailed below:

	Number of free shares
FREE SHARES OUTSTANDING AT JANUARY 1, 2023	**6,208,967**
Free shares granted	2,794,057
Free shares canceled	(409,422)
Free shares remitted	(1,716,360)
Free shares – Changes related to performance conditions	6,675
FREE SHARES OUTSTANDING AT DECEMBER 31, 2023	**6,883,917**

5.4.3 Employee share ownership plan: Shares4U

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers eligible employees the opportunity to become shareholders through an employee share issue carried out specifically for this purpose.

As has been the case since 2016, a new standard plan was offered to employees during second-half 2023, under which Valeo shares could be subscribed to directly or through a Company mutual fund, at a subscription price set by the Group's Chief Executive Officer acting on the authority of the Board of Directors on September 15, 2023. The subscription price of 14.24 euros corresponds to the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law).

Employees bear the risk of fluctuations in the share price relative to the subscription price.

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

In all, 1,131,560 shares were subscribed at a price of 14.24 euros each, representing a 16 million euro capital increase on November 15, 2023 (see Note 10.1).

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

	2023	2022
Date rights granted	October 6	October 7
Reference price *(in euros)*	17.80	18.96
Face value discount *(in %)*	20	20
Subscription price *(in euros)*	14.24	15.17
Beneficiary's 5-year interest rate *(in %)*	N/A	6.00
Risk-free interest rate *(in %)*	3.40	3.10
Credit spread for "A-"-rated financial institution *(in %)*	0.90	N/A
Repo rate *(in %)*	0.57	0.80

The total cost of the Shares4U 2023 plan was 12 million euros, of which 5 million euros was recognized in personnel expenses for 2023 (including social security charges).

5.5 Executive compensation (related party transactions)

The Group's key management personnel include the Chairman of the Board of Directors, the Chief Executive Officer, the members of the Board of Directors (corporate officers) and the members of the Operations Committee. At December 31, 2023, the Operations Committee had 14 members (including the Chief Executive Officer).

Corporate officer compensation is presented in Chapter 3 of the 2023 Universal Registration Document, "Corporate Governance".

Expenses linked to compensation and other benefits accruing to the corporate officers and to the members of the Operations Committee in respect of their duties in the Group can be analyzed as follows:

(in millions of euros)	2023	2022
SHORT-TERM BENEFITS		
• Fixed, variable, exceptional and other compensation	14	14
• Director's compensation(1)	1	1
OTHER BENEFITS		
• Post-employment benefits(2)	2	(2)
• Share-based compensation	4	2

(1) *Executive corporate officers do not receive any compensation for their position as directors of Valeo SE.*
(2) *At December 31, 2023, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amounted to 10 million euros, as in 2022.*

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. In 2023, impairment tests were carried out as described in Note 6.4.

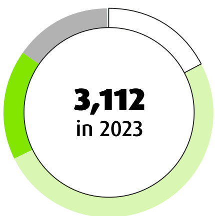
Changes in goodwill in 2023 and 2022 are analyzed below:

(in millions of euros)	2023	2022
NET CARRYING AMOUNT AT JANUARY 1	**3,245**	**2,552**
Acquisitions during the year	—	697
Disposal during the year	(13)	—
Translation adjustment	(63)	(1)
Other	(57)	(3)
NET CARRYING AMOUNT AT DECEMBER 31	**3,112**	**3,245**
Including accumulated impairment losses at December 31	—	—

The decrease in goodwill in 2023 is due to (i) the reclassification of goodwill allocated to the Thermal Commercial Vehicles Product Group to assets held for sale in an amount of 59 million euros (see Note 2.2.2.1) and (ii) currency effects. These translation adjustments represent a loss of 63 million euros, including 26 million euros arising on the depreciation of the Japanese yen and 15 million euros on the depreciation of the South Korean won between December 31, 2022 and December 31, 2023.

The increase in goodwill in 2022 was mainly due to the takeover of Valeo eAutomotive and Kuantic.

Goodwill can be broken down by Business Group as follows:



(in millions of euros)		December 31, 2023	December 31, 2022
17%	Comfort & Driving Assistance Systems	544	571
50%	Powertrain Systems	1,571	1,585
17%	Thermal Systems	522	599
15%	Visibility Systems	469	484
1%	Other	6	6
	GOODWILL	**3,112**	**3,245**

6.2 Other intangible assets

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

Capitalized development expenditure recognized within other intangible assets in the statement of financial position corresponds 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 series production are considered production costs.

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

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

Other intangible assets can be analyzed as follows:

(in millions of euros)	December 31, 2023 Gross carrying amount	December 31, 2023 Amortization and impairment losses	December 31, 2023 Net carrying amount	December 31, 2022 Net carrying amount
Software	483	(422)	61	52
Patents and licenses	556	(259)	297	288
Capitalized development expenditure	6,042	(3,625)	2,417	2,008
Customer relationships and other intangible assets	659	(377)	282	426
OTHER INTANGIBLE ASSETS	**7,740**	**(4,683)**	**3,057**	**2,774**

Changes in intangible assets in 2023 and 2022 are analyzed below:

2023

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2023(1)	**485**	**554**	**5,303**	**756**	**7,098**
Accumulated amortization and impairment	(433)	(206)	(3,295)	(392)	(4,326)
NET CARRYING AMOUNT AT JANUARY 1, 2023	**52**	**348**	**2,008**	**364**	**2,772**
Acquisitions	33	1	995	2	1,031
Reversals of/(additions to) impairment	—	(2)	16	(9)	5
Amortization	(27)	(47)	(554)	(44)	(672)
Translation adjustment	—	(3)	(36)	(15)	(54)
Reclassifications(2)	3	—	(12)	(16)	(25)
NET CARRYING AMOUNT AT DECEMBER 31, 2023	**61**	**297**	**2,417**	**282**	**3,057**

(1) For 2023, the opening gross carrying amounts of the "Patents and licenses" and "Customer relationships and other intangible assets" items have been modified compared to those shown for December 31, 2022 in the 2022 consolidated financial statements published in February 2023 in order to reflect the final purchase price allocation for Valeo eAutomotive (see Note 2.2.1.1).

(2) The "Reclassifications" line mainly includes the assets of the Thermal Commercial Vehicles business reclassified as assets held for sale at December 31, 2023 (see Note 2.2.2.1).

2022

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2022	**438**	**246**	**4,708**	**656**	**6,048**
Accumulated amortization and impairment	(392)	(172)	(2,775)	(342)	(3,681)
NET CARRYING AMOUNT AT JANUARY 1, 2022	**46**	**74**	**1,933**	**314**	**2,367**
Acquisitions	20	4	657	10	691
Disposals	—	—	(2)	—	(2)
Changes in scope	8	243	1	169	421
Reversals of/(additions to) impairment	—	—	27	—	27
Amortization	(26)	(34)	(614)	(54)	(728)
Translation adjustment	—	1	6	(9)	(2)
Reclassifications	4	—	—	(4)	—
NET CARRYING AMOUNT AT DECEMBER 31, 2022	**52**	**288**	**2,008**	**426**	**2,774**

6.3 Property, plant and equipment

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

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

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

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

Depreciation method and useful life

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

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

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

Tooling

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

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

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

Tax credits

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

Property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2023			December 31, 2022
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	309	(22)	287	306
Buildings	2,752	(1,682)	1,070	1,149
Machinery and industrial equipment	10,210	(7,163)	3,047	3,235
Specific tooling	2,617	(2,221)	396	372
Other property, plant and equipment	839	(599)	240	221
Property, plant and equipment in progress	27	(2)	25	26
PROPERTY, PLANT AND EQUIPMENT	**16,754**	**(11,689)**	**5,065**	**5,309**

Certain items of property, plant and equipment were pledged as security at December 31, 2023 (see Note 6.5.2).

Changes in property, plant and equipment in 2023 and 2022 are analyzed below:

2023

(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, 2023	**329**	**2,740**	**10,122**	**2,573**	**835**	**26**	**16,625**
Accumulated depreciation and impairment	(23)	(1,591)	(6,887)	(2,201)	(614)	—	(11,316)
NET CARRYING AMOUNT AT JANUARY 1, 2023	**306**	**1,149**	**3,235**	**372**	**221**	**26**	**5,309**
Acquisitions	12	177	697	165	126	5	1,182
Disposals	(5)	(15)	(22)	(4)	(3)	(1)	(50)
Changes in scope	10	—	(2)	—	(2)	—	6
Reversals of/(additions to) impairment	(1)	(19)	(76)	4	(1)	—	(93)
Depreciation	(2)	(179)	(692)	(169)	(77)	—	(1,119)
Translation adjustment	(15)	(30)	(78)	(9)	5	(1)	(128)
Reclassifications(1)	(18)	(13)	(15)	37	(29)	(4)	(42)
NET CARRYING AMOUNT AT DECEMBER 31, 2023	**287**	**1,070**	**3,047**	**396**	**240**	**25**	**5,065**

(1) The "Reclassifications" line mainly includes the assets of the Thermal Commercial Vehicles business reclassified as assets held for sale at December 31, 2023 (see Note 2.2.2.1).

2022

(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, 2022	**331**	**2,519**	**9,120**	**2,424**	**779**	**26**	**15,199**
Accumulated depreciation and impairment	(20)	(1,443)	(6,151)	(2,050)	(573)	—	(10,237)
NET CARRYING AMOUNT AT JANUARY 1, 2022	**311**	**1,076**	**2,969**	**374**	**206**	**26**	**4,962**
Acquisitions	5	121	624	139	105	7	1,001
Disposals	(1)	(11)	(14)	(4)	(5)	(1)	(36)
Changes in scope	2	148	319	10	13	2	494
Reversals of/(additions to) impairment	(1)	(10)	(12)	—	(1)	—	(24)
Depreciation	(3)	(173)	(650)	(195)	(69)	—	(1,090)
Translation adjustment	(7)	(3)	23	—	—	(1)	12
Reclassifications	—	1	(24)	48	(28)	(7)	(10)
NET CARRYING AMOUNT AT DECEMBER 31, 2022	**306**	**1,149**	**3,235**	**372**	**221**	**26**	**5,309**

Leases

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

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

Lease liabilities

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

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

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

The discount rates are determined based on the Group's incremental borrowing rate, plus a margin to reflect the economic conditions in each country, the currency, and the lease term.

Right-of-use assets

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

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

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

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

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

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

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

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

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

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

	RIGHT-OF-USE ASSETS					
(in millions of euros)	**Land**	**Buildings**	**Machinery and industrial equipment**	**Specific tooling**	**Other property, plant and equipment**	**Total**
GROSS CARRYING AMOUNT AT JANUARY 1, 2023	**22**	**685**	**94**	**17**	**111**	**929**
Accumulated depreciation and impairment	(7)	(232)	(38)	(17)	(53)	(347)
NET CARRYING AMOUNT AT JANUARY 1, 2023	**15**	**453**	**56**	**—**	**58**	**582**
New contracts/Renewals/ Modifications	—	70	16	—	31	117
Depreciation	(1)	(89)	(12)	—	(26)	(128)
Reversals of/(additions to) impairment	—	(6)	—	—	—	(6)
Changes in scope	—	(1)	—	—	—	(1)
Translation adjustment	(1)	(10)	(2)	—	(1)	(14)
Reclassifications[(1)]	—	(12)	—	—	(2)	(14)
NET CARRYING AMOUNT AT DECEMBER 31, 2023	**13**	**405**	**58**	**—**	**60**	**536**

(1) The “Reclassifications” line mainly includes the assets of the Thermal Commercial Vehicles business reclassified as assets held for sale at December 31, 2023 (see Note 2.2.2.1).

In 2023, the expenses recorded with respect to payments on leases excluded from the scope of IFRS 16 and any variable payments amounted to 55 million euros.

6.4 Impairment of fixed assets

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

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group’s organizational structure, CGUs generally correspond to groups of plants belonging to the same Product Line or Product Group. At December 31, 2023, there was a total of 20 CGUs.

CGUs represent the level at which all intangible assets and property, plant and equipment 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 intangible assets and property, plant and equipment. Valeo may review the value in use of certain assets and recognize non-recurring impairment losses where appropriate, if significant, prolonged adverse factors arise for the Group such as a deterioration in a country’s economic environment or in one of the Group’s plants, or contractual disputes.

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

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

Impairment tests

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

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

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

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

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

- post-tax cash flow projections covering a period of five years, prepared on the basis of 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 business 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.

In certain circumstances in which this method is not appropriate for determining the value in use of a CGU or item of goodwill, cash flow projections beyond a five-year period may be used. This may be the case for fast-growing markets that will not have reached maturity at the end of the business plan period, as well as for activities that have a finite timeframe. When this method is applied, business plan projections beyond five years are based on the most reliable market data available.

Leases falling within the scope of IFRS 16 – "Leases" are accounted for as follows:

- capital employed tested for impairment includes right-of-use assets;
- the recoverable amount is calculated using post-tax cash flows, which include investment flows resulting from setting up new leases;
- post-tax WACC is determined taking into account lease liabilities.

Impairment losses recognized for goodwill cannot be reversed.

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

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order intake and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2022 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 10.0%, calculated using the discount rate method reviewed by an independent expert, which is the same as that used in 2022. The main components of WACC are a market risk premium, a risk-free rate corresponding to the average yield on long-term government bonds, and beta calculated based on a sample of companies in the industry, which came out at 0.97 (1.05 in 2022). The rise in interest rates observed in 2023 was offset by a fall in the market risk premium over the same period.

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 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

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

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country, model and powertrain, taking into account expected product developments in the CGU's official and potential order intake. Valeo is committed to addressing the challenges currently shaping the automotive industry, with the aim of meeting the expectations of consumers and international regulators in terms of reducing CO_2 emissions, implementing ADAS, and increasing the use of interior and exterior lighting. The medium-term business plan is based on the assumption that the share of electrification and ADAS solutions in the Group's sales will increase throughout the term of the plan.

The medium-term business plans for 2024-2028 are underpinned by the following assumptions:

- global automotive production of 88.3 million light vehicles in 2024 and 95.2 million light vehicles in 2028, representing average annual growth of 0.7% for 2023-2026 and 1.7% for 2026-2028. This production assumption is consistent with those underlying several independent external forecasts and has been revised upwards slightly compared with the forecasts used in 2022 for the 2023-2027 medium-term business plan. At the end of the period covered by the new business plan, Asia and the Middle East should represent 59% of global production, Europe and Africa 20%, North America 17% and South America 4%;
- a growing share of electrification solutions in the Group's market and sales forecasts over the term of the medium-term business plan;
- inflation assumptions based on (i) forecasts by a panel of banks and the International Monetary Fund for general price inflation, and (ii) on internal estimates of market prices for raw materials, electronic components, energy and transportation; The medium-term business plan was prepared on the assumption that (i) raw materials, electronic components and transportation costs will remain high, with a moderate increase over the period 2024-2028, (ii) inflation in labor and energy costs will be high, and (iii) compensation will be obtained from customers for the increase in the cost of sales;
- exchange rate assumptions based on projections of a panel of banks at the time the business plan is drawn up. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.12 US dollars, 7.45 Chinese renminbi, 140 Japanese yen, 1,366 South Korean won and 5.77 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. The order book at December 31, 2023 already represents 69% of cumulative original equipment sales for the next five years, and around 51% of sales for the final year of the plan.

6.4.2 Intangible assets and property, plant and equipment (excluding goodwill)

The Group carries out impairment tests on CGUs that (i) have been written down in previous periods and remain sensitive to the criteria set out in Note 6.4.3, and (ii) present an indication of impairment.

The main impairment indicators used by the Group as the basis for impairment tests of CGUs are a negative operating margin for 2023, a fall of more than 20% in 2023 sales compared to 2022, and a recurring substantial shortfall with respect to the objectives set in the medium-term business plans. Any CGUs experiencing strong growth and whose value in use was significantly above their capital employed were excluded from the scope of the impairment tests.

Based on the above, seven CGUs were tested for impairment at December 31, 2023:

- the Valeo Telematics & Acoustics Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Switches & Smart Controls Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Top Column Module Product Line, which has formed a separate CGU since 2019, when the Group decided to withdraw from this business;
- the Thermal Powertrain Product Group (part of the Thermal Systems Business Group);
- the Thermal Front End Product Group (part of the Thermal Systems Business Group);
- the Thermal Climate Control Product Group (part of the Thermal Systems Business Group);
- the Special Products – Lighting Systems Product Line (part of the Visibility Systems Business Group).

In 2023, following the impairment tests performed on the CGUs, an impairment loss of 20 million euros was recognized against the Top Column Module Product Line CGU in other income and expenses (see Note 4.6.2.4), in addition to the 41 million euro impairment loss recognized in 2020.

6.4.3 Sensitivity of CGU impairment tests

Changes in the following assumptions were used to determine the sensitivity of CGU impairment tests assuming an infinite time period (Valeo Telematics & Acoustics Product Line, Switches and Smart Controls Product Line, Thermal Powertrain Product Group, Thermal Front-End Product Group, Thermal Climate Control Product Group and Special Products – Lighting Systems Product Line):

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

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

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on 2023 assumptions	WACC of 11% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	1-pt decrease in the rate of operating income used to calculate the terminal value	Combination of all three factors
Valeo Telematics & Acoustics Product Line CGU	53	(40)	(13)	(40)	(83)
Switches & Smart Controls Product Line CGU	382	(76)	(29)	(61)	(148)
Thermal Climate Control Product Group CGU	973	(147)	(62)	(126)	(297)
Thermal Front End Product Group CGU	123	(26)	(11)	(30)	(59)
Thermal Climate Control Product Group CGU	905	(119)	(50)	(124)	(259)
Special Products – Lighting Systems Product Line CGU	423	(63)	(28)	(55)	(131)

Since the impairment test on the Top Column Module Product Line CGU assumes a finite time period, its sensitivity to changes in the following assumptions was verified:

- 1-point increase in the discount rate;
- 5% fall in sales for each year of the plan;
- 0.5-point decrease in the materials consumption rate for each year of the plan.

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on 2023 assumptions	WACC of 11% (+1 pt)	5% fall in sales for each year	0.5-pt decrease in the materials consumption rate	Combination of all three factors
Top Column Module Product Line CGU	—	—	—	(2)	(3)

6.4.4 Goodwill

No impairment losses were recognized against goodwill in 2023 as a result of the impairment tests carried out at the level of the Business Groups in line with the methodology described above. This was also the case in 2022.

6.4.5 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 also 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;
- 1-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 headroom, are presented by Business Group in the table below:

(in millions of euros)	Headroom of the test	Impact on the headroom of the test			
	Based on 2023 assumptions	WACC of 11% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	1-pt decrease in the rate of operating income used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,277	(471)	(206)	(474)	(1,017)
Powertrain Systems Business Group	3,463	(720)	(310)	(611)	(1,460)
Thermal Systems Business Group	960	(252)	(111)	(306)	(588)
Visibility Systems Business Group	3,322	(554)	(252)	(504)	(1,162)

6.4.6 Sensitivity of impairment tests to the impacts of climate change

Climate change could have various impacts on the value of Valeo's assets. The Group's consideration of physical risks when measuring its assets is described in Note 1.3.

The main transition risk facing the automotive industry results from the gradual shift to electric mobility. The Group has long prepared for this profound transformation of its industry and this is reflected in its medium-term business plan, which is used as the basis for its impairment tests on non-current assets.

As part of impairment testing of CGUs and goodwill, an impairment test simulation was carried out based on a pessimistic scenario. For those businesses most affected by electrification, this scenario assumes a rapid, sharp decline in sales of internal combustion engine vehicles worldwide coupled with much slower than expected growth in sales of products for electric vehicles due to an unfavorable customer mix and a smaller addressable market for automotive suppliers.

When testing the Powertrain Systems Business Group for impairment, this scenario simulated:

- a 10% drop in sales compared with the forecasts in the Business Group's medium-term plan, leading to a 1% reduction in the percent operating margin;
- a perpetuity growth rate of zero beyond the projected cash flow in the last year of the plan.

In this very pessimistic simulation, an impairment loss would not have been recognized. The headroom of the impairment test on the Powertrain Systems Business Group would fall by around 60%.

On the other hand, using an optimistic scenario, a sharper and faster decline in worldwide sales of internal combustion engine vehicles and an acceleration in electrification could also lead to higher sales and profitability growth than is currently expected by Valeo for the Powertrain Systems Business Group.

Thermal management equipment is being adapted to meet the specific requirements of electrically powered vehicles, in particular to guarantee their efficiency. However, some thermal management components and processes are common to both internal combustion and electric vehicles. In addition, no risk of the value chain transferring from automotive suppliers to automakers is identified in this market. As a result, the value in use of the Thermal Systems Business Group is less sensitive to the electrification of mobility.

6.4.7 Impairment of Brazilian assets

In the 2020 consolidated statement of income, the Group recognized a 49 million euro impairment loss against its Brazilian assets, within other income and expenses. Since then, the Group has undertaken a range of actions that have enabled its Brazilian operations to return to profitability. As a result of the improvement in the profitability outlook, as highlighted by the 2023 results in Brazil, the Group has revised the recoverable amount of its assets there. This resulted in a 17 million euro reversal of the impairment loss recognized in 2020, thereby increasing the carrying amount of the assets to the value that would have been determined (net of the amortization and depreciation that would have been recorded) had no impairment loss been recognized. The reversal was recognized in other income and expenses in the consolidated statement of income (see Note 4.6.2.4).

6.5 Off-balance sheet commitments relating to leases and investments

Binding asset purchase commitments, including those on leases signed but not yet commenced, are up compared with December 31, 2022, mainly reflecting the rise in investment efforts to fulfill the sharp increase in order intake over the past two years.

6.5.1 Leases

At December 31, 2023, future minimum commitments on outstanding leases excluded from the scope of IFRS 16 and on leases signed but not yet in force are as follows:

(in millions of euros)	December 31, 2023	December 31, 2022
Less than 1 year	35	18
1 to 5 years	97	4
More than 5 years	30	—
TOTAL	**162**	**22**

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 910 million euros at December 31, 2023, versus 620 million euros at December 31, 2022, as well as other commitments relating to operating activities in the amount of 7 million euros.

At December 31, 2023, no Group assets were pledged. At December 31, 2022, the total amount pledged was 7 million euros.

NOTE 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES

7.1 Other provisions

A provision is recognized when:

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

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

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

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

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

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

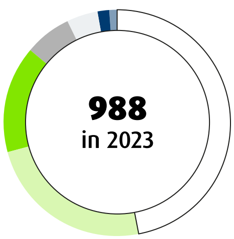
When the Group expects all or part of the expenditure required to settle a provision to be reimbursed, it recognizes a receivable, if and only if the reimbursement is virtually certain.

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 other provisions in 2023 are shown in the table below:

(in millions of euros)	Provisions for product warranties	Provisions for onerous contracts	Provisions for restructuring costs	Other provisions for contingencies and disputes	Total
PROVISIONS AT JANUARY 1, 2023	**460**	**329**	**51**	**336**	**1,176**
Additions	236	46	45	94	421
Amounts utilized during the year	(166)	(68)	(26)	(68)	(328)
Reversals	(47)	(68)	(2)	(139)	(256)
Changes in scope	(3)	—	—	(1)	(4)
Reclassifications	(6)	—	—	—	(6)
Translation adjustment	(9)	(3)	—	(3)	(15)
PROVISIONS AT DECEMBER 31, 2023	**465**	**236**	**68**	**219**	**988**
Of which current portion (less than one year)	257	99	36	110	502

At December 31, 2023 and 2022, provisions break down as follows:



(in millions of euros)		December 31, 2023	December 31, 2022
47%	Provisions for product warranties	465	460
24%	Provisions for onerous contracts	236	329
15%	Provisions for employee-related and other disputes	150	110
7%	Provisions for restructuring costs	68	51
4%	Provisions for unfavorable contracts[(1)]	42	186
2%	Provisions for tax-related disputes	18	25
1%	Provisions for environmental risks	9	15
	TOTAL OTHER PROVISIONS	**988**	**1,176**

(1) Provisions for unfavorable contracts recognized as part of the allocation of the purchase price of Valeo eAutomotive (see Note 2.2.1.1).

Provisions for product warranties are set aside to cover the estimated cost of returns of goods sold, either as a result of contractual warranty obligations or arising in specific situations not covered by standard warranties. At December 31, 2023, the Group recognized material accrued income that will offset expected outflows of resources in respect of product warranties.

Expected future losses on customer contracts fell in 2023, leading to a reduction in provisions for onerous contracts. This is due in particular to a decrease in the volumes remaining to be delivered on the contracts as they are executed, which accounted for 68 million euros in provision utilizations during the year. Provisions reversals also amounted to 68 million euros, mainly attributable to higher sales prices and other compensation obtained from customers, as well as the impact of cost reduction measures. These reversals were partially offset by additions to provisions of 46 million euros.

Provisions for employee-related and other disputes, which totaled 150 million euros at December 31, 2023, 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. Each known dispute was reviewed at the date on which the consolidated financial statements were authorized for issue. Based on the advice of the Group's legal counsels, where appropriate, the provisions deemed necessary were set aside to cover the estimated outflows of resources. The 40 million euro increase in these provisions over the year was mainly due to amounts set aside in respect of commercial disputes.

The increase in provisions for restructuring costs is due to the announcement of new restructuring plans, mainly in Europe (see Note 4.6.2.3).

Provisions for unfavorable contracts had been accrued in connection with the takeover of the Valeo Siemens eAutomotive joint venture in July 2022. The amounts accrued have been reviewed in light of negotiations with customers.

7.2 Antitrust investigations

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

In the United States, the Department of Justice and Valeo's Japanese subsidiary, Valeo Japan Co. Ltd, reached a settlement of the Department of Justice's investigation into conduct involving thermal systems products on September 20, 2013, as part of which Valeo Japan Co. Ltd agreed to pay a fine of 13.6 million US dollars. This settlement agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations. Separately, the Department of Justice investigated conduct involving access mechanism products, but granted Valeo immunity and so did not fine Valeo for this conduct.

Following on from the agreements signed with the Department of Justice, Valeo reached settlement agreements putting an end to all class action and prospective class action lawsuits with car dealers, direct purchasers and/or automotive end-payers.

Class actions filed against Valeo Group companies in British Columbia, Quebec and Ontario in Canada were settled with the plaintiffs in 2023, pending approval by the competent court.

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

Valeo terminated a certain number of claims for damages and interest from automakers resulting from the European Commission's proceedings, and remains in contact with others. An automaker's claim before a UK court was still pending at December 31, 2023. Valeo considers that this claim is unfounded and that the amounts being requested are disproportionate.

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

7.3 Contingent liabilities

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

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

The Group has contingent liabilities relating to legal, arbitration or regulatory proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving Valeo or its subsidiaries were reviewed at the date on which the consolidated financial statements were authorized for issue. Based on the advice of legal counsels, all provisions deemed necessary have been made to cover the related risks.

7.4 Subsequent events

In January 2024, the Group presented its plan to reorganize the operations of the Powertrain Systems and Thermal Systems Business Groups and the resulting impact on jobs to the European Works Council. The aim of this project is to create a new Business Group focused on electrification technologies and the overhaul of conventional technologies for internal combustion engines. The reorganization will take place in the first half of 2024 and will entail the loss of 1,150 jobs around the world, including 735 in Europe. As the employee representative bodies were informed of this project in January 2024, no provision was recognized in the Group's financial statements at December 31, 2023 in respect of the reorganization.

NOTE 8 FINANCING AND FINANCIAL INSTRUMENTS

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term financing and bank overdrafts, which make up gross debt (see Note 8.1.2);
- long-term loans and receivables (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 measurement of financial assets and liabilities

8.1.1.1 Measurement methods

	2023 carrying amount under IFRS 9			December 31, 2023	December 31, 2022
(in millions of euros)	Amortized cost	Fair value through OCI	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
• Long-term investments	—	29	292	321	366
• Long-term loans and receivables (including accrued interest)	—	—	—	—	3
• Deposits and guarantees	33	—	—	33	33
• Other non-current financial assets	7	—	—	7	7
• Hedging derivatives	—	29	—	29	73
• Trading derivatives	—	—	2	2	1
Assets relating to pensions and other employee benefits	—	45	—	45	49
Accounts and notes receivable	2,734	—	—	2,734	2,759
Other current financial assets:					
• Hedging derivatives	—	80	—	80	44
• Trading derivatives	—	—	32	32	41
• Accrued interest and other current financial assets	—	—	26	26	11
Cash and cash equivalents	—	—	3,025	3,025	3,329
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	—	—	—	—	25
• Trading derivatives	—	—	1	1	10
Bonds	3,936	—	—	3,936	3,807
Schuldschein loans (German private placements)	552	—	—	552	887
European Investment Bank (EIB) loan	587	—	—	587	582
Bilateral bank loans	250	—	—	250	100
Other long-term debt	689	—	—	689	727
Liabilities associated with put options granted to holders of non-controlling interests	—	—	—	—	12
Accounts and notes payable	5,449	—	—	5,449	5,586
Other current financial liabilities:					
• Hedging derivatives	—	8	—	8	14
• Trading derivatives	—	—	51	51	28
Short-term financing	922	—	—	922	1,162
Bank overdrafts	—	—	135	135	77

8.1.1.2 Fair value estimates

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

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

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

For the *Schuldschein* private placements, the European Investment Bank (EIB) loans and the bilateral bank loans, fair value is measured by discounting future cash flows at the market interest rate at the reporting date. This method corresponds to Level 2 in the fair value hierarchy.

Since they fall due in the short term, the fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is deemed equal to their carrying amount.

(in millions of euros)	December 31, 2023			December 31, 2022		
	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	3,025	3,025	1	3,329	3,329	1-2
Derivative financial instruments[(1)]	143	143	2	159	159	2
LIABILITIES						
Bonds	3,936	3,899	1	3,807	3,694	1
Schuldschein loans (German private placements)	552	562	2	887	870	2
European Investment Bank (EIB) loan	587	548	2	582	491	2
Bilateral bank loans	250	251	2	100	92	2
Other long-term debt	689	689	2	727	727	2
LOANS RECOGNIZED AT AMORTIZED COST	**6,014**	**5,949**		**6,103**	**5,874**	
Short-term financing	922	922	2	1,162	1,162	1-2
Bank overdrafts	135	135	1	77	77	1
Derivative financial instruments	60	60	2	77	77	2
Put options granted to holders of non-controlling interests	—	—	—	12	12	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.*

IFRS 13 prescribes the methods for assessing fair value and for taking into account the credit risk on derivatives, through:

- a Credit Valuation 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 Valuation Adjustment (DVA), which is a component of the market value of a derivative financial instrument that reflects the entity's own credit risk.

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

At December 31, 2022 and 2023, this has only a minimal impact on the Group.

8.1.2 Gross debt

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

At December 31, 2023, the Group's gross debt can be analyzed as follows:

	December 31, 2023			December 31, 2022		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	5,057	957	6,014	5,074	1,029	6,103
Put options granted to holders of non-controlling interests	—	—	—	7	5	12
Short-term financing	—	922	922	—	1,162	1,162
Bank overdrafts	—	135	135	—	77	77
GROSS DEBT	**5,057**	**2,014**	**7,071**	**5,081**	**2,273**	**7,354**

8.1.2.1 Long-term debt

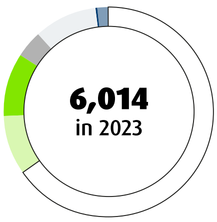
Long-term debt primarily includes bonds, private placements, European Investment Bank (EIB) loans, lease liabilities and other borrowings.

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

When a fixed-rate loan is designated as a hedged item in a fair value hedging relationship, its carrying amount is adjusted at each reporting date to reflect the change in fair value attributable to the hedged risk.

Lease liabilities are measured as described in Note 6.3.

Breakdown of long-term debt



(in millions of euros)		December 31, 2023	December 31, 2022
66%	Bonds	3,936	3,807
9%	*Schuldschein* loans (German private placements)	552	887
10%	European Investment Bank (EIB) loan	587	582
4%	Bilateral bank loans	250	100
10%	Lease liabilities	581	617
0%	Other borrowings	23	45
1%	Accrued interest	85	65
	LONG-TERM DEBT	**6,014**	**6,103**

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	*Schuldschein* loans (German private placements)	European Investment Bank (EIB) loans	Bilateral bank loans	Lease liabilities	Other borrowings	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2023	**3,807**	**887**	**582**	**100**	**617**	**45**	**65**	**6,103**
Increases/Subscriptions	596	—	—	150	—	2	—	748
New contracts/Renewals/ Modifications	—	—	—	—	112	—	—	112
Redemptions/Repayments	(500)	(336)	—	—	(115)	(20)	—	(971)
Changes in scope	—	—	—	—	(1)	(1)	—	(2)
Value adjustments	33	1	5	—	—	(1)	—	38
Translation adjustment	—	—	—	—	(17)	(2)	—	(19)
Other movements	—	—	—	—	(15)	—	20	5
CARRYING AMOUNT AT DECEMBER 31, 2023	**3,936**	**552**	**587**	**250**	**581**	**23**	**85**	**6,014**

The Group completed several financing transactions in 2023:

- in January 2023, the Group redeemed the 500 million euro bond issued in 2017 under the Euro Medium Term Note program;
- in April 2023, the Group redeemed tranches 1 and 2 of the *Schuldschein* loan (German private placement) issued in 2019 for nominal amounts of 115 million euros and 221 million euros, respectively;
- in October 2023, as part of the Euro Medium Term Note financing program, Valeo issued 600 million euros' worth of six-year bonds maturing in April 2029 and paying a fixed coupon of 5.875%. This is the first benchmark issuance under Valeo's Green and Sustainability-Linked Financing Framework, with the funds intended to finance activities satisfying the EU Green Taxonomy. Following this green bond issue, the Group canceled its 650 million euro bridge-to-bond facility that had been available to it since July 2022;
- bilateral bank loans were taken out for a total of 150 million euros.

At December 31, 2023, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at December 31, 2023 *(in millions of euros)*	Issuance	Maturity	Nominal amount outstanding *(in millions of euros)*	Currency	Nominal interest rate
BONDS						
EMTN program	699	January 2014	January 2024	700	EUR	3.25%
EMTN program	599	June 2018	June 2025	600	EUR	1.50%
EMTN program	598	March 2016	March 2026	600	EUR	1.625%
EMTN program(1)	697	July 2021	August 2028	700	EUR	1.00%
EMTN program(1)(2)	747	November 2022	May 2027	750	EUR	5.375%
EMTN program	596	October 2023	April 2029	600	EUR	5.875%
***SCHULDSCHEIN* LOAN ISSUED IN 2019**						
Tranche 3	90	April 2019	April 2025	90	EUR	1.291%
Tranche 4(3)	122	April 2019	April 2025	122	EUR	6-month Euribor + 1.15%
***SCHULDSCHEIN* LOAN ISSUED IN 2022**						
Tranche 1	30	October 2022	October 2025	30	EUR	4.95%
Tranche 2	148	October 2022	October 2025	149	EUR	6-month Euribor + 1.90%
Tranche 3(1)	30	October 2022	October 2027	30	EUR	5.251%
Tranche 4(1)	52	October 2022	October 2027	52	EUR	6-month Euribor + 2.10%
Tranche 5(1)	30	December 2022	October 2027	30	EUR	6-month Euribor + 2.10%
Tranche 6(1)	5	October 2022	October 2029	5	EUR	5.503%
Tranche 7(1)	45	December 2022	October 2029	45	EUR	6-month Euribor + 2.30%
EUROPEAN INVESTMENT BANK (EIB) LOAN						
Tranche 1(4)	296	June 2021	June 2029	300	EUR	0.885%
Tranche 2(5)	291	February 2022	February 2030	300	EUR	1.083%
OTHER						
Lease liabilities	581	—	—	581	—	—
Bilateral bank loans	250	—	—	250	—	—
Other long-term debt(6)	108	—	—	108	—	—
LONG-TERM DEBT	**6,014**					

(1) Indexed to a 2025 carbon footprint objective.
(2) Fixed-rate coupons partly exchanged for floating-rate coupons indexed to six-month Euribor via interest rate swaps with a notional amount of 600 million euros.
(3) Variable-rate coupons exchanged for fixed-rate coupons via interest rate swaps.
(4) Reduced-rate loan repayable in six annual installments of 50 million euros as from June 2024.
(5) Reduced-rate loan repayable in six annual installments of 50 million euros as from February 2025.
(6) Other long-term debt chiefly comprises accrued interest for 85 million euros.

At December 31, 2023, the Group had drawn an amount of 3.95 billion euros (up 100 million euros compared with December 31, 2022) under its Euro Medium Term Note (EMTN) financing program capped at 5 billion euros.

The Group also has confirmed bank credit lines with an average maturity of 2.8 years, representing an aggregate amount of 1.7 billion euros. None of these credit lines had been drawn down at December 31, 2023. These bilateral credit lines were taken out with ten banks with an average rating of A from S&P and A1 from Moody's.

Maturity of long-term debt

(in millions of euros)	Carrying amount	Maturity <1 year	≥1 year and ≤5 years 2025	2026	2027	2028	>5 years 2029 and beyond
Bonds	3,936	699	599	598	747	697	596
Schuldschein loans (German private placements)	552	—	390	—	112	—	50
European Investment Bank (EIB) loan	587	49	98	98	98	98	146
Lease liabilities	581	107	92	74	60	53	195
Bilateral bank loans	250	—	—	100	50	100	—
Other borrowings	23	17	4	1	1	—	—
Accrued interest	85	85	—	—	—	—	—
LONG-TERM DEBT	**6,014**	**957**	**1,183**	**871**	**1,068**	**948**	**987**

Contractual maturity of long-term debt

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile. At December 31, 2023, the average maturity of Valeo's (the parent company) debt was three years, unchanged from end-2022.

The future cash outflows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2023 was used for variable-rate interest.

(in millions of euros)	Carrying amount	Contractual cash flows <1 year	≥1 year and ≤5 years 2025	2026	2027	2028	>5 years 2029 and beyond	Total
Bonds	3,936	806	701	692	833	742	635	4,409
Schuldschein loans (German private placements)	552	26	411	8	120	2	52	619
Bilateral bank loans	250	13	10	109	56	104	—	292
European Investment Bank (EIB) loan	587	56	105	104	103	103	152	623
Lease liabilities	581	128	107	87	72	61	224	679
Other borrowings	23	17	4	1	1	—	—	23
Accrued interest(1)	85	—	—	—	—	—	—	—
LONG-TERM DEBT	**6,014**	**1,046**	**1,338**	**1,001**	**1,185**	**1,012**	**1,063**	**6,645**

(1) Cash flows relating to accrued interest are included in the short-term (i.e., less than one year) contractual cash flows of the debt to which they relate.

Off-balance sheet commitments relating to Group financing

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

Financing agreements	**Ratio**	**Thresholds**	**Ratio at December 31, 2023(1)**
Credit lines European Investment Bank (EIB) loan Bilateral bank loans *Schuldschein* loans (German private placements)	Consolidated net debt/consolidated EBITDA	<3.5	1.5

(1) Calculated over 12 months.

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

The *Schuldschein* loans (German private placements) and the European Investment Bank (EIB) loan also include a change of control clause under which investors can request early repayment.

The credit lines set up by the Group's subsidiaries include early repayment clauses in the event of failure to comply with specified financial ratios. Based on the due diligence performed, the Group believes that the subsidiaries concerned complied with these covenants at December 31, 2023.

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

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

Group credit ratings

The Group is rated by several credit rating agencies. Moody's rating confirms Valeo's investment grade status.

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	July 25, 2023	BB+	Stable	B
Moody's	October 19, 2023	Baa3	Negative	P-3

Subsequent events

On January 22, 2024, Valeo redeemed the 700 million euro bond issued in 2014 under the Euro Medium Term Note (EMTN) financing program.

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

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

This debt is recognized at the present value of the option exercise price. The offsetting entry for the debt associated with these commitments is a decrease in stockholders' equity – non-controlling interests.

The difference between the present value of the exercise price of the options granted and the carrying amount of non-controlling interests is recorded in stockholders' equity as a deduction from consolidated retained earnings.

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

(in millions of euros)	Total	Spheros Climatização do Brasil SA	Asaphus Vision GmbH
LIABILITIES AT JANUARY 1, 2022	**17**	**12**	**5**
Fair value adjustments recognized against non-controlling interests	2	2	—
Fair value adjustments recognized in retained earnings	(7)	(7)	—
LIABILITIES AT DECEMBER 31, 2022	**12**	**7**	**5**
Fair value adjustments recognized against non-controlling interests	3	3	—
Fair value adjustments recognized in retained earnings	6	6	—
Exercise of options(1)	(5)	—	(5)
Reclassifications	(16)	(16)	—
LIABILITIES AT DECEMBER 31, 2023	**—**	**—**	**—**

(1) At December 31, 2023, the payment relating to the exercise of the put option on Asaphus Vision GmbH is recorded within repayment of long-term debt in the consolidated statement of cash flows.

At December 31, 2023, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. Marco Polo has been granted a put option which it may exercise at any time following an agreed period of one year. Following the Group's decision to sell the Thermal Commercial Vehicles Product Group, the fair value of this put option was reclassified to liabilities held for sale in the consolidated statement of financial position.

On December 10, 2021, Valeo acquired a 60% controlling interest in Asaphus Vision GmbH, along with a call option for the remaining 40%. In 2023, Valeo acquired the additional 40% of the company’s share capital.

8.1.2.3 Short-term financing and bank overdrafts

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

In order to reflect the Group’s cash requirements, short-term financing is presented in net cash flows from financing activities in the consolidated statement of cash flows.

(in millions of euros)	December 31, 2023	December 31, 2022
Negotiable European Commercial Paper	698	1,059
Other short-term financing	224	103
Bank overdrafts	135	77
SHORT-TERM FINANCING AND BANK OVERDRAFTS	**1,057**	**1,239**

Valeo has a short-term commercial paper financing program for a maximum amount of 2.5 billion euros. At December 31, 2023, a total of 698 million euros had been drawn on this program, compared with 1,059 million euros at December 31, 2022.

8.1.3 Net debt

Net debt comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests (see Note 8.1.2.2), short-term financing and bank overdrafts (see Note 8.1.2.3), less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items (cf. Note 8.1.4).

	December 31, 2023			December 31, 2022		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	5,057	957	6,014	5,074	1,029	6,103
Put options granted to holders of non-controlling interests	—	—	—	7	5	12
Short-term financing	—	922	922	—	1,162	1,162
Bank overdrafts	—	135	135	—	77	77
GROSS DEBT	**5,057**	**2,014**	**7,071**	**5,081**	**2,273**	**7,354**
Long-term loans and receivables (including accrued interest)	—	—	—	(3)	—	(3)
Accrued interest	—	(26)	(26)	—	(11)	(11)
Cash and cash equivalents	—	(3,025)	(3,025)	—	(3,329)	(3,329)
Derivative instruments associated with interest rate and foreign currency risks(1)	(6)	14	8	11	(20)	(9)
NET DEBT	**5,051**	**(1,023)**	**4,028**	**5,089**	**(1,087)**	**4,002**

(1) At end-December 2023 and end-December 2022, the fair value of derivative instruments associated with an item of net debt reflects the fair value of currency and interest rate instruments hedging assets and liabilities relating to the Group’s financing activities.

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 other 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, 2023	December 31, 2022
Marketable securities	2,286	640
Cash and other liquid resources	739	2,689
CASH AND CASH EQUIVALENTS	**3,025**	**3,329**

Cash and cash equivalents totaled 3,025 million euros at December 31, 2023, consisting of 2,286 million euros of marketable securities with a low price volatility risk, and 739 million euros in cash. Marketable securities consist solely of money market mutual funds (FCP).

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

Short-term liquidity management

Cash is pooled whenever this is permitted by local legislation. In such cases, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company. The Group has set up a cross-border, multi-currency cash pooling arrangement in euros, Hungarian forint and Czech koruna for European subsidiaries, in US dollars for US subsidiaries, and in Chinese renminbi for Chinese subsidiaries. This arrangement enables day-to-day cash to be managed on a centralized basis. In other countries, local cash pooling arrangements exist and loans and borrowings are regularly taken out with the parent company (Valeo). In some countries, these cross-border transactions can give rise to tax issues or may be subject to specific regulations and require approval from the local tax authorities.

The Group also manages liquidity by ensuring that dividends from subsidiaries are transferred to Valeo.

Bank counterparty risk management

The Group invests its surplus liquidity with asset management companies that are subsidiaries of leading banks. Securities are held by leading custodians.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2023	December 31, 2022
Euro	4,046	4,094
US dollar	138	129
Japanese yen	26	48
Brazilian real	(72)	(73)
South Korean won	(134)	(112)
Chinese renminbi	22	(89)
Other currencies	2	5
TOTAL	**4,028**	**4,002**

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 the fair value of the derivatives relating to the effective portion of the hedge are recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses. The amounts recognized in other comprehensive income are recycled to income when the hedged risk itself affects income.

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

Foreign currency derivatives

Although they may act as hedges, foreign currency derivatives hedging balance sheet positions in foreign currencies are not always designated as part of a hedging relationship for accounting purposes. In these cases, changes in the fair value of the derivatives are recognized in financial income and expenses and are generally offset by the impact of remeasuring the underlying foreign currency receivables and payables. However, foreign currency hedges of long-term foreign currency financing are designated as fair value hedges in order to be eligible for the option available under IFRS 9 whereby forward points are amortized (on a straight-line basis over the term of the hedge) and recognized in the statement of income within cost of net debt.

Foreign currency derivatives hedging highly probable future transactions that are generally material and will impact operating margin are classified as hedges. In these cases, changes in the fair value of the derivatives are recognized in other comprehensive income for the effective portion of the hedge, and subsequently taken to operating income when the hedged item itself affects operating income. The ineffective portion of the hedge is recognized in other financial income and expenses.

Commodities

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

Interest rate derivatives

The Group may need to protect itself against fluctuations in cash flows relating to interest payments on variable-rate borrowings. These hedges are eligible for cash flow hedge accounting.

Hedging instruments are measured at fair value and recognized in the statement of financial position. When there is a designated cash flow hedging relationship, changes in the fair value of the 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 in the statement of income. 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.

The Group's operating entities are responsible for identifying and measuring financial risks. However, the Group's Finance Department is responsible for hedging and managing these risks using derivatives on behalf of subsidiaries with risk exposure.

At monthly Treasury Committee meetings, the main risks and exposures are assessed, the required hedges are approved (in accordance with the strategy described below), and the results of these hedges are analyzed.

To reduce its exposure to market risk, the Group uses derivative financial instruments which had the following fair values at December 31, 2023 and 2022:

(in millions of euros)	Accounting classification	Nominal purchase price[1]	Nominal sale price[1]	OCI reserves	Other financial assets		Other financial liabilities		December 31, 2023	December 31, 2022
					Non-current	Current	Non-current	Current	Total	Total
Forward foreign currency contracts	Cash flow hedge	1,006	(291)	92	24	76	—	(7)	93	81
Forward foreign currency contracts	Trading	358	(439)	—	—	3	—	(8)	(5)	(7)
OPERATING FOREIGN CURRENCY DERIVATIVES		**1,364**	**(730)**	**92**	**24**	**79**	**—**	**(15)**	**88**	**74**
Swaps	Trading	1,311	(1,311)	—	2	26	(1)	(35)	(8)	20
Forward foreign currency contracts	Trading	195	(63)	—	—	3	—	(2)	1	—
Cross-currency swaps	Trading	182	(182)	—	—	—	—	(6)	(6)	(8)
FINANCIAL FOREIGN CURRENCY DERIVATIVES		**1,688**	**(1,556)**	**—**	**2**	**29**	**(1)**	**(43)**	**(13)**	**12**
Swaps	Cash flow hedge	192	(3)	3	—	4	—	(1)	3	(1)
COMMODITY DERIVATIVES		**192**	**(3)**	**3**	**—**	**4**	**—**	**(1)**	**3**	**(1)**
Swaps	Cash flow hedge	123	(123)	5	5	—	—	—	5	10
Swaps	Fair value hedge	600	(600)	—	—	—	—	—	—	(15)
Cross-currency swaps	Cash flow hedge	159	(159)	—	—	—	—	—	—	3
Cross-currency swaps	Trading	23	(23)	—	—	—	—	—	—	(1)
INTEREST RATE DERIVATIVES		**905**	**(905)**	**5**	**5**	**—**	**—**	**—**	**5**	**(3)**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS					**31**	**112**	**(1)**	**(59)**	**83**	**82**

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

Bank counterparty risk management

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

8.1.4.1 Fair value of foreign currency derivatives

Operational currency risk management

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

The Group systematically hedges statement of financial position exposures (non-financial foreign currency receivables and payables). Subsidiaries primarily hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties. As the corresponding foreign currency derivatives are not designated as part of a hedging relationship for accounting purposes, they are accounted for as derivatives held for trading.

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

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.

At December 31, 2023, the ineffective portion of these hedges represented an unrealized loss of 1 million euros, compared to a negligible loss at December 31, 2022.

Financial currency risk management

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

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

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

The unrealized loss of 13 million euros mainly concerns currency swaps relating to hedges of intragroup loans and borrowings.

Analysis of the Group's overall net exposure

The Group's overall net exposure (on its balance sheet positions) at December 31, 2023, based on notional amounts, arises on the following main currencies (excluding entities' functional currencies):

	December 31, 2023					December 31, 2022
(in millions of euros)	**USD**	**JPY**	**EUR**	**Other currencies**	**Total**	**Total**
Accounts and notes receivable	362	29	584	34	1,009	809
Other financial assets	199	39	223	1,220	1,681	1,404
Accounts and notes payable	(413)	(62)	(810)	(106)	(1,391)	(1,387)
Long-term debt	(903)	(163)	(178)	(1,463)	(2,707)	(2,064)
GROSS EXPOSURE	**(755)**	**(157)**	**(181)**	**(315)**	**(1,408)**	**(1,238)**
Forward sales	(140)	(87)	(112)	(1,243)	(1,582)	(1,235)
Forward purchases	937	229	186	1,409	2,761	2,164
NET EXPOSURE	**42**	**(15)**	**(107)**	**(149)**	**(229)**	**(309)**

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

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.105 US dollars and 156.33 Japanese yen to 1 euro at December 31, 2023 (1.0666 and 140.66, respectively, at December 31, 2022).

An increase of 10% in the value of the euro against these currencies at December 31, 2023 and 2022 would have had the following pre-tax impacts:

	December 31, 2023		December 31, 2022	
(in millions of euros)	**Income Gain (loss)**	**Equity Gain (loss)**	**Income Gain (loss)**	**Equity Gain (loss)**
Exposure to US dollar	(4)	(35)	5	(62)
Exposure to Japanese yen	2	(3)	(2)	(4)
Exposure to euro	(8)	4	(16)	4
TOTAL	**(10)**	**(34)**	**(13)**	**(62)**

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, 2023 would have had the opposite impacts to the ones shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2023 were used to value foreign currency derivatives.

		Contractual cash flows						
			≥1 year and ≤5 years				>5 years	
(in millions of euros)	Carrying amount	<1 year	2025	2026	2027	2028	2029 and beyond	Total
Forward foreign currency contracts used as hedges:								
• Assets	106	82	14	9	1	—	—	106
• Liabilities	(17)	(17)	—	—	—	—	—	(17)
Currency swaps used as hedges:								
• Assets	28	27	—	1	—	—	—	28
• Liabilities	(42)	(42)	—	—	—	—	—	(42)

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

Commodity risk management

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

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

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price). These transactions are eligible for cash flow hedge accounting within the meaning of IFRS 9.

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

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

Volumes of non-ferrous metals hedged at December 31, 2023 and 2022 break down as follows:

(in tons)	December 31, 2023	December 31, 2022
Aluminum	52,230	41,515
Secondary aluminum	7,642	11,407
Copper	9,457	12,138
TOTAL	**69,329**	**65,060**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 3 million euros relating to existing hedges was recognized in other comprehensive income for 2023.

The unrealized gain of less than 1 million euros recognized in other comprehensive income in 2022 and relating to existing hedges was reclassified in full to operating income in 2023.

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% increase in metal futures prices at December 31, 2023 and 2022:

	December 31, 2023		December 31, 2022	
(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	—	16	—	17

At December 31, 2023, a 10% fall in metal futures prices would have had an unfavorable impact for the same amount.

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, 2023 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	2025	2026	2027	2028	2029 and beyond	Total
Commodity derivatives:								
• Assets	4	4	—	—	—	—	—	4
• Liabilities	(1)	(1)	—	—	—	—	—	(1)

8.1.4.3 Fair value of interest rate derivatives

Interest rate risk management

The Group may use interest rate swaps to convert the contractual interest rates on its debt into either a variable or a fixed rate. Cash and cash equivalents are invested in both fixed- and variable-rate instruments. At December 31, 2023, 79% of long-term debt (i.e., due in more than one year) was at fixed rates, down compared to end-2021.

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

In 2023, a Group subsidiary in Japan converted the 3.7 billion Japanese yen loan granted to one of its Indonesian subsidiaries into Indonesian rupiah. At the same time, the Japanese subsidiary set up two cross-currency swaps in Indonesian rupiah for the same total amount and with the same maturity. These derivatives are not designated as hedging instruments for accounting purposes.

The variable-rate tranche of the *Schuldschein* loan (German private placement) issued in April 2019 was hedged by an interest rate swap, which exchanged the variable coupon for a fixed rate. This instrument was designated as a hedging instrument in a cash flow hedge.

Two interest rate swaps for a total of 600 million euros were put in place in November 2022 to partially hedge the interest on the 750 million euro EMTN financing issued at the same time. These swaps are designated as hedging instruments in a fair value hedge.

	December 31, 2023		December 31, 2022	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
• Loan in Czech koruna[(1)]	159	(6)	159	(7)
• Loan in Indonesian rupiah[(1)]	23	—	29	1
• *Schuldschein* loans (German private placement)	123	5	343	10
• EMTN due 2027	600	—	600	(15)
TOTAL	**905**	**(1)**	**1,131**	**(11)**

(1) The nominal amounts of the cross-currency swaps correspond to the non-exposed foreign currency leg, converted into euros using the December 31, 2023 exchange rates.

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:

2023

	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	2,010	6	3,485	603	950	45	6,445	654	7,099
Loans	—	—	—	—	—	—	—	—	—
Accrued interest	(26)	—	—	—	—	—	(26)	—	(26)
Cash and cash equivalents	(2,671)	(354)	—	—	—	—	(2,671)	(354)	(3,025)
NET POSITION BEFORE HEDGING	**(687)**	**(348)**	**3,485**	**603**	**950**	**45**	**3,748**	**300**	**4,048**
Derivative instruments	—	—	(477)	477	—	—	(477)	477	—
NET POSITION AFTER HEDGING	**(687)**	**(348)**	**3,008**	**1,080**	**950**	**45**	**3,271**	**777**	**4,048**

2022

	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	1,955	331	3,461	454	1,172	45	6,588	830	7,418
Loans	(3)	—	—	—	—	—	(3)	—	(3)
Accrued interest	(11)	—	—	—	—	—	(11)	—	(11)
Cash and cash equivalents	(1,152)	(2,177)	—	—	—	—	(1,152)	(2,177)	(3,329)
NET POSITION BEFORE HEDGING	**789**	**(1,846)**	**3,461**	**454**	**1,172**	**45**	**5,422**	**(1,347)**	**4,075**
Derivative instruments	221	(221)	(477)	477	—	—	(256)	256	—
NET POSITION AFTER HEDGING	**1,010**	**(2,067)**	**2,984**	**931**	**1,172**	**45**	**5,166**	**(1,091)**	**4,075**

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

Analysis of sensitivity to interest rate risk

At December 31, 2023, almost all long-term debt was at fixed rates. Fixed-rate debt carried at amortized cost is not included in the calculation of sensitivity to interest rate risk. The Group's exposure to interest rate risk therefore arises solely on its variable-rate debt.

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

	December 31, 2023		December 31, 2022	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1% rise in interest rates	(8)	—	11	—

At December 31, 2023, a sudden 1% fall in interest rates would have had a favorable impact for the same amount.

8.1.5 Other financial assets and liabilities

Other financial assets and liabilities mainly comprise the following current and non-current items:

- guarantee deposits, valued at amortized cost;
- derivative instruments (see Note 8.1.4);
- long-term investments.

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

Changes in the fair value of investments in non-consolidated companies are recorded in the statement of income, unless the investment is neither held for trading nor contingent consideration is recognized by an acquirer as part of a business combination. In such cases, the Group may make an irrevocable election at initial recognition of each investment to present subsequent changes in fair value in other comprehensive income, and dividend income in the statement of income. Once this election has been made, unrealized gains and losses recognized in other comprehensive income may not subsequently be recycled to the statement of income, even in the event of disposal of the related investment.

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

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

Long-term investments totaled 321 million euros at end-December 2023 and can be analyzed as follows:

(in millions of euros)	**2023**	**2022**
LONG-TERM INVESTMENTS AT JANUARY 1	**366**	**290**
Acquisitions	9	61
Disposals	—	(2)
Changes in fair value recognized in equity	(1)	(4)
Changes in fair value recognized in income	(33)	28
Dividends paid by Company mutual funds	(13)	(7)
Translation adjustment	(7)	—
LONG-TERM INVESTMENTS AT DECEMBER 31	**321**	**366**

They mainly comprise investments in the following companies:

(in millions of euros)	**December 31, 2023**	**December 31, 2022**
Hubei Cathay China	52	66
Hubei Cathay China II	20	20
Sino-French Innovation Fund (Cathay)	80	105
Sino-French Innovation Fund II (Cathay)	31	38
Sino-French Innovation Fund III (Cathay)	29	30
Iris Capital	28	31
Aledia	20	20
Other long-term investments(1)	61	56
LONG-TERM INVESTMENTS AT DECEMBER 31	**321**	**366**

(1) Other investments in investment funds and in companies over which Valeo exercises neither control nor significant influence with an individual value of no more than 20 million euros.

8.1.6 Accounts and notes payable

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

A reverse factoring program is available to Valeo's suppliers worldwide. Under the program, participating suppliers can sell receivables owed to them by Valeo to a financial institution ("factor") before their due date. Relations between the parties are structured based on two separate agreements:

- Valeo's suppliers enter into an agreement with the factor under which they sell to them the amounts owed from Valeo. The decision to sell receivables is entirely at the discretion of the suppliers, who bear the financial cost;
- Valeo enters into an agreement under which it pays the factor for amounts owed under supplier invoices at the date they fall due.

Receivables acquired by the factor through this program are allocated to a syndicate of several financial institutions (four at December 31, 2023), including the factor.

Two local reverse factoring programs are also available to Group suppliers in Japan.

At December 31, 2023, the amount owed to suppliers by Valeo that had been sold to the factor represented 9% of the Group's total accounts and notes payable. Given the characteristics of these programs, the sale of these accounts and notes payable does not change the substance of the liabilities concerned. As such, all amounts included in these programs are presented under accounts and notes payable, whether or not they have been sold.

8.2 Financial income and expenses

Net financial income comprises interest income, interest expense (cost of net debt) and other financial income and expenses.

Cost of net debt

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

Other financial income and expenses

Other financial income and expenses notably include:

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

(in millions of euros)	**2023**	**2022**
Cost of gross debt(1)	(340)	(189)
Interest income on cash and investments	97	58
COST OF NET DEBT	**(243)**	**(131)**
Net interest cost on provisions for pensions and other employee benefits(2)	(30)	(14)
Currency gains (losses)	14	(21)
Gains (losses) on commodity derivatives (ineffective portion)	—	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	2
Gains (losses) on long-term investments held for trading(3)	(33)	28
Other(4)	3	2
OTHER FINANCIAL INCOME AND EXPENSES	**(47)**	**(4)**
NET FINANCIAL INCOME (EXPENSE)	**(290)**	**(135)**

(1) Including, in 2023, finance costs for 7 million euros on undrawn credit lines, interest on lease liabilities for 24 million euros and financial expenses for 20 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research tax credits.
(2) See Note 5.3.4.
(3) See Note 8.1.5.
(4) Of which 4 million euros related to hyperinflation in Turkey.

The cost of net debt stood at 243 million euros at December 31, 2023, an increase of 112 million euros year on year, mainly due to the rise in interest rates, in particular for borrowings set up in the second half of 2022 and in 2023.

NOTE 9 INCOME TAXES

9.1 Income taxes

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

Taxes relating to items reported directly in other comprehensive income are also reported in other comprehensive income and not in the statement of income.

9.1.1 Breakdown of income tax expense

(in millions of euros)	2023	2022
Current taxes	(244)	(247)
Deferred taxes	90	33
INCOME TAXES	**(154)**	**(214)**

The Group recognized an income tax expense of 154 million euros for 2023, corresponding to an effective tax rate of 35.2%.

9.1.2 Tax proof

(in millions of euros)	2023	2022
INCOME BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES(1)	**437**	**571**
Standard tax rate in France	25.83%	25.83%
THEORETICAL INCOME TAX (EXPENSE)/BENEFIT	**(113)**	**(147)**
Impact of:		
• Unrecognized deferred tax assets and unused tax losses (current year)	(153)	(175)
• Recognition of previously unrecognized deferred tax assets	73	28
• Other income tax rates	43	1
• Utilization of prior-year tax losses	23	4
• Permanent differences between accounting income and taxable income	(27)	82
• Tax credits	5	2
• *Cotisation sur la valeur ajoutée des entreprises* (CVAE)	(5)	(9)
GROUP INCOME TAX (EXPENSE)/BENEFIT	**(154)**	**(214)**
Effective tax rate	35.2%	37.5%

(1) At December 31, 2022, this item included the remeasurement at fair value of the Group's previously-held interest in the Valeo Siemens eAutomotive joint venture, accounted for by the equity method up to June 30, 2022, for 181 million euros.

In particular, the tax expense for 2023 takes into account the recognition of deferred tax assets in Brazil for 40 million euros and the Czech Republic for 19 million euros due to the improved probability of recovering tax loss carryforwards in these countries.

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 2023 therefore includes a net expense of 5 million euros in respect of the CVAE tax (9 million euros in 2022).

The favorable 43 million euro impact relating to tax rates that are different from the standard tax rate breaks down as follows:

Country	Current tax rate[(1)]	2023	2022
China	25.0%	19	—
Brazil	34.0%	(6)	(3)
Japan	31.7%	(3)	(2)
Ireland	12.5%	4	—
Poland	19.0%	4	—
Hungary	9.0%	4	(2)
Czech Republic	19.0%	2	(9)
South Korea	24.2%	2	2
Morocco	8.8%	1	(2)
United States	21.0%	6	4
Germany	27.8%	13	6
Other countries	N/A	(3)	7
TOTAL		**43**	**1**

(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.

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 expenditure. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are only recognized to the extent that it appears probable that Valeo will generate future taxable profits against which these tax assets will be able to be recovered. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, where appropriate, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed using the approach deemed most appropriate in light of the entity’s legal and tax organization, tax history and projected taxable earnings outlook.

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

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

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	December 31, 2023	December 31, 2022
Loss carryforwards	1,576	1,498
Capitalized development expenditure	(339)	(286)
Pensions and other employee benefits	178	156
Other provisions	189	294
Inventories	112	102
Provisions for restructuring costs	7	4
Tooling	2	2
Non-current assets	21	(51)
Other	281	203
TOTAL DEFERRED TAXES, GROSS	**2,027**	**1,922**
Unrecognized deferred tax assets	(1,470)	(1,425)
TOTAL DEFERRED TAXES	**557**	**497**
Of which:		
• Deferred tax assets	603	555
• Deferred tax liabilities	(46)	(58)

At December 31, 2023, the main countries for which deferred tax assets were recognized in the statement of financial position for tax loss carryforwards are as follows:

(in millions of euros)	Loss carryforwards	Potential tax saving
United States	223	47
Germany(1)	198	55
Brazil	112	38
Czech Republic	84	16
MAIN COUNTRIES	**617**	**156**
Other countries		34
DEFERRED TAX ASSETS RECOGNIZED FOR TAX LOSS CARRYFORWARDS		**190**

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

At December 31, 2023, 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 2024 through 2027	639	(80)
Tax losses available for carryforward in 2028 and thereafter	574	(100)
Tax losses available for carryforward indefinitely	4,983	(1,160)
CURRENT TAX LOSS CARRYFORWARDS	**6,196**	**(1,340)**
Unrecognized deferred tax assets on temporary differences		(130)
TOTAL		**(1,470)**

NOTE 10 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Stockholders' equity

10.1.1 Change in share capital

10.1.1.1 Change in the number of shares outstanding

The number of shares outstanding and the number of treasury shares held at December 31, 2023 can be analyzed as follows:

	2023	2022
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**241,116,367**	**241,726,165**
Number of treasury shares purchased/sold under the liquidity agreement[1] or delivered following the exercise of free shares granted	1,673,193	1,494,228
Number of shares purchased under the share buyback program[2]	—	(3,031,189)
Number of shares issued under employee stock ownership plans: Shares4U[3]	1,131,560	927,163
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	**243,921,120**	**241,116,367**
Number of treasury shares held by the Group	712,384	2,385,577
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31[4]	**244,633,504**	**243,501,944**

(1) See Note 10.1.1.2.

(2) See Note 10.1.1.3.

(3) As part of the Shares4U 2023 plan (see Note 5.4.3), a 16 million euro capital increase reserved for employees took place on November 15, 2023, issuing 1,131,560 new shares, each with a par value of 1 euro. This standard plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chief Executive Officer acting on the authority of the Board of Directors on September 15, 2023, at 14.24 euros. This gave rise to 15 million euros in additional paid-in capital.

(4) At December 31, 2023 and December 31, 2022, each share had a par value of 1 euro and was fully paid up.

10.1.1.2 Equity management

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity compatible with an investment grade rating.

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to free share and employee stock ownership plans, as well as the liquidity agreement. The liquidity agreement, which is consistent with the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI), was signed with an investment services provider on March 25, 2019. At December 31, 2023, 17,032,618 euros had been allocated to the liquidity agreement compared with 17,385,306 euros at December 31, 2022.

10.1.1.3 Share buyback program

In 2022, Valeo bought back 3,031,189 shares under the buyback program set up in March. All of the shares acquired were allocated to cover free share plans designed to involve employees in the Company's growth, and Company savings plans. The cost of this share buyback program was 50 million euros.

10.1.2 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized loss of 336 million euros (unrealized gain of 189 million euros at December 31, 2022). This loss mainly reflects the unfavorable impact of the depreciation against the euro of the Chinese renminbi for 111 million euros, the Japanese yen for 70 million euros and the US dollar for 60 million euros.

10.1.3 Non-controlling interests

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

(in millions of euros)	2023	2022
NON-CONTROLLING INTERESTS AT JANUARY 1	**790**	**793**
Share in net earnings	79	65
Dividends paid	(33)	(52)
Changes in scope	2	(11)
Fair value adjustments to put options granted to holders of non-controlling interests[1]	(3)	(2)
Other movements	(4)	8
Translation adjustment	(46)	(11)
NON-CONTROLLING INTERESTS AT DECEMBER 31	**785**	**790**

(1) See Note 8.1.2.2.

Non-controlling interests can be analyzed as follows:

	Percentage interest held by non-controlling interests *(in %)*		Stockholders' equity attributable to non-controlling interests *(in millions of euros)*	
	December 31, 2023	**December 31, 2022**	**2023**	**2022**
Pyeong Hwa Company[1]	50.0	50.0	574	583
Ichikoh China Alliance entities	5.8	5.8	37	35
Other Ichikoh entities	38.8	38.8	148	152
Other individually non-material interests	N/A	N/A	26	20
NON-CONTROLLING INTERESTS			**785**	**790**

(1) Pyeong Hwa Company is the longstanding partner in Valeo Pyeong Hwa and Valeo-Kapec, particularly in South Korea.

10.2 Earnings per share

Basic earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, plus the weighted average number of ordinary shares that would be outstanding had all the potentially dilutive ordinary shares been converted.

Stock options and free shares have a dilutive impact when their exercise price is below market price. This calculation method – known as the treasury stock method – serves to determine the "unpurchased" shares to be added to the shares of common stock outstanding for the purposes of computing the dilution.

	2023	**2022**
Net income (loss) attributable to owners of the Company *(in millions of euros)*	221	230
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	242,936	241,072
ATTRIBUTABLE BASIC EARNINGS PER SHARE *(IN EUROS)*	**0.91**	**0.95**

	2023	**2022**
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	242,936	241,072
Potential dilutive effect from free shares *(in thousands)*	1,698	2,430
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**244,634**	**243,502**
ATTRIBUTABLE DILUTED EARNINGS PER SHARE *(IN EUROS)*	**0.90**	**0.94**

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 2023 and 2022:

(in millions of euros)	2023	2022
Depreciation, amortization and impairment of fixed assets	1,835	1,782
Net additions to (reversals from) provisions	(155)	(349)
Losses (gains) on sales of fixed assets	(2)	(8)
Expenses related to share-based payment	25	21
Losses (gains) on long-term investments	33	(28)
Losses (gains) on assets held for sale	9	2
Losses (gains) on previously held interests	1	—
Other losses (gains) with no cash effect	(31)	7
TOTAL	**1,715**	**1,427**

11.2 Changes in working capital

Changes in the main components of working capital in 2023 and 2022 are shown in the table below:

(in millions of euros)	2023	2022
Inventories	(108)	(262)
Accounts and notes receivable and other operating receivables	(178)	(394)
Accounts and notes payable and other operating payables	564	887
TOTAL	**278**	**231**

The positive change in working capital in 2023 is notably due to an increase in contributions received from customers in respect of product development, and customer advances.

Accounts and notes receivable falling due after December 31, 2023 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 for accounts and notes receivable and in Note 4.5.2 for amounts receivable under French research and VAT tax credits.

11.3 Net change in non-current financial assets

The net change in non-current financial assets in 2023 is not material.

In 2022, it mainly reflected additional loans granted to the Valeo Siemens eAutomotive joint venture for 107 million euros during the first half and a 55 million euro cash outflow relating to the acquisition of a non-controlling interest in Valeo Shanghai Automotive Electric & Wiper Systems Co Ltd after the shareholder exercised its put option.

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

No acquisitions of investments with gain of control impacted the Group's cash position in 2023.

In 2022, the net cash outflow of 352 million euros primarily related to the takeover of Valeo eAutomotive (350 million euros).

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

In 2023, the positive impact of 38 million euros on the Group's net cash position corresponds mainly to the disposal of Ichikoh's Mirror business (see Note 2.2.1.3) and of Kuantic (see Note 2.2.1.5).

11.6 Issuance and repayment of long-term debt

In 2023, the Group issued a 600 million euro bond maturing in 2029, and also took out two bank loans for a total of 150 million euros (see Note 8.1.2.1).

In parallel, in 2023 Valeo redeemed the 500 million euro bond issued in 2017 as part of the Euro Medium Term Note (EMTN) financing program, as well as tranches 1 and 2 of the *Schuldschein* loan (German private placement) issued in 2019 for a total amount of 336 million euros. The Group also repaid lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 115 million euros.

11.7 Free cash flow and net cash flow

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

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

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2023 and 2022:

(in millions of euros)	2023	2022
Gross operating cash flows	2,409	1,968
Income taxes paid	(225)	(291)
Changes in working capital	278	231
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,462**	**1,908**
Net payments for purchases of intangible assets and property, plant and equipment	(1,925)	(1,409)
Net payments for the principal portion of lease liabilities(1)	(115)	(101)
Elimination of change in non-recurring sales of accounts and notes receivable(2)	(43)	(10)
FREE CASH FLOW	**379**	**388**
Change in non-recurring sales of accounts and notes receivable(2)	43	10
Net change in non-current financial assets(1)	(11)	(174)
Acquisitions of investments with gain of control, net of cash acquired	—	(352)
Acquisitions of investments in associates and/or joint ventures	(8)	—
Disposals of investments with loss of control, net of cash transferred	38	—
Acquisitions of investments without gain of control	(2)	—
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(127)	(143)
Capital increase in cash	16	14
Sale (purchase) of treasury stock	—	(50)
Net interest paid/received	(209)	(100)
NET CASH FLOW	**119**	**(407)**

(1) *In 2022, the net cash inflow of 8 million euros in respect of lease receivables was set off against payments for the principal portion of lease liabilities.*

(2) *Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IFRS 9 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables has been transferred (see Note 4.2).*

NOTE 12 FEES PAID TO THE STATUTORY AUDITORS

Fees paid to the Group's Statutory Auditors (excluding their network) and recognized in the consolidated statement of income for the Valeo parent company and the French subsidiaries, are as follows:

	Ernst & Young		Mazars	
(in millions of euros)	2023	2022	2023	2022
AUDIT				
Statutory audit, certification and review of the individual and consolidated financial statements	1.9	1.8	1.6	1.5
Non-audit services	0.2	0.3	0.2	0.2
TOTAL FEES	**2.1**	**2.1**	**1.8**	**1.7**

Non-audit services provided by Ernst & Young et Autres and Mazars to the Group and the entities it controls generally concern (i) comfort letters in connection with bond issues, (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects, (iii) agreed-upon procedures in connection with a report certifying CSR information, and (iv) audits of the combined financial statements of some of the Group's operating structures.

NOTE 13 LIST OF CONSOLIDATED COMPANIES

	December 31, 2023		December 31, 2022	
Company	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
FRANCE				
Valeo (parent company)				
DAV	FC	100	FC	100
Equipement 2	FC	100	FC	100
Equipement 11	FC	100	FC	100
SC2N	FC	100	FC	100
Valeo Bayen	FC	100	FC	100
Valeo Embrayages	FC	100	FC	100
Valeo Equipements Electriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Comfort and Driving Assistance	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
Valeo eAutomotive France SAS	FC	100	FC	100
Kuantic(2)	-	-	FC	100
Valeo Detection Systems	FC	100	FC	100
Equipement 22	FC	100	FC	100
SPAIN				
Valeo Climatización, SAU(3)	-	-	FC	100
Valeo España, SAU	FC	100	FC	100
Valeo Service España, SAU	FC	100	FC	100
Valeo Termico, SAU	FC	100	FC	100
ITALY				
Valeo Service Italia, SpA	FC	100	FC	100
Valeo, SpA	FC	100	FC	100

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

(1) Creation during the year with no material impact on the consolidated financial statements.

(2) Disposals.

(3) Mergers and liquidations.

(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023		December 31, 2022	
	Consolidation method	% interest	Consolidation method	% interest
GERMANY				
Valeo Auto-Electric GmbH[(4)]	FC	100	FC	100
Valeo GmbH[(4)]	FC	100	FC	100
Valeo Holding GmbH[(4)]	FC	100	FC	100
Valeo Klimasysteme GmbH[(4)]	FC	100	FC	100
Valeo Schalter und Sensoren GmbH[(4)]	FC	100	FC	100
Valeo Service Deutschland GmbH[(4)]	FC	100	FC	100
Valeo Wischersysteme GmbH[(4)]	FC	100	FC	100
Valeo Telematik und Akustik GmbH[(4)]	FC	100	FC	100
CloudMade Deutschland GmbH	EM	50	EM	50
Valeo Thermal Commercial Vehicles Germany GmbH[(4)]	FC	100	FC	100
Valeo eAutomotive GmbH[(3)]	-	-	FC	100
Valeo eAutomotive Germany GmbH	FC	100	FC	100
Valeo eAutomotive BSAES Holding GmbH	FC	100	FC	100
FTE Group Holding GmbH[(4)]	-	-	FC	100
FTE Verwaltungs GmbH[(4)]	FC	100	FC	100
FTE Asia GmbH[(4)]	-	-	FC	100
Valeo Powertrain GmbH (formerly FTE automotive GmbH)[(4)]	FC	100	FC	100
FTE automotive systems GmbH[(4)]	FC	100	FC	100
FTE automotive Möve GmbH[(4)]	FC	100	FC	100
gestigon GmbH[(4)]	FC	100	FC	100
Asaphus Vision GmbH	FC	100	FC	60
Valeo Detection Systems GmbH	FC	100	FC	100
UNITED KINGDOM				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
CloudMade Holdings Limited	EM	50	EM	50
CloudMade Limited	EM	50	EM	50
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited	FC	94	FC	94

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

(1) Creation during the year with no material impact on the consolidated financial statements.

(2) Disposals.

(3) Mergers and liquidations.

(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023 Consolidation method	December 31, 2023 % interest	December 31, 2022 Consolidation method	December 31, 2022 % interest
BELGIUM				
Valeo Service Belgique	FC	100	FC	100
Valeo Vision Belgique	FC	100	FC	100
LUXEMBOURG				
Coreval	FC	100	FC	100
FINLAND				
Valeo Thermal Commercial Vehicles Finland Oy (Ltd)	FC	100	FC	100
NETHERLANDS				
Valeo Sub-Holdings C.V.	FC	100	FC	100
Valeo Holding Netherlands BV	FC	100	FC	100
Valeo International Holding BV	FC	100	FC	100
Lucia Technologies B.V.	FC	100	FC	100
CZECH REPUBLIC				
Valeo Autoklimatizace k.s.	FC	100	FC	100
Valeo Compressor Europe s.r.o.	FC	100	FC	100
Valeo Vymeniky Tepla s.r.o.	FC	100	FC	100
FTE automotive Czechia s.r.o.	FC	100	FC	100
Valeo Detection Systems s.r.o	FC	100	FC	100
SLOVAKIA				
FTE automotive Slovakia s.r.o.	FC	100	FC	100
POLAND				
Valeo Autosystemy SpZOO	FC	100	FC	100
Valeo Electric and Electronic Systems SpZOO	FC	100	FC	100
Valeo Service Eastern Europe SpZOO	FC	100	FC	100
Valeo eAutomotive Poland SpZOO	FC	100	FC	100
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo eAutomotive Hungary Kft.	FC	100	FC	100
ROMANIA				
Valeo Lighting Injection SA	FC	100	FC	100
Valeo Sisteme Termice SRL	FC	100	FC	100
RUSSIA				
Valeo Technology Rus Limited Liability Company	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100

FC: Fully consolidated/EM: equity method (see Note 2.1.1).
(1) Creation during the year with no material impact on the consolidated financial statements.
(2) Disposals.
(3) Mergers and liquidations.
(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023 Consolidation method	December 31, 2023 % interest	December 31, 2022 Consolidation method	December 31, 2022 % interest
UKRAINE				
CloudMade Ukraine LLC	EM	50	EM	50
Spheros-Elektron TzOV	EM	20	EM	20
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret AS	FC	100	FC	100
Valeo Ticari Tasitlar Termo Sistemleri AS	FC	100	FC	100
AFRICA				
TUNISIA				
DAV Tunisie SA	FC	100	FC	100
Valeo Embrayages Tunisie SA	FC	100	FC	100
Valeo Tunisie SA	FC	100	FC	100
MOROCCO				
Valeo Vision Maroc, SA	FC	100	FC	100
EGYPT				
Valeo Internal Automotive Software Egypt	FC	100	FC	100
Valeo Detection Systems LLC	FC	100	FC	100
SOUTH AFRICA				
Valeo Systems South Africa (Proprietary) Ltd	FC	51	FC	51
Valeo Thermal Commercial Vehicles South Africa (Pty) Ltd	FC	100	FC	100
Valeo Thermal Systems East London (Pty) Ltd	FC	51	FC	51
NORTH AMERICA				
UNITED STATES				
Valeo North America, Inc.	FC	100	FC	100
Valeo Radar Systems, Inc.	FC	100	FC	100
Detroit Thermal Systems LLC	EM	49	EM	49
CloudMade, Inc.	EM	50	EM	50
Valeo Thermal Commercial Vehicles North America, Inc.	FC	100	FC	100
Valeo Kapec North America, Inc.	FC	50	FC	50
Valeo eAutomotive US, Inc.(3)	-	-	FC	100
Valeo Detection Systems Inc.	FC	100	FC	100

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

(1) Creation during the year with no material impact on the consolidated financial statements.

(2) Disposals.

(3) Mergers and liquidations.

(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023		December 31, 2022	
	Consolidation method	% interest	Consolidation method	% interest
CANADA				
Valeo Canada, Inc.	FC	100	FC	100
MEXICO				
Delmex de Juarez, S de RL de CV	FC	100	FC	100
Valeo Sistemas Automotrices de México, SA de CV	FC	100	FC	100
Valeo Sistemas Electricos, SA de CV	FC	100	FC	100
Valeo Sistemas Electronicos, S de RL de CV	FC	100	FC	100
Valeo Termico Servicios, S de RL de CV	FC	100	FC	100
Valeo Mexico Tech Center, SA de CV	FC	100	FC	100
Valeo Thermal Commercial Vehicles Mexico, SA de CV	FC	60	FC	60
Valeo Telematica y Acustica, SA de CV	FC	100	FC	100
Valeo Kapec, SA de CV	FC	50	FC	50
FTE Mexicana, SA de CV	FC	100	FC	100
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Valeo climatizacao do Brasil – veiculos comerciais S/A	FC	60	FC	60
ARGENTINA				
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Climatizacion de vehiculos comerciales SAS	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia SAS	FC	50	FC	60
ASIA PACIFIC				
THAILAND				
Valeo Niles (Thailand) Co. Ltd	FC	100	FC	100
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd	FC	61.2	FC	61.2

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

(1) Creation during the year with no material impact on the consolidated financial statements.

(2) Disposals.

(3) Mergers and liquidations.

(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023 Consolidation method	December 31, 2023 % interest	December 31, 2022 Consolidation method	December 31, 2022 % interest
SOUTH KOREA				
Valeo Automotive Korea Co. Ltd	FC	100	FC	100
Valeo Electrical Systems Korea, Ltd	FC	100	FC	100
Valeo Pyeong HWA Co. Ltd	FC	50	FC	50
Valeo Pyeong Hwa Automotive Components Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA International Co. Ltd	FC	50	FC	50
Valeo Samsung Thermal Systems Co. Ltd	EM	50	EM	50
Valeo Pyeong HWA Metals Co. Ltd	EM	49	EM	49
Valeo Kapec Co. Ltd	FC	50	FC	50
Valeo PHC Co. Ltd	FC	50	FC	50
Valeo Detection Systems Korea Co. Ltd	FC	100	FC	100
Valeo PHC Thermal Systems Co. Ltd.(1)	EM	50	-	-
Valeo Mobility Korea Co. Ltd	FC	100	FC	100
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
PT VPH Asean Transmission	FC	50	FC	50
PT. Ichikoh Indonesia	FC	61.2	FC	61.2
MALAYSIA				
Valeo Malaysia SDN.BHD.	FC	100	FC	100
Ichikoh (Malaysia) SDN.BHD.	FC	42.8	FC	42.8
Valeo Malaysia CDA SDN.BHD.	FC	100	FC	100
UNITED ARAB EMIRATES				
Valeo Thermal Commercial Vehicles Middle East FZE	FC	100	FC	100
TAIWAN				
Niles CTE Electronic Co. Ltd(3)	-	-	FC	51
AUSTRALIA				
Valeo Service Australia Pty Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles Australia Pty Ltd	FC	100	FC	100

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

(1) Creation during the year with no material impact on the consolidated financial statements.

(2) Disposals.

(3) Mergers and liquidations.

(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023 Consolidation method	% interest	December 31, 2022 Consolidation method	% interest
JAPAN				
Ichikoh Industries Limited	FC	61.2	FC	61.2
Kyushu Ichikoh Industries Ltd	FC	61.2	FC	61.2
Misato Industries Co. Ltd(3)	-	-	FC	61.2
PIAA Corporation	FC	61.2	FC	61.2
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Kapec Japan K,K.	FC	50	FC	50
CloudMade Co. Ltd	EM	50	EM	50
CHINA				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd	FC	94.2	FC	94.2
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	FC	66	FC	66
Nanjing Valeo Clutch Co. Ltd	FC	37.5	FC	37.5
Shanghai Valeo Automotive Electrical Systems Co. Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd	FC	94.2	FC	94.2
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Taizhou Valeo Wenling Automotive Systems Company Ltd	FC	100	FC	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Kapec Torque Converters (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Compressor (Changchun) Co. Ltd	FC	100	FC	100
Valeo Friction Materials (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Ichikoh (China) Auto Lighting Co. Ltd	FC	94.2	FC	94.2
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	FC	94.2	FC	94.2
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Comfort Driving Assistance Systems (Guangzhou) Co. Ltd	FC	100	FC	100

FC: Fully consolidated/EM: equity method (see Note 2.1.1).
(1) Creation during the year with no material impact on the consolidated financial statements.
(2) Disposals.
(3) Mergers and liquidations.
(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2023 Consolidation method	December 31, 2023 % interest	December 31, 2022 Consolidation method	December 31, 2022 % interest
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	FC	100	FC	100
Wuhu Valeo Automotive Lighting Systems Co. Ltd(3)	-	-	FC	94.2
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	100	FC	100
Shanghai Valeo Pyeong Hwa International Co. Ltd	FC	50	FC	50
Valeo eAutomotive (Shenzhen) Co. Ltd	FC	100	FC	100
Valeo Automotive ePowertrain Systems (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Bluepark Automotive E-Drive Systems (Changzhou) Co. Ltd	FC	60	FC	60
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles System (Suzhou) Co. Ltd	FC	100	FC	100
Ichikoh (Wuxi) Automotive Parts Co. Ltd(3)	-	-	FC	61.2
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Powertrain (Shanghai) Co. Ltd	FC	100	FC	100
Valeo ePowertrain (Tianjin) Co. Ltd.	FC	100	FC	100
Valeo eAutomotive (Changshu) Co. Ltd.	FC	100	FC	100
APG-FTE automotive Co. Ltd(3)	-	-	EM	49
Fawer Valeo eAutomotive Parts Changshu	EM	49.5	EM	49.5
FTE automotive (Taicang) Co. Ltd	FC	100	FC	100
Suzhou Valeo PyeongHwa Dongfeng Clutch Co. Ltd(3)	-	-	FC	26.25
Zhihui Valeo (Zhejiang) Auto Parts Co. Ltd(1)	EM	20	-	-
Valeo Mobility Systems (Shanghai) Co. Ltd(1)	FC	100	-	-
Valeo Detection Systems (Shenzhen) Co. Ltd	FC	100	FC	100
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo India Private Ltd	FC	100	FC	100
Valeo Motherson Thermal Commercial Vehicles India Ltd	EM	51	EM	51

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

(1) Creation during the year with no material impact on the consolidated financial statements.

(2) Disposals.

(3) Mergers and liquidations.

(4) 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 include the financial statements of the identified entities. They will be published in the German Federal Gazette.

7. Statutory Auditors' report on the consolidated financial statements

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.

This Statutory Auditors' report includes information required by European regulations and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the management report.

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

MAZARS

Tour Exaltis
61, rue Henri Regnault
92075 Paris-La Défense Cedex
S.A. à directoire et conseil de surveillance
au capital de € 8.320.000
784 824 153 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie régionale de
Versailles et du Centre

ERNST & YOUNG et Autres

Tour First
TSA 14444
92037 Paris-La Défense Cedex
S.A.S à capital variable
438 476 913 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie régionale de
Versailles et du Centre

To the Shareholders of Valeo,

Opinion

In compliance with the engagement entrusted to us by your General Meeting of Shareholders, we have audited the accompanying consolidated financial statements of Valeo for the year ended 31 December 2023.

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 31 December 2023 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Basis for Opinion

Audit Framework

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

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

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2023 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*).

Justification of Assessments – Key Audit Matters

In accordance with the requirements of articles L. 821-53 and R. 821-180 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

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

Impairment tests of goodwill and cash-generating units (CGUs), capitalized development costs and specific fixed assets

Risk identified

As of December 31, 2023, goodwill amounted to 3,112 million euros and the other intangible and tangible assets amounted to 8,122 million euros, including 2,417 million euros in net capitalized development costs.

Tangible and intangible assets with a specified useful life are subject impairment-tested where there are objective impairment indicators exist. Goodwill and intangible fixed assets that are not yet ready to be brought online are the subject of impairment testing as soon as impairment indicators appear and, in any event, at least once per year.

These tests are carried out at the Business Group level, which correspond to groups of cash-generating units (CGUs) for goodwill, or directly at CGU level for all property, plant and equipment and intangible assets, except for those which are unused, which are subject to a specific impairment test.

The conditions for the tests performed and the details of the assumptions used are presented in Note 6.4.1 to the consolidated financial statements.

During fiscal year 2023, these tests were performed in an unsettled geopolitical and macroeconomic environment marked notably by the effects of the conflict in Ukraine, high inflation and raw material price volatility.

The impairment recognized by the Group after these tests is presented in Notes 4.5.1.1, 4.5.1.2, 6.4.2 and 6.4.4 to the consolidated financial statements, specifically for capitalized development costs, CGUs and goodwill.

We considered the recoverable amount of the goodwill, cash-generating units (CGUs), capitalized development costs and specific fixed assets, which represent a significant amount, constituted a key audit matter as the valuation of the recoverable amount of these assets, based on the value of discounted future cash flows, relies on significant assumptions, estimates or judgments made by the Company's management.

Our response

We performed the following procedures:

- Analyzed the consistency of the definition of CGUs, with regard to the rules set out in IAS 36;
- Analyzed the existence of impairment indicators causing impairment testing of goodwill, the CGUs, development costs and specific fixed assets.
- With the support help of our valuation experts, for all impairment tests including annual goodwill tests:
  - Reconciled the carrying amount of each Business Group and the and the assets of each CGU used for the tests with the consolidated financial statements, as well as the carrying amount of the capitalized development costs and specific fixed assets relating to contracts in progress;
  - Analyzed the internal control procedures and Management's involvement to ensure the quality of the preparation of key information;
  - Assessed the consistency of the cash flow projections with the most recent Management estimates as presented to the Board of Directors in the context of the preparation of a medium-term plan, the revised volume forecasts, and agreements or negotiations with automakers;
  - Analyzed business plans drawn up by the Management per Business Group and per CGU when these plans present a significant risk of impairment;
  - Analyzed forecasts of volume and internal costs for projects that present an impairment risk;
  - Analyzed the main valuation assumptions (discount rate and perpetual growth rate) which we compared to the amounts used by the main financial analysts;
  - Reviewed the conditions of implementation and the methods used to value recoverable amounts and the arithmetic accuracy of the calculations made;
  - Evaluated the impact of a variation in the discount rate and the main operational assumptions by means of sensitivity analyses.

Lastly, we reviewed the content of the information disclosed in Notes 6.4 and 4.5.1.2 to the consolidated financial statements concerning impairment of goodwill, CGU assets, capitalized development costs and specific fixed assets.

Assets and liabilities for specific quality issues

Risk identified

Provisions for customer guarantees are intended to cover the estimated cost of future returns of products sold. They notably include provisions for specific quality risks.

Said provisions cover the costs relating to occasional situations which exceed the framework of the legal or contractual guarantees.

The estimate of the costs to be borne in the context of specific quality risks are based on both historical data and probability calculations: the expected rates of return and estimated replacement/repair costs. The Group also analyzes the potential indemnities and records accrued income, net of any deductibles, if it is proven that some or all of the costs of implementing the guarantees is/are covered by your group's insurance policies or by suppliers concerned.

These provisions are discussed in Note 7.1 to the consolidated financial statements.

We considered the valuation of assets and liabilities relating to specific quality risks to be a key audit matter as this valuation requires your company’s Management to make significant estimates and judgements.

Our response

We familiarized ourselves with the process for identifying the specific quality risks and for valuing the provisions and the corresponding accrued income.

Our work also consisted in:

- Analyzing the valuation methodology used by the Group;
  - Verifying the completeness of the provisions for specific quality risks by interviewing managers from Business Group's quality departments and the site financial controllers, and by analyzing the Group’s internal reporting;
  - Analyzing the assumptions used to determine the provisions for specific quality risks, notably by considering the summary notes prepared by the Business Group's quality departments summarizing the main causes, as well as the main scenarios for correcting the technical problems identified;
  - Familiarizing ourselves with the Group’s insurance policy and the policies in place, by interviewing the Group’s insurance department manager;
  - Evaluating the available documentation, in particular the exchanges between the Group and its customers, as well as the exchanges between the Group and its insurers and/or providers to assess the existence and documented nature of the compensation expected when accrued income is recognized;
  - Interviewing the site financial controllers and the finance departments at Business Group level to assess the main assumptions underlying the risk estimates and the corresponding accrued income where applicable.
  - Lastly, assessing the content of the information disclosed in Note 7.1 to the consolidated financial statements concerning specific quality risks.

Specific Verifications

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

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

We attest that the information pertaining to the Group presented in the management report includes the consolidated non-financial information statement required under article L. 225 102 1 of the French Commercial Code (*Code de commerce*). However, in accordance with the provisions of article L. 823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in the statement, which will be the subject of a report by an independent third party.

Report on Other Legal and Regulatory Requirements

Format of preparation of the consolidated financial statements to be included in the annual financial report

In accordance with the professional standards applicable to the statutory auditors' procedures for annual and consolidated financial statements presented according to the European single electronic report format, we have also verified that the presentation of the consolidated financial statements to be included in the annual financial report referred to in Article L. 451-1-2, I of the French Monetary and Financial Code *(Code monétaire et financier*) and prepared under the responsibility of the Chief Executive Officer complies with the format defined by Delegated Regulation (EU) 2019/815 of 17 December 2018. As it relates to the consolidated financial statements, our work included verifying that the tagging in the financial statements comply with the format defined by the aforementioned Regulation.

On the basis of our work, we conclude that the preparation of the consolidated financial statements intended to be included in the annual financial report complies, in all material respects, with the European single electronic format.

Due to the technical limitations inherent to the block-tagging of consolidated financial statements in the European single electronic format, it is possible that the content of certain tagging in the notes are not reproduced identically to the accompanying consolidated financial statements.

Further, it is not our responsibility to ensure that the consolidated financial statements to be included by Valeo in the annual financial report filed with the AMF (*Autorité des marchés financiers*) correspond to those on which we carried out our work.

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Valeo by your Annual General Meeting held on 3 June 2010.

As at 31 December 2023, both our firms were in their fourteenth year of total uninterrupted engagement.

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

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

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

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

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

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

Objectives and Audit approach

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

As specified in Article L. 821-55 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

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

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

Report to the Audit Committee

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

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

We also provide the Audit and Risk Committee with the declaration provided for in article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L. 821-27 to L. 821-34 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*). Where appropriate, we discuss with the Audit and Risk Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, February 29, 2024

The Statutory Auditors

French original signed by

MAZARS		**ERNST & YOUNG et Autres**	
Gonzague Senlis	Jean-Marc Deslandes	Philippe Berteaux	Guillaume Rouger