2016 HALF-YEAR FINANCIAL REPORT

48-volt hybrid technology

Automotive technology, naturally

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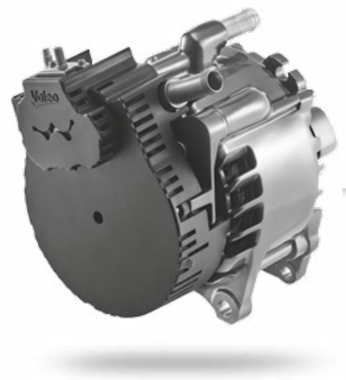


48-volt hybrid technology

The 48 V starter-alternator can easily replace a conventional alternator. Using a voltage of 48 V helps bring component costs down and paves the way for hybrid features such as power boost and regenerative braking.

88,800 *employees*

32 *countries*

148 *plants*

35 *development centers*

19 *research centers*

GROUP PROFILE AND CORPORATE GOVERNANCE 1

Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO_2 emissions and to the development of intuitive driving.

In first-half 2016, the Group generated sales of 8.1 billion euros (14.5 billion euros in full-year 2015), and invested 11% of its original equipment sales in gross Research and Development.

Valeo is listed on Euronext Paris and is a member of the CAC 40 index.

Board of Directors

- Jacques Aschenbroich
  Chairman and Chief Executive Officer
- Gérard Blanc
- Daniel Camus
- Pascal Colombani
- Jérôme Contamine
- C. Maury Devine
- Sophie Dutordoir
- Michel de Fabiani
- Mari-Noëlle Jégo-Laveissière
- Noëlle Lenoir
- Thierry Moulonguet
- Georges Pauget
- Ulrike Steinhorst
- Véronique Weill

Committees

Audit & Risks Committee

- Daniel Camus
  Chairman
- Michel de Fabiani
- Mari-Noëlle Jégo-Laveissière
- Noëlle Lenoir
- Thierry Moulonguet

Appointment, Compensation & Governance Committee

- Georges Pauget
  Chairman
- C. Maury Devine
- Sophie Dutordoir
- Michel de Fabiani
- Ulrike Steinhorst

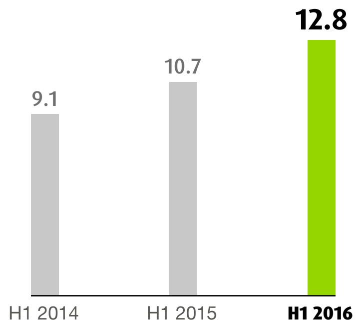
Strategy Committee

- Jérôme Contamine
  Chairman
- Gérard Blanc
- Pascal Colombani
- Thierry Moulonguet
- Georges Pauget
- Ulrike Steinhorst
- Véronique Weill

2 KEY FIGURES

Order intake[1]

In billions of euros

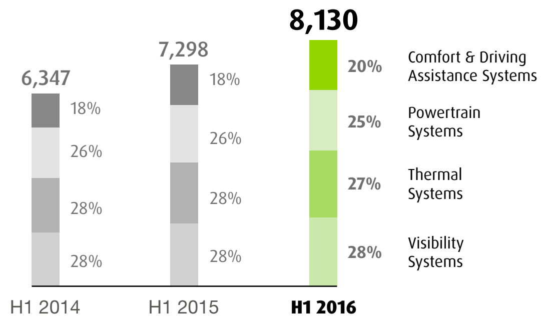


- Order intake[1] is driven by:
  - innovative products and systems[2] (45% of order intake); and
  - accelerated expansion in high-growth potential countries, (especially in Asia and emerging countries).

Sales

Total sales and sales by Business Group

In millions of euros and as a % of sales

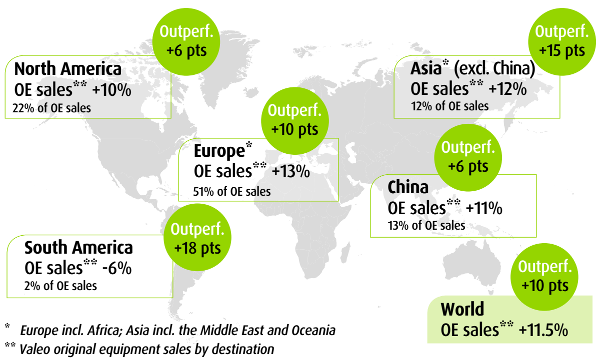


- In first-half 2016, original equipment sales represented 87% of sales.

Geographic positioning

Original equipment sales growth by geographic area
Performance compared to automotive production

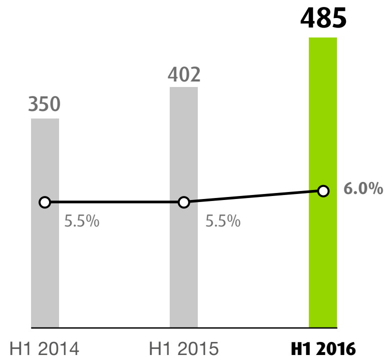
As a % of original equipment sales
Like-for-like (constant Group structure and exchange rates).



* Europe incl. Africa; Asia incl. the Middle East and Oceania
** Valeo original equipment sales by destination

Research and Development expenditure, net

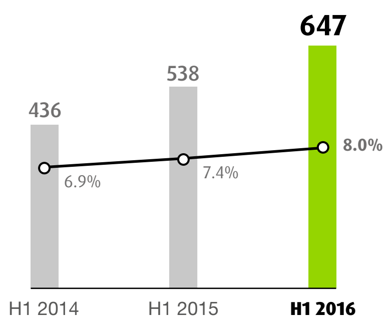
In millions of euros and as a % of sales



- In first-half 2016, gross Research and Development spend totaled 760 million euros, or 11% of original equipment sales.

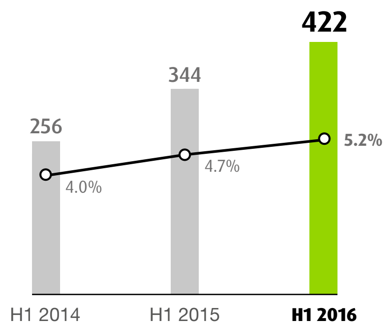
Operating margin

Including share in net earnings of equity-accounted companies[1]
In millions of euros and as a % of sales



Net attributable income

In millions of euros and as a % of sales



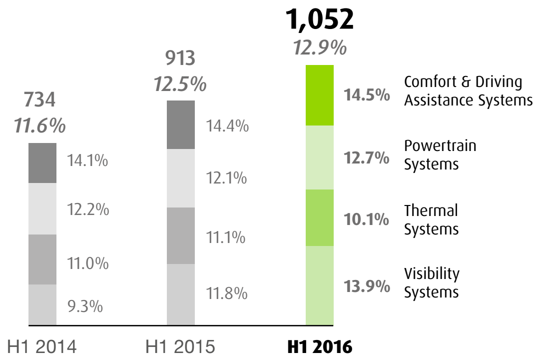
- In first-half 2016, basic earnings per share came out at 1.79 euros.

(1) See Financial Glossary, page 47.
(2) Products and technologies in series production for less than three years.

Cash flow and financial position

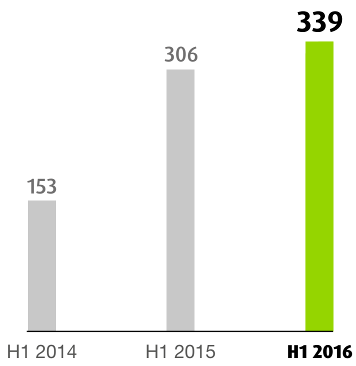
Total EBITDA(1) and EBITDA by Business Group

In millions of euros and as a % of sales



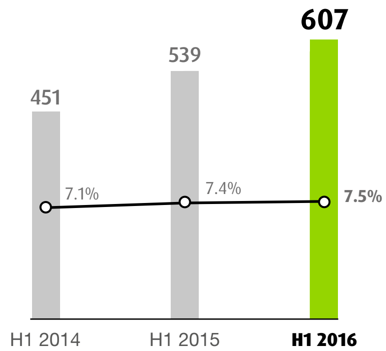
Free cash flow(1)

In millions of euros



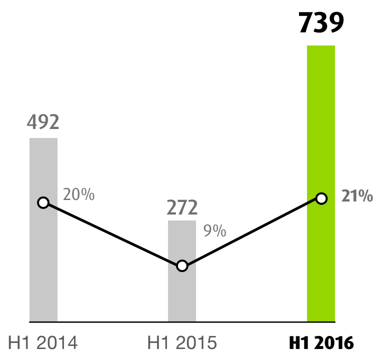
Investment flows

In millions of euros and as a % of sales
Investments in property, plant and equipment and intangible assets(3)



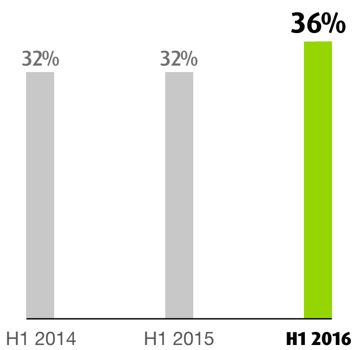
Net debt(2)

In millions of euros and as a % of consolidated stockholders' equity, excluding non-controlling interests

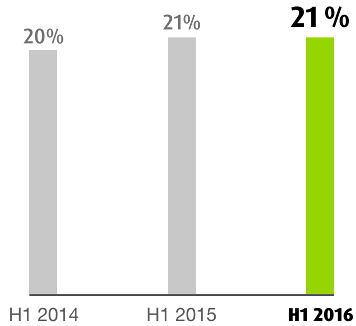


Other profitability indicators

ROCE *(Return on Capital Employed)*(1)



ROA *(Return on Assets)*(1)

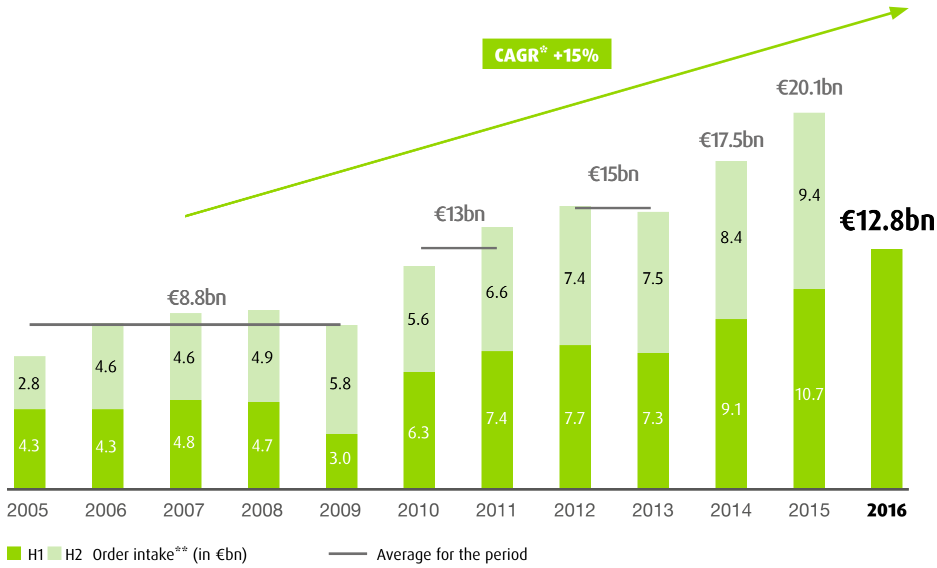


3 INTERIM MANAGEMENT REPORT

3.1 Order intake(1)

Change in order intake

As a % of sales



* Reference 2008 (average for 2005-2009) → 2016.
** Excluding the Access Mechanisms business and including proportionately consolidated joint ventures.

In the first half of 2016, the order intake came in 20% higher at 12.8 billion euros, confirming the Group's ability to deliver structural growth ahead of global automotive production.

The order intake remained balanced across the Group's different regions:

- 37% in Asia; China accounted for 24% of the order intake, of which 43% of orders were booked with local Chinese automakers;
- 37% in Europe (and Africa);
- 24% in North America.

The rise in the order intake in the first half was driven by innovative products (45%) and reflects the successful positioning of Valeo's new technologies and products in the CO_2 emissions reduction and intuitive driving segments.

(1) See Financial Glossary, page 47.

3.2 Sales

Automotive production up 1.5%

Automotive production expanded by 1.5% year-on-year, benefiting from:

- acceleration of growth in Europe excluding Russia (up 7% in the second quarter); and
- continued expansion in North America (up 4%) and in Asia (up 1%), led by production momentum in China (up 5%).

However, production in South America continued its sharp decline (down 24%).

Automotive production *(year-on-year change)*	First-quarter 2016(1)	Second-quarter 2016(1)	First-half 2016(1)
Europe & Africa	+1%	+6%	+3%
excluding Russia	*+3%*	*+7%*	*+5%*
Asia, Middle East & Oceania	+1%	+1%	+1%
of which China	*+6%*	*+4%*	*+5%*
excluding China	*-3%*	*-2%*	*-3%*
North America	+5%	+2%	+4%
South America	-25%	-22%	-24%
TOTAL	**+1%**	**+2%**	**+1.5%**

(1) LMC automotive production estimates.

Sales up 11%

As in the first quarter (up 10%), like-for-like **sales** growth proved bullish in the three months to June 30, accelerating to 12%.

Sales for the first half were up 11% like-for-like to 8.1 billion euros (up 11% as reported).

Changes in exchange rates in the first half of 2016 had a negative 2% impact, due primarily to gains in the euro against the Chinese renminbi, South Korean won and Brazilian real.

Changes in Group structure had a positive 2% impact in the first half (positive 4% impact in the second quarter), with peiker, acquired at the end of February 2016, and Spheros, acquired in late March 2016, contributing 114 million euros and 62 million euros, respectively, to first-half sales.

Sales *(in €m)*	As a % of H1 2016 sales	First-quarter 2015	First-quarter 2016	First-quarter Reported change	First-quarter LFL change(1)	Second-quarter 2015	Second-quarter 2016	Second-quarter Reported change	Second-quarter LFL change(1)	First-half 2015	First-half 2016	First-half Reported change	First-half LFL change(1)
Original equipment	87%	3,113	3,437	+10%	+10%	3,203	3,669	+15%	+13%	6,316	7,106	+13%	+11.5%
Aftermarket	11%	400	411	+3%	+6%	413	434	+5%	+7%	813	845	+4%	+6%
Miscellaneous	2%	68	69	+2%	+3%	101	110	+9%	+8%	169	179	+6%	+6%
TOTAL	**100%**	**3,581**	**3,917**	**+9%**	**+10%**	**3,717**	**4,213**	**+13%**	**+12%**	**7,298**	**8,130**	**+11%**	**+11%**

(1) Like-for-like: constant Group structure and exchange rates.

Like-for-like growth in **original equipment sales** gathered pace over the period, at 13% in the second quarter after 10% in the three months to March 31.

Original equipment sales came in at 7.1 billion euros (87% of total sales), a rise of 11.5% on a like-for-like basis. This performance reflects the gradual entry into production of the high order intake recorded by the Group over the last few years.

Aftermarket sales (11% of total sales) delivered 6% like-for-like growth over the first half (7% in the second quarter).

Miscellaneous sales (2% of total sales), mainly consisting of tooling revenues related to the launch of new projects, increased by 6% like-for-like.

Trends in original equipment sales by destination compared with global automotive production

Original equipment sales jumped 11.5% on a like-for-like basis, beating global automotive production by 10 percentage points, reflecting:

- an improved product mix resulting from technological innovations for CO_2 emissions reduction and intuitive driving;
- its balanced customer and geographic positioning.

Original equipment sales *(by destination, in millions of euros)*	First-quarter				Second-quarter				First-half			
	2015	**2016**	**LFL change**(1)	**Outperformance**(2)	**2015**	**2016**	**LFL change**(1)	**Outperformance**(2)	**2015**	**2016**	**LFL change**(1)	**Outperformance**(2)
Europe & Africa	1,542	1,734	+11%	+10 pts	1,576	1,894	+16%	+10 pts	3,118	3,628	+13%	+10 pts
Asia, Middle East & Oceania	814	885	+11%	+10 pts	835	896	+11%	+10 pts	1,649	1,781	+11%	+10 pts
of which China	*409*	*451*	*+13%*	*+7 pts*	*440*	*447*	*+9%*	*+5 pts*	*849*	*898*	*+11%*	*+6 pts*
excluding China	*405*	*434*	*+9%*	*+12 pts*	*395*	*449*	*+14%*	*+16 pts*	*800*	*883*	*+12%*	*+15 pts*
North America	674	762	+11%	+6 pts	717	802	+9%	+7 pts	1,391	1,564	+10%	+6 pts
South America	83	56	-12%	+13 pts	75	77	+1%	+23 pts	158	133	-6%	+18 pts
TOTAL	**3,113**	**3,437**	**+10%**	**+9 pts**	**3,203**	**3,669**	**+13%**	**+11 pts**	**6,316**	**7,106**	**+11.5%**	**+10 pts**

(1) Like-for-like: constant Group structure and exchange rates.
(2) Based on LMC automotive production estimates.

The Group grew faster than the market across all automotive production regions.

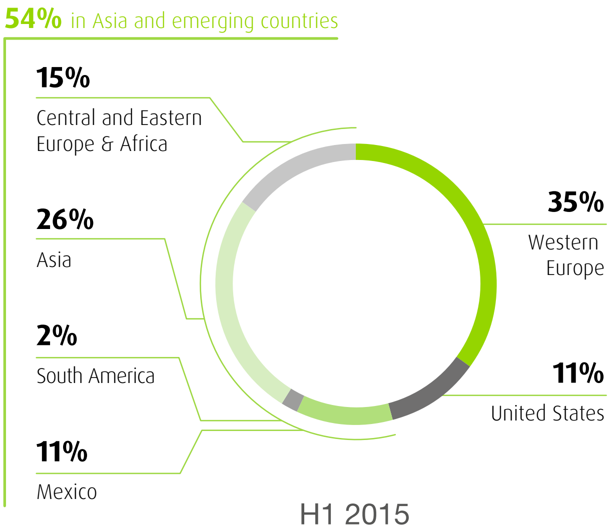
Original equipment sales growth accelerated over the first half, increasing the outperformance to 11 percentage points in the second quarter, after a 9 percentage-point outperformance in the three months to March 31:

- in **Europe** (including Africa), like-for-like original equipment sales advanced 13%, lifted by an attractive portfolio of products with high technological value, a favorable customer mix and the Group's limited presence in Russia, outpacing automotive production by 10 percentage points;
- in **China**, like-for-like original equipment sales advanced 11%, beating automotive production by 6 percentage points;
- in **Asia excluding China**, like-for-like original equipment sales climbed 12%, outperforming automotive production by 15 percentage points;
- in **North America**, like-for-like original equipment sales were up 10%, beating automotive production by 6 percentage points;
- in **South America**, like-for-like original equipment sales were down 6% in the context of a 24% slump in automotive production.

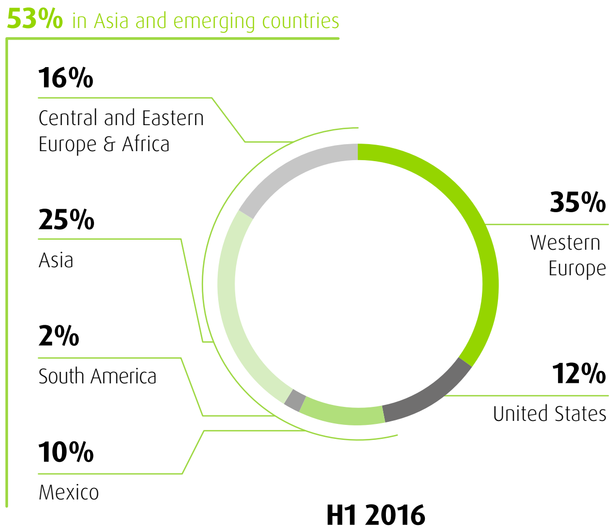
Balanced geographic positionning

Original equipment sales by production region

As a % of original equipment sales



H1 2015



H1 2016

Changes in sales produced by Valeo in the different production regions particularly reflect movements in exchange rates.

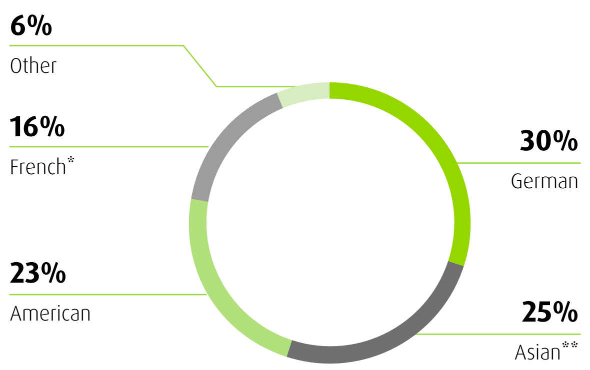
During the first half of 2016:

- the share of original equipment sales produced in Western Europe remained stable at 35%;
- the share of original equipment sales produced in Asia decreased by 1 percentage point to 25%;
- the share of original equipment sales produced in North America remained stable at 22%;
- the share of original equipment sales produced in South America remained stable at 2%.

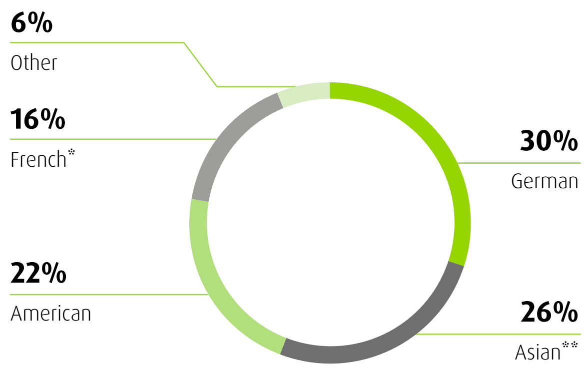
Diverse customer portfolio

Customer portfolio

As a % of original equipment sales



H1 2015



H1 2016

* *Excluding Nissan*
** *Including Nissan*

During the first half of 2016:

- German customers accounted for 30% of original equipment sales, stable year-on-year;
- Asian customers accounted for 26% of original equipment sales, up 1 percentage point;
- US customers accounted for 22% of original equipment sales, down 1 percentage point;
- French customers accounted for 16% of original equipment sales, stable year-on-year.

3.3 Earnings

In the first half of 2016:

- operating margin[1] rose 20% to 647 million euros, or 8.0% of sales;
- net attributable income advanced 23% to 422 million euros, or 5.2% of sales.

Analysis of gross margin

As a % of sales

The **gross margin** for first-half 2016 increased by 16% to 1,488 million euros, or 18.3% of sales (up 0.8 percentage points on first-half 2015). This chiefly reflects operating leverage (up 0.9 percentage points), partly offset by a rise in depreciation of the capital investments carried out by the Group over the past few years (down 0.2 percentage points).

Valeo continued its **Research and Development** efforts in response to its record order intake. In the first half of 2016, gross R&D spend was up 18% to 760 million euros.

Net R&D expenditure rose 21%, representing 6.0% of sales (up 0.5 percentage points versus first-half 2015).

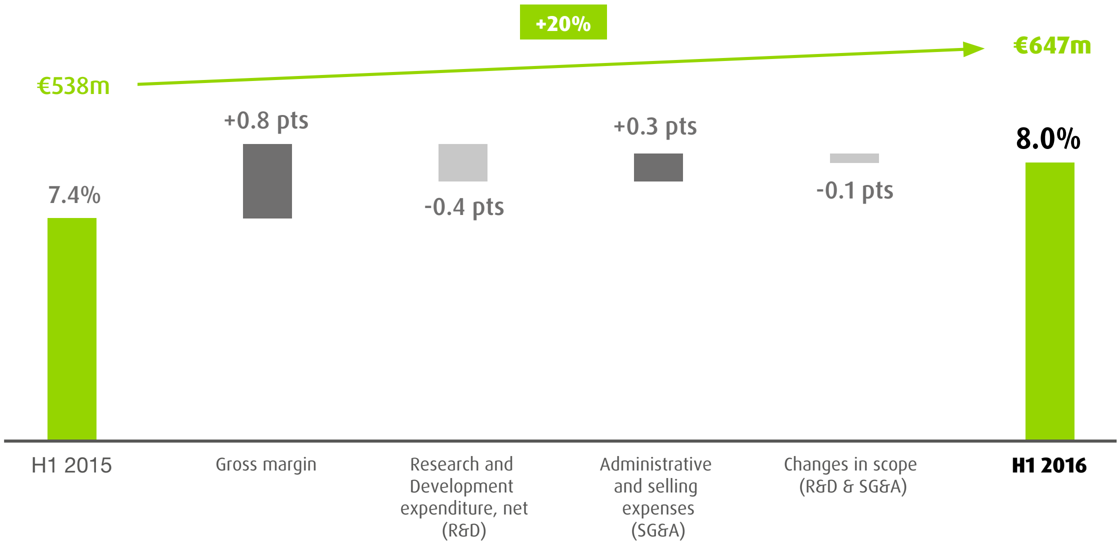
General and administrative expenses came out 0.2 percentage points lower than in first-half 2015, at 3.2% of sales.

The share in net earnings of equity-accounted companies was 28 million euros, or 0.3% of sales, in line with the same period one year earlier.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 47.

Analysis of operating margin[1]

As a % of sales



Operating margin[1] rose 20% to 647 million euros, or 8.0% of sales (up 0.6 percentage points on first-half 2015).

Operating income[2] rose 19% to 613 million euros, or 7.5% of sales (up 0.4 percentage points on first-half 2015). It includes other income and expenses totaling 34 million euros.

The cost of net debt remained stable year-on-year, at 43 million euros.

The effective tax rate came out at 18.7%, primarily reflecting the improved profitability of the Group's operations in the US and France, where Valeo has available tax loss carryforwards.

Net attributable income jumped 23% to 422 million euros, or 5.2% of sales (up 0.5 percentage points on first-half 2015).

Excluding non-recurring items, net attributable income[2] jumped 26% to 451 million euros, or 5.5% of sales (up 0.6 percentage points on first-half 2015).

Return on capital employed (ROCE[2]) and **return on assets** (ROA[2]) stood at 36% and 21%, respectively.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 47.
(2) See Financial Glossary, page 47.

3.4 Cash flow and financial position

Free cash flow[1] up 11%

The Group generated **free cash flow**[1] of 339 million euros in first-half 2016, up 11% year-on-year. This chiefly reflects:

- a 15% increase in EBITDA[1] to 1,052 million euros;
- disciplined management of working capital, which added 40 million euros to free cash flow;
- controlled investment outflows of 607 million euros, or 7.5% of sales.

Net cash flow[1] amounted to a negative 609 million euros at June 30, 2016, reflecting:

- 52 million euros in financial expenses; and
- other financial items totaling 896 million euros, including 236 million euros relating to the dividend paid out to Company shareholders and 610 million euros relating to the acquisitions of peiker and Spheros.

Net debt[1] at 739 million euros

Net debt[1] stood at 739 million euros at June 30, 2016, up 467 million euros compared with end-June 2015. For information, pro forma net debt would amount to 1,559 million euros at June 30, 2016, factoring in the acquisition of FTE, which is expected to close at the end of 2016 or in early 2017.

The **leverage ratio** (net debt/EBITDA) came out at less than 0.4 and the **gearing ratio** (net debt/stockholders' equity excluding non-controlling interests) at 21%.

Following the bond issues carried out in the first half (600 million euro bond issue dated March 18, 2026 and placement of USD 450 million in non-dilutive cash-settled convertible bonds due in 2021), the average maturity of borrowings and debt was 5.9 years at June 30, 2016, up from 4.3 years at December 31, 2015.

(1) *See Financial Glossary, page 47.*

3.5 Segment reporting

Original equipment sales

Acceleration in original equipment sales growth, outpacing market growth in all four Business Groups, with especially strong gains in Comfort & Driving Assistance Systems and Visibility Systems.

As is the case for the consolidated Group, the sales performance for the Business Groups reflects the specific product, geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Sales by Business Group[1] *(in millions of euros)*	First-quarter 2015	First-quarter 2016	First-quarter Change in sales	First-quarter Change in OE sales[2]	Second-quarter 2015	Second-quarter 2016	Second-quarter Change in sales	Second-quarter Change in OE sales[2]	First-half 2015	First-half 2016	First-half Change in sales	First-half Change in OE sales[2]
Comfort & Driving Assistance Systems	657	794	+21%	+17%	679	866	+28%	+16%	1,336	1,660	+24%	+16%
Powertrain Systems	948	983	+4%	+6%	978	1,028	+5%	+11%	1,926	2,011	+4%	+8%
Thermal Systems	1,007	1,063	+6%	+7%	1,039	1,186	+14%	+10%	2,046	2,249	+10%	+9%
Visibility Systems	1,022	1,119	+10%	+13%	1,072	1,176	+10%	+15%	2,094	2,295	+10%	+14%
GROUP	**3,581**	**3,917**	**+9%**	**+10%**	**3,717**	**4,213**	**+13%**	**+13%**	**7,298**	**8,130**	**+11%**	**+11.5%**

(1) Including intersegment sales.
(2) Constant Group structure and exchange rates.

Original equipment sales growth outpaced the market in all Business Groups and accelerated in the first half of the year.

- Like-for-like original equipment sales for the **Comfort & Driving Assistance Systems** and **Visibility Systems Business Groups** increased by 16% (excluding peiker) and 14%, respectively, reflecting the market's growing interest in intuitive driving products (display screens, radars and parking assistance and vision systems) as well as for LED technology in the lighting business.
- Like-for-like original equipment sales for the **Powertrain Systems** and **Thermal Systems Business Groups** accelerated in the second quarter (like-for-like original equipment sales up 11% and 10%, respectively), leading to respective 8% and 9% growth (excluding Spheros) in the first half. These two Business Groups are driven by the gradual entry into production of technologies aimed at reducing CO_2 emissions, including the high-output alternator, dual-clutch, dampers and air intake modules.

EBITDA[1]

In first-half 2016, consolidated EBITDA[1] rose 15% to 1,052 million euros, or 12.9% of sales

EBITDA *(in millions of euros and as a % of sales)*	First-half 2015	First-half 2016	First-half Change
Comfort & Driving Assistance Systems	193	241	+25%
	14.4%	*14.5%*	*+0.1 pts*
Powertrain Systems	233	256	+10%
	12.1%	*12.7%*	*+0.6 pts*
Thermal Systems	228	227	-0%
	11.1%	*10.1%*	*-1 pt*
Visibility Systems	248	320	+29%
	11.8%	*13.9%*	*+2.1 pts*
GROUP	**913**	**1,052**	**+15%**
	12.5%	***12.9%***	***+0.4 pts***

(1) See Financial Glossary, page 47.

Against a backdrop of strong sales growth, the **Comfort & Driving Assistance Systems Business Group** continued its R&D investment drive required to develop its numerous ongoing projects. EBITDA for the Business Group was up slightly year-on-year, at 14.5% of sales.

Reflecting their upward profitability trend, EBITDA for the **Powertrain Systems** and **Visibility Systems Business Groups** increased to 12.7% and 13.9% of sales, respectively (up 0.6 percentage points and 2.1 percentage points, respectively, on first-half 2015).

The **Thermal Systems Business Group** saw EBITDA narrow to 10.1% of sales (down 1 percentage point) given the operational difficulties related to the launch of new products at a North American plant. This temporary problem should be resolved in 2017.

3.6. 2016 outlook

Based on the following assumptions:

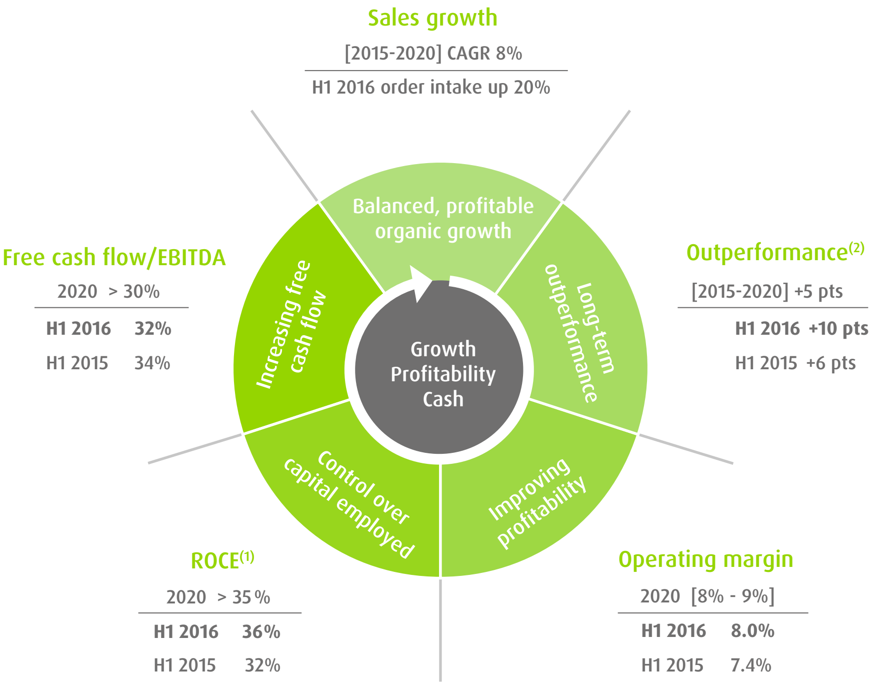
- an increase in global automotive production of around 2.5%, including:
  - around 2% in Europe,
  - around 5% in China,
  - around 2% in North America;
- raw material prices and exchange rates in line with current levels.

Thanks to vigorous sales growth and the strong outperformance of our original equipment sales on the world's main markets, we can confidently confirm the full-year 2016 objectives that were announced on publication of our 2015 annual results, despite the uncertainties that may affect the European automotive market following the recent Brexit decision by the United Kingdom.

3.7 2015-2020 strategic plan

In first-half 2016, Valeo demonstrated that it is capable of growing faster than the market, and its profitability and free cash flow put it ahead of the schedule set out in the medium-term plan presented at the Investor Day on March 16, 2015.

The strategic plan was prepared on a constant-structure basis, and does not take account of any strategic transactions. It does not therefore reflect the expected impacts of the acquisition of peiker, Spheros and FTE or the Valeo-Siemens joint venture.



(1) See Financial Glossary, page 47.
(2) Original equipment sales compared to the market.

3.8 Highlights

3.8.1 Valeo share

On May 26, 2016, Valeo's Annual Shareholders' Meeting approved the three-for-one stock split, effective as of June 6, 2016. This operation makes the stock more accessible to new shareholders, particularly individuals, thereby increasing its liquidity.

3.8.2 Debt management and ratings

On March 3, 2016, Standard & Poor's upgraded Valeo's credit rating outlook from "stable" to "positive", which it confirmed on March 29 along with its long-term and short-term ratings of BBB and A-2, respectively.

On March 11, 2016, Valeo announced the successful placement of 600 million euros' worth of new bonds paying a fixed-rate coupon of 1.625% and maturing on March 18, 2026.

On May 9, 2016, Moody's confirmed Valeo's long-term and short-term corporate credit rating at Baa2 and Prime-2, respectively, along with its "stable" outlook.

On June 9, 2016, Valeo announced that it had successfully placed USD 450 million worth of non-dilutive cash-settled convertible bonds due in 2021. This USD-denominated debt was immediately converted into euros. As the conversion rights in respect of the bonds will be settled solely in cash, the bonds will not result in the issuance of new shares or the delivery of existing Valeo shares. At the same time, Valeo purchased cash-settled call options on its own shares to hedge its exposure to pay cash amounts on any exercise of the bond conversion rights. The initial conversion price for the bonds was set at 64.6137 euros, representing a premium of 45% over the Valeo reference share price of 44.5612 euros.

3.8.3 Opening of new plants

In order to strengthen its presence in high-growth potential countries, especially in Asia, in first-half 2016 Valeo opened four new plants in the following locations: Wuhan (THS, China), Changsu (VIS, China), Melaka (THS, Malaysia) and Gyeongbuk (PTS, South Korea).

In addition, as part of the major strategic transactions completed during the period, the Group welcomed the teams from peiker (three plants and one research center) and Spheros (seven plants and one research center), expanding the Group's footprint to 32 countries with 148 production sites, 19 research centers and 35 development centers.

3.8.4 Innovation

The Group's innovation strategy has for years been founded on CO_2 emissions reduction and intuitive driving. Thanks to this strategy, Valeo is now a major player in the global automotive industry, and one of the main automotive suppliers worldwide. Reflecting this focus, innovative products (in series production for less than three years) accounted for 45% of all order intake in first-half 2016. The Group is diversifying its sources of inspiration and relations as demonstrated by its joint venture with Siemens and its open innovation contest.

Acquisitions and joint ventures

With the aim of bolstering the technology portfolios of the Thermal Systems, Comfort & Driving Assistance Systems and Powertrain Systems Business Groups, Valeo finalized the acquisition of **Spheros** (thermal management activities for buses) and **peiker** (connectivity solutions), as well as announcing the signature of an agreement to acquire **FTE automotive** (transmission technologies). In addition, Valeo also announced plans to form a 50-50 joint venture with **Siemens** (high-voltage powertrains).

Following clearance from the relevant antitrust authorities, on March 8, 2016, Valeo confirmed the acquisition of **peiker**, a leading supplier of on-board telematics and mobile connectivity solutions, which was announced on December 21, 2015. The acquisition will enable Valeo to broaden its range of automotive geolocation and mobile connectivity solutions and enhance its driving assistance systems.

Following clearance from the relevant antitrust authorities, on March 31, 2016, Valeo completed the acquisition of **Spheros**, which was announced on December 23, 2015. This acquisition will allow Valeo to extend its thermal management activities to the fast-growing bus market, boosted by the development of public transportation throughout the world at a time of ever greater urbanization.

On April 18, 2016, Valeo announced its plan to form a 50-50 joint venture with **Siemens** dedicated to high-voltage powertrains. The joint venture will capitalize on Valeo's and Siemens' leading positions in their respective sectors, with the ultimate goal of creating a global leader in the fast-growing automotive electrification market. The two industry leaders are joining forces to offer a comprehensive and innovative range of high-voltage (above 60 V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles), including e-motors, onboard chargers, inverters and DC/DC converters.

On June 2, 2016, Valeo announced that it had signed an agreement to acquire Germany-based FTE automotive, a leading company in transmission technologies whose product portfolio and customer base are highly complementary to Valeo's. The acquisition, which is pending clearance from the competent antitrust authorities, will enable Valeo to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of dual-clutch technology and hybrid vehicles. FTE automotive will also strengthen Valeo's aftermarket business.

Open innovation

To boost its innovation capacity, the Group set up a structure to coordinate its open innovation program with a network of universities and laboratories and a venture capital fund to gain easier access to start-ups and industry partners.

In 2016, Valeo opened a **virtual incubator** to identify suitable tech start-ups for collaborative projects, working as part of a network with venture capital funds and in collaboration with organizations worldwide, such as technology transfer companies. This initiative boosts the Group's visibility and attractiveness among up-and-coming entrepreneurs, and is already generating a deal flow of some 100 opportunities a month.

In order to strengthen its ties with the rich world of academia, in first-half 2016 Valeo stayed true to tradition by running the third annual **Valeo Innovation Challenge**, which forms part of the Group's commitment to open innovation. Valeo invites engineering students from around the world to play an active role in automobile innovation by designing the product or technology that will create smarter, more intuitive cars by 2030. Not only will this year's challenge reward the best technological innovation, it will also feature a second category that will reward the project offering the best new way of using cars. For the first time in 2016, the Valeo Innovation Challenge has accepted entries from students in a broader range of disciplines, including business humanities and design.

A strong presence at trade shows

From January 6 to 9, 2016, Valeo attended the **Consumer Electronics Show** in Las Vegas for the third year in a row. The Group presented its technological innovations for intuitive and smart driving, such as (i) the partially automated Cruise4U® vehicle, (ii) the Mobius™ 2 instrument panel interface that enables motorists to switch to automated driving mode in complete safety and offers a range of services, (iii) the new Sightstream® camera system that replaces conventional side view mirrors, (iv) the revolutionary Remote Clean4U™ system, which enables drivers to defrost and clean the windshield remotely from their smartphone, and (v) smart anti-glare Les Lunettes by Valeo glasses.

From April 29 to May 4, 2016, Valeo attended **Auto China 2016** in Beijing, where it presented the technological innovations that will support its ambitions in the Chinese market. These include (i) the second-generation InBlue® virtual key, which allows drivers to control their vehicle using the cellular network, (ii) the very high efficiency PM2.5 filter that traps almost 100% of particles, and (iii) the new 48 V e4Boost powertrain system, featuring a 48 V electric supercharger and a 48 V iBSG starter-alternator that reduces fuel consumption and CO_2 emissions. Valeo is currently China's leading manufacturer of 48 V systems.

On June 30, 2016, the Group attended the **Viva Technology** event in Paris, where it hosted 40 start-ups in the area of autonomous driving, low-emission vehicles and new aftersales business models in its **Automotive Tech** lab. The aim was to promote collaborative and open innovation and foster cutting-edge ideas for tomorrow's mobility solutions.

3.8.5 Awards

In first-half 2016, the Group enjoyed widespread recognition from its customers and partners for the quality of its products and services, attesting to its operational excellence.

Innovation rewarded

On April 12, 2016, Valeo won a **2016** *Automotive News* **PACE** (Premier Automotive Suppliers' Contribution to Excellence) **award** for its electric supercharger and its water-cooled condenser:

- The electric supercharger is driven by an electric motor that offers a faster response time and eliminates the lag effect associated with turbocharging. It is the first electric-driven compressor in mass production and is designed for 12 V and 48 V systems.
- The Valeo water-cooled condenser uses water instead of air to liquefy air-conditioning refrigerant vapor. In comparison with conventional condensers, Valeo's water-cooled condenser reduces pressure fluctuations in the air-conditioning system thanks to the liquid's inertia. The ultra-compact condenser does not need to be located in front of the radiator, and therefore reduces the fan's electricity use and the amount of refrigerant in the air-conditioning system.

On April 12, 2016, Japanese lighting systems manufacturer Ichikoh, in which Valeo holds an interest, won a **PACE Award** for its innovative LED Light Source module. The module, which fits into a standard socket, reduces costs and requires only the LED to be replaced.

Excellence recognized

Customers continued to recognize the high standard of the Group's performance, particularly in the area of quality. For example:

- On May 11, 2016, the Wuhan plant (VIS, China) received the 2015 Excellent Supplier Award from **Geely** in recognition of the plant's excellence in terms of technological innovation, production management and annual price reductions.
- On March 17, 2016, **Toyota Europe** awarded the Chrzanow plant (VIS, Poland) a Certificate of Achievement for project management and the Mondeville plant (PTS, France) a Certificate of Recognition for its excellent quality performance.
- On May 16, the Hainaut VIS plant in Belgium received a Gold Award from **Ford Motor Company** in recognition of its performance in terms of quality, logistics and costs, and Valeo received the Smart Brand Pillar Award for its ultrasonic parking assistance sensors and automated parking systems (CDA).
- On May 24, 2016, Valeo received five "Best Plants Awards" from **PSA Peugeot Citroën** in recognition of operational excellence at its plants in Tuam (CDA, Ireland), Ben Arous (CDA, Tunisia), Humpolec (THS, Czech Republic), Timisoara (VIS, Romania) and Issoire (VIS, France).

On February 26, 2016, Valeo was certified as a **Global Top Employer**. This distinction, launched in 2015, is awarded to companies in recognition of their effective human resources management practices and policy. The Group has also been certified as a Top Employer Europe 2016 and Top Employer France 2016 for the fifth year running. Valeo stands in third place in the rankings for France.

On May 10, 2016, Jacques Aschenbroich, Valeo's Chairman and Chief Executive Officer, was named "2015 Man of the Year" by the French magazine *Le Journal de l'Automobile*.

3.9 Stock market data

Share performance

The Shareholders' Meeting of May 26, 2016 adopted the nineteenth resolution to carry out a three-for-one stock split. On June 6, the number of shares making up the Company's share capital tripled and the stock began trading on a basis equal to the share price at that date divided by three.

During the first half of 2016, the share's average closing price was 43.08 euros, with a high of 47.42 euros on June 23 and a low of 34.87 euros on January 12. Over the first six months of the year, the Valeo share fell 15.5% from 47.52 euros on December 31, 2015 to a closing price of 40.13 euros on June 30, 2016.

The Valeo share (down 15.5%) underperformed the CAC 40 index (down 8.6%) by 6.9 percentage points. The share outperformed the DJSTOXX Auto index (down 25%) by 9.5 percentage points.

Changes in ownership structure

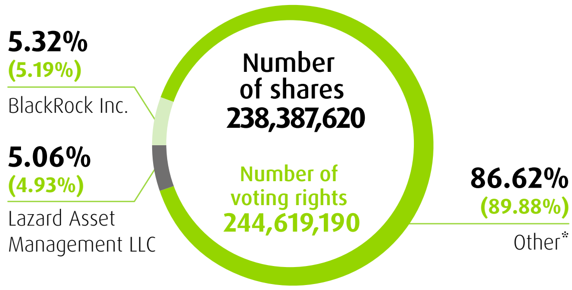
In light of the three-for-one stock split, on June 30, the Company's share capital comprised 238,387,620 shares, proportionately unchanged from December 31, 2015. In accordance with Article 223-11 *et seq.* of the General Regulation of the French financial markets authority (*Autorité des marchés financiers* – AMF), the number of voting rights declared was 244,619,190. Excluding treasury stock, the number of voting rights comes out at 241,976,207.

To the best of the Company's knowledge, its main shareholders are:

- Lazard Asset Management LLC which, acting on behalf of funds and clients it manages, holds, directly or indirectly, 12,063,564 shares in the Company, i.e., 5.06% of the share capital and 4.93% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held, directly or indirectly, 12,692,952 shares in the Company, i.e., 5.32% of the share capital and 5.19% of the voting rights.

At June 30, 2016, Valeo held 2,642,983[1] treasury shares (i.e., 1.11% of the share capital without voting rights) versus 3,025,065[1] shares at December 31, 2015 (1.27%).

Ownership structure at June 30, 2016



** Including 2,642,983 treasury shares (1.11% of the share capital).*

Stock market data

	2015[1]	First-half 2016
Market capitalization at period-end *(in billions of euros)*	11.33	9.57
Number of shares	238,387,620	238,387,620
Highest share price *(in euros)*	52.23	47.42
Lowest share price *(in euros)*	33.20	34.87
Average share price *(in euros)*	44.26	43.08
Share price at period-end *(in euros)*	47.52	40.13

(1) The data differ from those presented in 2015 and published in March 2016, since they have been adjusted to reflect the impacts of the three-for-one stock split.

(1) The data differ from those presented in 2015 and published in March 2016, since they have been adjusted to reflect the impacts of the three-for-one stock split.

Per share data

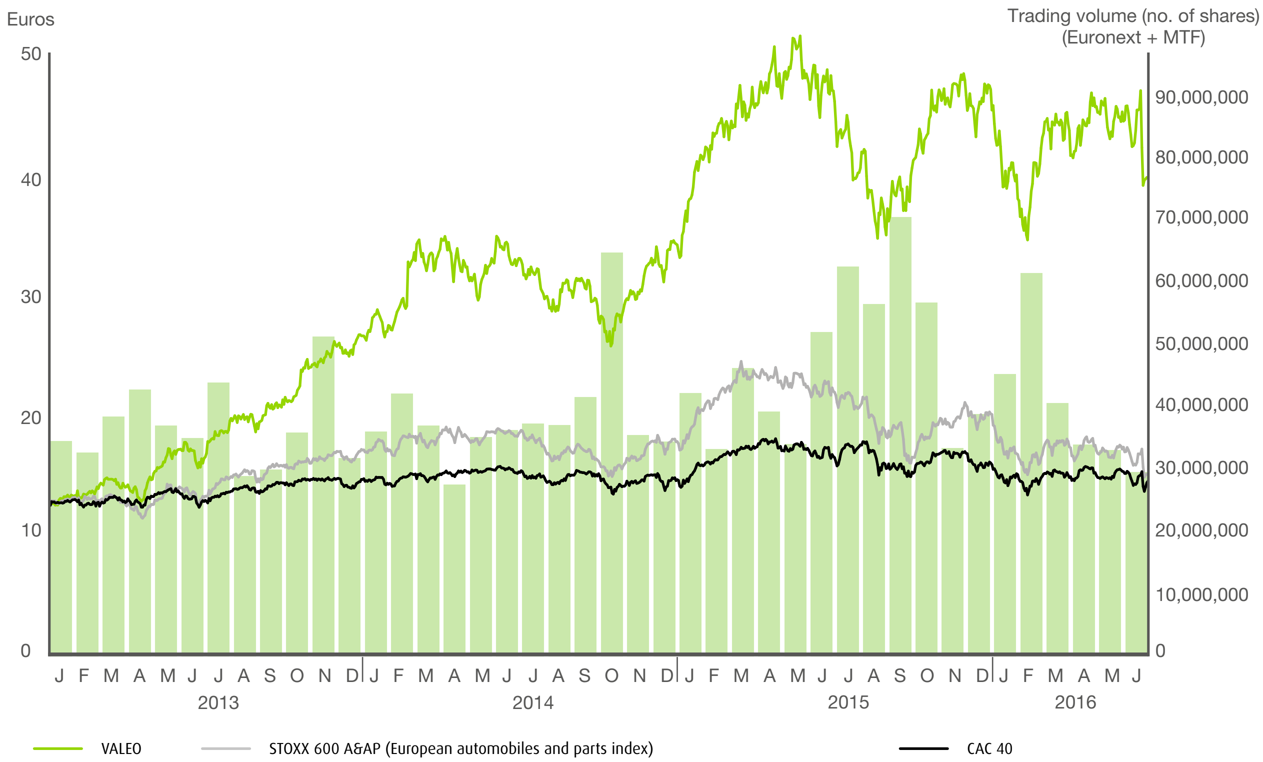
(in euros)	First-half 2015 (1)	First-half 2016
Earnings per share	1.47	1.79
Earnings per share excluding non-recurring items	1.53	1.91

(1) *The data differ from those presented in the first half of 2015 and published in July 2015, since they have been adjusted to reflect the impacts of the three-for-one stock split.*

(in euros)	2015 (1)	2016
Net dividend per share	1.00 (2)	-

(1) *The data differ from those presented in 2015 and published in March 2016, since they have been adjusted to reflect the impacts of the three-for-one stock split.*
(2) *Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code* (Code général des impôts).

Share price and monthly trading volumes



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Provisional financial communication calendar

- Third-quarter 2016 sales: **October 20, 2016**
- Full-year 2016 results: **second half of February 2017**
- First-quarter 2017 sales: **second half of April 2017**
- First-half 2017 results: **second half of July 2017**

3.10 Risk factors and related party transactions

Risk factors

The risk factors are identical to those identified in Chapter 2 of the 2015 Registration Document.

Related party transactions

There were no significant changes in related party transactions during the first half of 2016.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2016

4

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4.1 Consolidated statement of income

(in millions of euros)	*Notes*	First-half 2016	First-half 2015
SALES	*4.1*	**8,130**	**7,298**
Cost of sales	*4.2*	(6,642)	(6,018)
GROSS MARGIN	*4.2*	**1,488**	**1,280**
as a % of sales		*18.3%*	*17.5%*
Research and Development expenditure, net	*4.3.1*	(485)	(402)
Selling expenses		(124)	(115)
Administrative expenses		(260)	(248)
OPERATING MARGIN		**619**	**515**
as a % of sales		*7.6%*	*7.1%*
Share in net earnings of equity-accounted companies	*4.3.2*	28	23
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES		**647**	**538**
as a % of sales		*8.0%*	*7.4%*
Other income and expenses	*4.4.2*	(34)	(21)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.4.1*	**613**	**517**
Interest expense	*8.3.1*	(46)	(47)
Interest income	*8.3.1*	3	4
Other financial income and expenses	*8.3.2*	(24)	(26)
INCOME BEFORE INCOME TAXES		**546**	**448**
Income tax expense	*9*	(97)	(80)
NET INCOME FOR THE PERIOD		**449**	**368**
Attributable to:			
▪ Owners of the Company		422	344
▪ Non-controlling interests		27	24
Earnings per share[1]:			
▪ Basic earnings per share *(in euros)*	*10.2*	1.79	1.47
▪ Diluted earnings per share *(in euros)*	*10.2*	1.77	1.44

(1) Earnings per share shown for first-half 2015 differs from the amount presented in the first-half 2015 consolidated financial statements published in July 2015 since it has been adjusted to reflect the impacts of (i) the three-for-one stock split (see Note 10.1, page 42), and (ii) dilutive equity instruments.

Operating performance indicator

(in millions of euros)	*Note*	First-half 2016	First-half 2015
EBITDA	*3.2*	1,052	913
as a % of sales		*12.9%*	*12.5%*

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

4.2 Consolidated statement of comprehensive income

(in millions of euros)	First-half 2016	First-half 2015
NET INCOME FOR THE PERIOD	**449**	**368**
Share of changes in comprehensive income from equity-accounted companies recycled to income	(1)	13
o/w income taxes	-	-
Translation adjustment	1	131
Cash flow hedges:		
▪ Gains (losses) taken to equity	3	10
▪ (Gains) losses transferred to income for the period	3	(9)
o/w income taxes	*(4)*	*1*
Remeasurement of available-for-sale financial assets	-	-
o/w income taxes	-	-
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME	**6**	**145**
Share of changes in comprehensive income from equity-accounted companies not recycled to income	(2)	2
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(124)	79
o/w income taxes	*24*	*(18)*
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME	**(126)**	**81**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**(120)**	**226**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**329**	**594**
Attributable to:		
▪ Owners of the Company	302	559
▪ Non-controlling interests	27	35

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

4.3 Consolidated statement of financial position

(in millions of euros)	*Notes*	June 30, 2016	December 31, 2015
ASSETS			
Goodwill	*6.1*	1,988	1,450
Other intangible assets		1,209	1,148
Property, plant and equipment		2,885	2,744
Investments in equity-accounted companies		179	192
Other non-current financial assets		103	55
Assets relating to pensions and other employee benefits	*5.1*	-	1
Deferred tax assets		562	526
NON-CURRENT ASSETS		**6,926**	**6,116**
Inventories, net		1,331	1,161
Accounts and notes receivable, net		2,373	1,964
Other current assets		398	371
Taxes recoverable		31	16
Other current financial assets		25	25
Cash and cash equivalents	*8.1.4*	1,853	1,725
Assets held for sale	*2.1*	64	62
CURRENT ASSETS		**6,075**	**5,324**
TOTAL ASSETS		**13,001**	**11,440**
EQUITY AND LIABILITIES			
Share capital		238	238
Additional paid-in capital		1,434	1,434
Translation adjustment		246	245
Retained earnings		1,615	1,556
STOCKHOLDERS' EQUITY		**3,533**	**3,473**
Non-controlling interests		227	219
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**3,760**	**3,692**
Provisions for pensions and other employee benefits – long-term portion	*5.1*	1,081	914
Other provisions – long-term portion	*7.1*	286	255
Long-term debt – long-term portion	*8.1.2*	1,962	1,145
Other financial liabilities – long-term portion		31	1
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.3*	24	-
Subsidies and grants – long-term portion		33	35
Deferred tax liabilities		47	39
NON-CURRENT LIABILITIES		**3,464**	**2,389**
Accounts and notes payable		3,672	3,224
Provisions for pensions and other employee benefits – current portion	*5.1*	69	87
Other provisions – current portion	*7.1*	226	190
Subsidies and grants – current portion		12	12
Taxes payable		56	69
Other current liabilities		1,100	1,012
Long-term debt – current portion	*8.1.2*	355	472
Other financial liabilities – current portion		14	90
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.3*	56	39
Short-term debt	*8.1.1*	202	128
Liabilities held for sale	*2.1*	15	36
CURRENT LIABILITIES		**5,777**	**5,359**
TOTAL EQUITY AND LIABILITIES		**13,001**	**11,440**

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

4.4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	First-half 2016	First-half 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		449	368
Share in net earnings of equity-accounted companies		(28)	(23)
Net dividends received from equity-accounted companies		24	28
Expenses (income) with no cash effect	*11.1*	454	382
Cost of net debt		43	43
Income taxes (current and deferred)		97	80
GROSS OPERATING CASH FLOWS		**1,039**	**878**
Income taxes paid		(133)	(81)
Changes in working capital	*11.2*	43	89
NET CASH FLOWS FROM OPERATING ACTIVITIES		**949**	**886**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(224)	(190)
Acquisitions of property, plant and equipment		(387)	(354)
Disposals of property, plant and equipment and intangible assets		4	5
Net change in non-current financial assets		(8)	(6)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(610)	(1)
Disposals of investments with loss of control, net of cash transferred	*11.4*	25	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,200)**	**(546)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(236)	(172)
Dividends paid to non-controlling interests in consolidated subsidiaries		(16)	(12)
Sale (purchase) of treasury stock		2	9
Issuance of long-term debt	*11.5*	997	101
Loan issue costs and premiums	*11.5*	(56)	-
Interest paid		(54)	(60)
Interest received		2	4
Repayments of long-term debt	*11.5*	(266)	(7)
Acquisitions of investments without gain of control		-	-
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**373**	**(137)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(68)**	**8**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**54**	**211**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**1,597**	**1,240**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,651**	**1,451**
o/w:			
▪ Cash and cash equivalents		1,853	1,713
▪ Short-term debt		(202)	(262)

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

4

4.5 Consolidated statement of changes in stockholders' equity

						Total stockholders' equity including non-controlling interests restated		
Number of shares[1]	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Stockholders' equity	Non-controlling interests	Total
233,301,654	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2015**	**238**	**1,434**	**145**	**929**	**2,746**	**209**	**2,955**
	Dividends paid	-	-		(172)	(172)	(12)	(184)
1,469,265	Treasury stock	-	-	-	9	9	-	9
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	9	9	-	9
	Other movements	-	-	-	-	-	-	-
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(154)**	**(154)**	**(12)**	**(166)**
	Net income for the period	-	-	-	344	344	24	368
	Other comprehensive income (loss) for the period, net of tax	-	-	131	84	215	11	226
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**131**	**428**	**559**	**35**	**594**
234,770,919	**STOCKHOLDERS' EQUITY AT JUNE 30, 2015**	**238**	**1,434**	**276**	**1,203**	**3,151**	**232**	**3,383**
	Dividends paid	-	-	-	-	-	(17)	(17)
591,636	Treasury stock	-	-	-	9	9	-	9
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	8	8	-	8
	Other movements	-	-	-	(28)	(28)	(12)	-
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(11)**	**(11)**	**(29)**	**(40)**
	Net income for the period	-	-	-	385	385	21	406
	Other comprehensive income (loss) for the period, net of tax	-	-	(31)	(21)	(52)	(5)	(57)
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**(31)**	**364**	**333**	**16**	**349**
235,362,555	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2015**	**238**	**1,434**	**245**	**1,556**	**3,473**	**219**	**3,692**
	Dividends paid	-	-	-	(236)	(236)	(16)	(252)
382,082	Treasury stock	-	-	-	2	2	-	2
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	10	10	-	10
	Put options granted[2]	-	-	-	(17)	(17)	(3)	(20)
	Other movements	-	-	-	(1)	(1)	-	(1)
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(242)**	**(242)**	**(19)**	**(261)**
	Net income for the period	-	-	-	422	422	27	449
	Other comprehensive income (loss) for the period, net of tax	-	-	1	(121)	(120)	-	(120)
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**1**	**301**	**302**	**27**	**329**
235,744,637	**STOCKHOLDERS' EQUITY AT JUNE 30, 2016**	**238**	**1,434**	**246**	**1,615**	**3,533**	**227**	**3,760**

(1) The number of shares outstanding at January 1, 2015 differs from the amount presented in the first-half 2015 consolidated financial statements published in July 2015 since it has been adjusted to reflect the impacts of the three-for-one stock split (see Note 10.1, page 42).
(2) This item includes changes in the fair value of liabilities associated with put options granted to holders of non-controlling interests (see Note 8.1.3, page 39).

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

4.6 Notes to the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Valeo Group for the six months ended June 30, 2016 include:

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

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

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

Valeo's condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 26, 2016.

Note 1 Accounting policies

1.1 Accounting standards applied

The condensed interim consolidated financial statements for the six months ended June 30, 2016 have been prepared in accordance with IAS 34 – "Interim Financial Reporting" and with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB), as adopted by the European Union and effective at January 1, 2016.

Pursuant to IAS 34, the Notes to these condensed interim financial statements are designed to:

- update the accounting and financial information contained in the last published consolidated financial statements at December 31, 2015;
- include new accounting and financial information about significant events and transactions that occurred during the period.

These notes therefore discuss significant events and transactions having occurred in the first six months of 2016 and should be read in conjunction with the information set out in the consolidated financial statements for the year ended December 31, 2015 included in the Group's 2015 Registration Document[1].

The accounting principles used to prepare the condensed interim consolidated financial statements for the six months ended June 30, 2016 are the same as those used to prepare the 2015 annual consolidated financial statements, except as regards the specific accounting treatments described in Notes 5.1 and 9, respectively on pages 34 and 42.

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

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

- Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions";
- Annual improvements to IFRS for 2010-2012;
- Amendments to IFRS 11 – "Accounting for Acquisitions of Interests in Joint Operations";
- Amendments to IAS 16 and IAS 38 – "Clarification of Acceptable Methods of Depreciation and Amortisation";
- Amendments to IAS 1 – "Disclosure Initiative";
- Annual Improvements to IFRS for 2012-2014.

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

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

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

- IFRS 9 – "Financial Instruments", along with amendments to IFRS 9;
- IFRS 15 – "Revenue from Contracts with Customers" as well as clarifications to IFRS 15;

(1) *The 2015 Registration Document is available on the Group's website (www.valeo.com) or on the website of the AMF (www.amf-france.org), and may be obtained from the Group by writing to the address stated above.*

- IFRS 16 – "Leases";
- Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (first-time application date deferred by the IASB to an as yet unspecified date);
- Amendments to IAS 12 – "Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses";
- Amendments to IAS 7 – "Disclosure Initiative";
- Amendments to IFRS 2 – "Classification and Measurement of Share-based Payment Transactions".

On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39:

- the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question;
- the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses;
- the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy.

The IASB has set the effective date of IFRS 9 at January 1, 2018, with earlier adoption permitted.

On May 28, 2014, the IASB published IFRS 15 – "Revenue from Contracts with Customers". IFRS 15 will supersede IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition, and introduces a new model for accounting for revenue from contracts with customers. Initially set to be effective for reporting periods beginning on or after January 1, 2017, the first-time application date for IFRS 15 was deferred to reporting periods beginning on or after January 1, 2018 pursuant to an IASB decision published on September 11, 2015. Clarifications to the standard were published by the IASB on April 12, 2016 following publication of the "Clarifications to IFRS 15" exposure draft in July 2015.

On January 16, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 will supersede IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the previous distinction between operating and finance leases. Lessees will be required to account for all leases with a term of over one year in the same way as currently required by IAS 17 for finance leases, thereby recognizing a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The standard will be applicable for reporting periods beginning on or after January 1, 2019.

The Group is currently assessing the qualitative and quantitative impact of these three new standards on the consolidated financial statements.

The other new publications are not expected to have a material impact on the Group's consolidated financial statements.

1.2 Basis of preparation

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

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

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

Key estimates, assumptions and judgments adopted by the Group to prepare its financial statements for the six months ended June 30, 2016 chiefly concern:

- the conditions for capitalizing Research and Development expenditure;
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6.2, page 36);
- estimates of provisions, particularly for pensions and other employee benefits and for risks linked to product warranties (see Notes 5.1 and 7, pages 34 and 36);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9, page 42).

Note 2 Changes in the scope of consolidation

2.1 Transactions carried out in first-half 2016

2.1.1 Acquisition of peiker

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

Having received clearance from the antitrust authorities, on March 8, 2016 Valeo acquired control of peiker for 299 million euros. Valeo holds the entire share capital of the company, which has been consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2016.

Given how recently the acquisition was finalized, the purchase price has been allocated to peiker's assets and liabilities on a provisional basis over the first half of 2016, in accordance with IFRS 3 (revised). Provisional goodwill resulting from the acquisition amounts to 240 million euros. The Group expects to finalize identifying and measuring the identifiable assets acquired and liabilities assumed at their acquisition-date fair values in the second half of 2016.

The main impacts of the acquisition are as follows:

(in millions of euros)	March 1, 2016
Identifiable assets acquired	164
Identifiable liabilities assumed	(105)
TOTAL IDENTIFIABLE NET ASSETS	**59**
Provisional goodwill arising on the acquisition	240
PURCHASE PRICE	**299**

(in millions of euros)	March 1, 2016
Net cash and cash equivalents acquired	6
Consideration paid	(299)
Acquisition costs paid during the period	(3)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(296)**

peiker contributed 114 million euros to consolidated sales in the first half of 2016 and generated an operating margin of around 14 million euros.

2.1.2 Acquisition of Spheros

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

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

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

Given how recently the acquisition was finalized, the purchase price has been allocated to Spheros' assets and liabilities on a provisional basis over the first half of 2016, in accordance with IFRS 3 (revised). Provisional goodwill resulting from the acquisition amounts to 282 million euros. The Group expects to finalize identifying and measuring the identifiable assets acquired and liabilities assumed at their acquisition-date fair values in the second half of 2016.

The main impacts of the acquisition are as follows:

(in millions of euros)	April 1, 2016
Identifiable assets acquired	127
Identifiable liabilities assumed	(154)
TOTAL IDENTIFIABLE NET ASSETS	**(27)**
Provisional goodwill arising on the acquisition	282
PURCHASE PRICE	**255**

(in millions of euros)	April 1, 2016
Net cash and cash equivalents acquired	(58)
Consideration paid	(255)
Acquisition costs paid during the period	(1)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(314)**

Spheros contributed 62 million euros to consolidated sales in the first half of 2016 and generated an operating margin of 7 million euros.

2.1.3 Acquisition of FTE automotive

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

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

This acquisition, currently pending clearance from the competent antitrust authorities, has no impact on the 2016 condensed interim consolidated financial statements.

2.1.4 Plan to form a partnership with Siemens in the field of high-voltage powertrains

On April 18, 2016, Valeo announced its plan to form a 50-50 joint venture with Siemens dedicated to high-voltage powertrains. The joint venture will capitalize on Valeo's and Siemens' leading positions in their respective sectors, with the ultimate goal of creating a global leader in the fast-growing automotive electrification market. The two industry leaders are joining forces to offer a comprehensive and innovative range of high-voltage (above 60V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles), including e-motors, onboard chargers, inverters and DC/DC converters.

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

The plan is subject to approval by the competent authorities.

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

2.1.5 Sale of the Engine Control business

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

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

The Engine Control business contributed 10 million euros to consolidated sales in the first half of 2016 up until the date of sale, versus 26 million euros in first-half 2015.

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

Net of cash and cash equivalents transferred, this sale resulted in a net inflow of 26 million euros in the consolidated statement of cash flows for first-half 2016.

2.2 Transactions carried out in 2015

2.2.1 Reorganization of the Wiper Systems business in China

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

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

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

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

The liability relating to the put option granted to STEC was remeasured at its fair value on June 30, 2016 (see Note 8.1.3, page 39).

2.3 Subsequent event

On July 22, 2016, Valeo and Siemens signed an agreement to form a 50-50 joint venture dedicated to high-voltage powertrains, subject to clearance from the competent authorities.

Note 3 Segment reporting

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

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

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance; Interior Controls and Interior Electronics. It focuses on the driver experience and develops a range of unique solutions to make driving more intuitive, automated and connected through innovative interfaces between the driver, the vehicle and the surrounding environment, thereby making mobility safer, more connected and more environmentally friendly.
- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics. It develops innovative solutions to reduce fuel consumption and CO_2 and other pollutant emissions. Its innovations cover a comprehensive range of products, from the optimization of internal combustion engines through to vehicle electrification.
- Thermal Systems, comprising four Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor and Thermal Front End. It develops and manufactures systems, modules and components to ensure thermal energy management of the powertrain and in-vehicle comfort during all phases of vehicle use and for all types of powertrain.

- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. The Business Group designs and produces efficient and innovative systems which support the driver and passengers in all weather, day and night, and in their various on-board activities.

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

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

3.1 Key segment performance indicators

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

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

First-half 2016

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	1,652	1,982	2,235	2,244	17	**8,130**
■ intersegment (Group)	8	29	14	51	(102)	**-**
EBITDA	**241**	**256**	**227**	**320**	**8**	**1,052**
Research and Development expenditure, net	(166)	(97)	(92)	(121)	(9)	**(485)**
Investments in property, plant and equipment and intangible assets	159	166	130	152	10	**617**
Segment assets	1,854	1,797	1,943	1,919	79	**7,592**

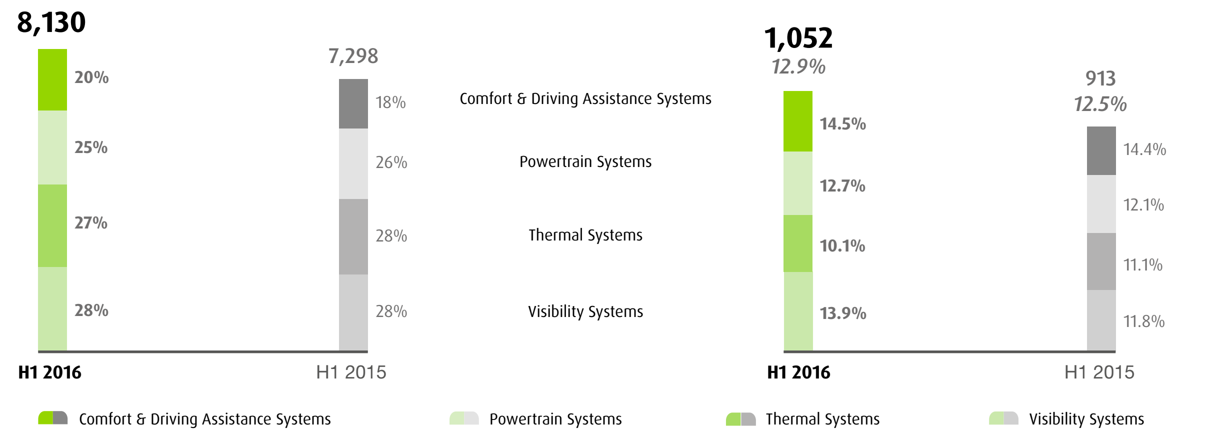
First-half 2015

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	1,327	1,898	2,022	2,035	16	**7,298**
■ intersegment (Group)	9	28	24	59	(120)	**-**
EBITDA	**193**	**233**	**228**	**248**	**11**	**913**
Research and Development expenditure, net	(125)	(90)	(73)	(110)	(4)	**(402)**
Investments in property, plant and equipment and intangible assets	149	131	109	133	13	**535**
Segment assets	1,347	1,772	1,415	1,774	70	**6,378**

Segment data

Breakdown of 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

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	First-half 2016	First-half 2015
Operating margin	**619**	**515**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[1]	409	370
Dividends paid by equity-accounted companies	24	28
EBITDA	**1,052**	**913**

(1) Impairment losses recorded in operating margin only.

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

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	June 30, 2016	June 30, 2015
Segment assets	**7,592**	**6,378**
Accounts and notes receivable	2,373	2,071
Other current assets	398	420
Taxes recoverable	31	12
Financial assets	1,981	1,782
Assets held for sale[1]	64	69
Deferred tax assets	562	391
TOTAL GROUP ASSETS	**13,001**	**11,123**

(1) At June 30, 2016, assets classified as held for sale correspond to the assets of the high-voltage powertrain systems business (see Note 2.1.4, page 28). At June 30, 2015, assets classified as held for sale correspond to the assets of the Engine Control business, which was sold on February 29, 2016 (see Note 2.1.5, page 28).

3.3 Reporting by geographic area

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

First-half 2016

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	686	1,571	664
Other European countries and Africa	3,521	2,869	1,423
North America	1,708	1,709	649
South America	178	149	49
Asia	2,037	2,180	1,489
Eliminations	-	(348)	(1)
TOTAL	**8,130**	**8,130**	**4,273**

First-half 2015

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	616	1,520	682
Other European countries and Africa	3,090	2,394	1,179
North America	1,510	1,500	562
South America	203	173	91
Asia	1,879	2,023	1,379
Eliminations	-	(312)	-
TOTAL	**7,298**	**7,298**	**3,893**

Note 4 Operating data

4.1 Sales

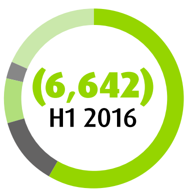
Group sales moved up 11.4% to 8,130 million euros in first-half 2016 from 7,298 million euros in first-half 2015.

The increase reflects a 2.4% positive impact of changes in scope of consolidation, and a 1.8% negative currency effect, relating mainly to the Chinese renminbi, the Brazilian real and the South Korean won. Like-for-like (comparable Group structure and exchange rate basis), consolidated sales climbed 10.8% between first-half 2015 and first-half 2016.

4.2 Gross margin and cost of sales

Gross margin totaled 1,488 million euros in first-half 2016, or 18.3% of sales (17.5% of sales in first-half 2015).

Cost of sales can be analyzed as follows:



(in millions of euros and as a % of sales)		First-half 2016	First-half 2015
58.6%[2]	– Raw materials consumed	(4,766)	(4,271)
12.2%[2]	– Labor	(989)	(926)
8.0%[2]	– Direct production costs and production overheads	(647)	(597)
3.0%[2]	– Depreciation and amortization[1]	(240)	(224)
	Cost of sales	**(6,642)**	**(6,018)**

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net.
(2) As a % of sales.

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

In first-half 2016, operating margin including share in net earnings of equity-accounted companies came out at 647 million euros, representing 8.0% of sales, versus 7.4% in first-half 2015.

Share in net earnings of equity-accounted companies amounted to 28 million euros in the first six months of the year, compared with 23 million euros in the same prior-year period. See Note 4.3.2, page 33 for more information.

4.3.1 Research and Development expenditure, net

Net Research and Development expenditure can be analyzed as follows:

(in millions of euros)	First-half 2016	First-half 2015
Research and Development expenditure	(760)	(644)
Contributions received and subsidies	194	173
Capitalized development expenditure	209	173
Amortization and impairment of capitalized development expenditure	(128)	(104)
RESEARCH AND DEVELOPMENT EXPENDITURE, NET	**(485)**	**(402)**

In first-half 2016, the Group continued to step up its Research and Development efforts to meet the significant increase in its order book over the past few years.

4.3.2 Associates and joint ventures

Share in net earnings of equity-accounted companies can be broken down as follows:

(in millions of euros)	First-half 2016	First-half 2015
Share in net earnings of associates	12	5
Share in net earnings of joint ventures	16	18
SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**28**	**23**

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

The increase in the share in net earnings of associates mainly reflects the increase in the share of net earnings attributable to Ichikoh Industries Limited, which amounted to 9 million euros in the first six months of the year, compared with 3 million euros in the same prior-year period.

4.4 Operating income and other income and expenses

4.4.1 Operating income

Operating income including share in net earnings of equity-accounted companies totaled 613 million euros in first-half 2016, versus 517 million euros in first-half 2015.

4.4.2 Other income and expenses

Other income and expenses can be analyzed as follows:

(in millions of euros)	*Notes*	First-half 2016	First-half 2015
Transaction costs and capital gains and losses arising on changes in the scope of consolidation			
■ Acquisition fees		(4)	-
■ Sale of the Engine Control business		1	-
Claims and litigation:	*4.4.2.1*		
■ Antitrust proceedings		(17)	(1)
■ Other disputes		(1)	(1)
Restructuring plans	*4.4.2.2*	(13)	(19)
OTHER INCOME AND EXPENSES		**(34)**	**(21)**

4.4.2.1 Claims and litigation

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers (including Valeo) by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry (see Note 7.2, page 36).

In first-half 2016, claims and litigation comprised legal advisory costs relating to these investigations and civil proceedings brought by customers.

4.4.2.2 Restructuring plans

Restructuring costs for first-half 2016 mainly relate to the cost of early retirement plans in Germany and expenses relating to the phased shutdown of operations at a plant in Spain announced in 2015, and a curtailment of operations at a plant in France announced in first-half 2016.

Restructuring costs for first-half 2015 mainly relate to early retirement plans for certain sites in Germany, a headcount adjustment plan in South America and a lay-off plan in Japan announced during the period.

Note 5 Personnel expenses and employee benefits

5.1 Provisions for pensions and other employee benefits

The provision for pensions and other employee benefits is recognized based on projections made by actuaries using data from the end of the previous reporting period. The discount rates for the countries representing the Group's most significant obligations (United States, eurozone, United Kingdom, Japan and South Korea) are reviewed at June 30. Projections are adjusted in order to reflect any significant changes in assumptions over the period or one-off impacts linked to discount rates, applicable legislation or the population concerned.

At June 30, the value of the main plan assets is also reviewed and adjusted wherever the market value of the assets differs significantly from their carrying amount.

Provisions for pensions and other employee benefits totaled 1,150 million euros at June 30, 2016, versus 1,000 million euros at December 31, 2015.

The discount rates used at the end of June 2016 in the countries representing the Group's most significant obligations were as follows:

Country	Benchmark index *(%)*	June 30, 2016	December 31, 2015
Eurozone	iBoxx €-Corporate AA 10-year+	1.50	2.20
United Kingdom	iBoxx £-Corporate AA 15-year+	2.75	4.00
United States	iBoxx $-Corporate AA 10-year+	3.50	4.30
Japan	10-year government bonds	0.20	0.90
South Korea	10-year government bonds	2.10	2.70

At June 30, 2016, the Group reviewed its discount rates and the market value of its plan assets:

- the fall in first-half 2016 in the benchmark indexes used by the Group for the main countries led to a 151 million euro increase in its obligations. This adjustment was included in actuarial gains (losses) on defined benefit plans in the statement of other comprehensive income;
- the actual return on the Group's main plan assets in the United States, United Kingdom, Japan and South Korea gave rise to an actuarial gain of 3 million euros in first-half 2016 (recognized in other comprehensive income) and a corresponding reduction in the provision.

Excluding this 148 million euro impact, changes in provisions for pensions and other employee benefits chiefly reflect:

- utilization of the provision in an amount of 36 million euros;
- a net expense of 40 million euros over the first half of 2016, of which 13 million euros was recorded in other financial income and expenses (see Note 8.3.2, page 41);
- an increase of 2 million euros resulting from the acquisition of Spheros and peiker during the period;
- a positive 4 million euro impact resulting from changes in foreign exchange rates.

5.2 Free share and performance share plans

On May 26, 2016, the Board of Directors decided to grant a performance share plan involving 685,347 shares, of which 111,825 free shares and 573,522 shares subject to performance criteria, with a three-year vesting period for employees based in France, Spain and Italy and a five-year vesting period for employees based in other countries.

In accordance with IFRS 2, Valeo has estimated the fair value of this plan based on the fair value of the equity instruments granted. For plans awarded in respect of 2016, fair value is estimated at 23 million euros (30 million euros for the plan awarded in 2015) and will be expensed over the vesting period, mainly with an offsetting entry to equity.

Note 6 Intangible assets and property, plant and equipment

6.1 Goodwill

Changes in goodwill in first-half 2016 and full-year 2015 are analyzed below:

(in millions of euros)	June 30, 2016	December 31, 2015
NET GOODWILL AT JANUARY 1	**1,450**	**1,374**
Acquisitions during the period	522	2
Reclassification	(7)	-
Translation adjustment	23	74
NET GOODWILL	**1,988**	**1,450**
o/w accumulated impairment losses	-	-

The increase in goodwill during first-half 2016 primarily relates to the acquisitions during the period of peiker (see Note 2.1.1, page 27) and Spheros (see Note 2.1.2, page 27) and, to a lesser extent, the increase in value of the yen. These impacts were partly offset by the reclassification of goodwill related to the high-voltage powertrain systems business as assets held for sale (see Note 2.1.4, page 28).

Goodwill balances are broken down by Business Group as follows:

(in millions of euros)	June 30, 2016	December 31, 2015
28% – Comfort & Driving Assistance Systems	565	309
17% – Powertrain Systems	340	350
32% – Thermal Systems	629	329
23% – Visibility Systems	453	461
0% – Other	1	1
Goodwill	**1,988**	**1,450**

6.2 Impairment of non-current assets

6.2.1 Impairment testing

Property, plant and equipment and intangible assets whose recoverable amount cannot be estimated on a stand-alone basis are grouped together into cash-generating units (CGUs). Two new CGUs were created during the period following the acquisition of peiker (see Note 2.1.1, page 27) and Spheros (see Note 2.1.2, page 27), bringing to 27 the total number of CGUs at end-June 2016.

The net carrying amount of goodwill is monitored at the level of the Business Groups and is reviewed at least once a year and whenever there are objective indicators that it may be impaired.

To prepare medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill at December 31, 2015, the Group based itself on projected data for the automotive market, as well as its own order book and its development prospects on emerging markets. The assumptions applied at the end of 2015 were still considered appropriate at the 2016 interim reporting date.

The main impairment indicators used to identify CGUs to be tested were a projected negative operating margin in first-half 2016 or a fall of over 20% in first-half 2016 sales compared to first-half 2015.

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

Based on an analysis of these impairment indicators for each of the Group's CGUs, Valeo did not consider it necessary to carry out any impairment tests in first-half 2016.

6.2.3 Goodwill

The impairment tests performed in the last quarter of 2015 did not lead to the recognition of any goodwill impairment at the end of the year.

At June 30, 2016, the Group considered that there had been no change in the assumptions used to determine the recoverable amount of goodwill at December 31, 2015 that would justify performing further impairment tests in the period.

Note 7 Other provisions and contingent liabilities

7.1 Other provisions

(in millions of euros)	June 30, 2016	December 31, 2015
42% – Provisions for product warranties	216	183
18% – Provisions for tax-related disputes	94	79
16% – Provisions for restructuring costs	82	82
3% – Environmental provisions	14	14
2% – Provisions for onerous contracts	8	9
19% – Provisions for employee-related and other disputes	98	78
Other provisions	**512**	**445**

A number of Group companies are involved in legal proceedings in the ordinary course of their operations. Each known dispute was reviewed at the end of the reporting period. Based on the opinions of the Group's legal counsel, the provisions set aside are considered adequate to cover the estimated risks.

The estimates underpinning these provisions are made based on information available at the end of the reporting period. The amounts reported in Valeo's future financial statements may differ from the amounts resulting from these estimates.

7.2 Contingent liabilities

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

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

In the US, an out-of-court settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of USD 13.6 million. In return, this agreement, which was ratified by the United States District Court of 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.

Class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and with Canadian courts. In view of the current stage of these proceedings, Valeo is unable to assess their likely outcome. However, Valeo cannot rule out that they could have an adverse impact on the Group's future earnings.

In Europe, investigations by the European antitrust authorities are still in progress. Valeo is cooperating fully with the European Commission in connection with its investigations. At this stage, the Group is unable to predict the outcome of these investigations. However, Valeo cannot rule out that they could have a material adverse impact on its future earnings.

The Group is also unable to predict the outcome of any compensation claims filed or that may be filed by customers. However, it cannot rule out that any civil claims could have a material adverse impact on its future earnings.

7.3 Subsequent event

A provision in an amount of USD 8.75 million was set aside in the condensed interim consolidated financial statements in respect of two class actions filed against Group companies. The amount reflects the settlements being negotiated with the plaintiffs (see Note 4.4.2).

On July 25, 2016, two out-of-court settlements were signed with automotive end-customers and car dealerships, respectively, in line with the above estimate. If cleared by the competent court, the agreements will bring to a close the two class actions filed against Valeo in the US relating to air conditioning systems.

Note 8 Financing and financial instruments

4

8.1 Debt

8.1.1 Net debt

Net debt is defined as all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, and short-term credit and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, and the fair value of derivative instruments hedging interest rate and currency risks associated with these items.

	June 30, 2016			December 31, 2015		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	1,962	355	2,317	1,145	472	1,617
Long-term loans and receivables	(1)	-	(1)	(1)	-	(1)
Put options granted to holders of non-controlling interests	24	56	80	-	39	39
TOTAL BORROWINGS AND DEBT	**1,985**	**411**	**2,396**	**1,144**	**511**	**1,655**
Short-term debt	-	202	202	-	128	128
Cash and cash equivalents	-	(1,853)	(1,853)	-	(1,725)	(1,725)
TOTAL CASH AND CASH EQUIVALENTS	**-**	**(1,651)**	**(1,651)**	**-**	**(1,597)**	**(1,597)**
DERIVATIVE INSTRUMENTS ASSOCIATED WITH INTEREST RATE AND CURRENCY RISKS	(8)	2	(6)	-	66	66
NET DEBT	1,977	(1,238)	739	1,144	(1,020)	124

8.1.2 Long-term debt

(in millions of euros)	June 30, 2016	December 31, 2015
Bonds	2,092	1,138
Syndicated loan	-	250
EIB (European Investment Bank) loans	123	122
Lease obligations	10	9
Other borrowings	70	58
Accrued interest	22	40
LONG-TERM DEBT	**2,317**	**1,617**

Long-term debt rose over the period, standing at 2,317 million euros at June 30, 2016 versus 1,617 million euros at December 31, 2015.

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

- on March 18, 2016, Valeo issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. The issue was carried out under the Euro Medium Term Note program.
- on June 16, 2016, Valeo issued USD 450 million worth of five-year non-dilutive convertible bonds paying a coupon of 0%. As the conversion rights (exercise price of 64.6137 euros) in respect of the bonds will be settled solely in cash, the bonds will not result in the issuance of new shares or the delivery of existing Valeo shares. At the same time, Valeo purchased cash-settled call options on its own shares to hedge its exposure in the event that the bond conversion rights are exercised. The purchase of these call options is shown under "Loan issue costs and premiums" within financing activities in the consolidated statement of cash flows.

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

  A euro/dollar currency swap for USD 450 million was set up on inception of the issue and with the same maturity. This swap was designated as a cash flow hedge.

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

At June 30, 2016, long-term debt chiefly includes:

- 600 million euros' worth of ten-year bonds issued on March 18, 2016 and maturing in 2026 under the Euro Medium Term Note program. The bonds pay a fixed coupon of 1.625%;
- 700 million euros' worth of ten-year bonds issued on January 22, 2014 and maturing in 2024 under a Euro Medium Term Note program. The bonds pay a fixed coupon of 3.25%;
- USD 450 million worth of five-year non-dilutive convertible bonds maturing in 2021 and issued by Valeo on June 16, 2016 under the aforementioned conditions;
- 273 million euros' worth of seven-year bonds maturing in 2018 issued under the Euro Medium Term Note program. The original amount of the May 12, 2011 issue was 500 million euros and paid a fixed coupon of 4.875%. In January 2014, Valeo redeemed part of this issue and exchanged a nominal amount of 226 million euros of this issue for a new issue. The effective interest rate remains unchanged at 5.09%;
- 146 million euros' worth of five-year bonds issued on January 19, 2012 and maturing in 2017. These bonds, issued under the Euro Medium Term Note program for an initial amount of 500 million euros and paying a coupon of 5.75% were partly redeemed in January 2014 for a nominal amount of 354 million euros. The effective interest rate remains unchanged at 5.92%;
- two private placements carried out in June 2015 for an aggregate amount of 100 million euros:
  - an initial 30 million euro loan maturing in 13 months and bearing variable interest at 1-month Euribor +0.22% for the first tranche falling due on July 1, 2015, then 3-month Euribor +0.22% thereafter. An interest rate swap was taken out in respect of the loan, exchanging variable interest for a fixed rate of 0.23%,
  - a second 70 million euro loan maturing in 18 months and bearing variable interest at 3-month Euribor +0.30%. An interest rate swap was also set up in respect of this loan, exchanging variable interest for a fixed rate of 0.3225%;
- two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB reduced-rate loans were granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO_2 emissions and improve active safety, and consist of:

  - an initial 225 million euro loan (on which an amount of 56 million euros was outstanding at June 30, 2016 following repayment of three installments for a total amount of 169 million euros), taken out on August 5, 2009 for a seven-year term and repayable in four equal annual installments as from 2013. This loan bears variable interest at 6-month Euribor +2.46%. An interest rate swap was taken out in respect of the loan, exchanging Euribor for a fixed rate of 3.37%,
  - a second USD 103 million loan (on which an amount of USD 77 million was outstanding at June 30, 2016 following repayment of the first USD 26 million installment), taken out on November 3, 2011 for a seven-year term and repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor +1.9%. The EIB loan is in US dollars and hedges internal loans denominated in the same currency;
- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain and borrowings taken out by peiker.

At June 30, 2016, Valeo had several confirmed bank credit lines totaling 1.2 billion euros. No amounts were drawn down on these facilities in first-half 2016.

Covenants: bank credit lines and the two European Investment Bank loans are subject to a covenant stipulating that Valeo's net-debt-to-EBITDA ratio must not exceed 3.25. Calculated over a 12-month period, the ratio came out at 0.4 at June 30, 2016 (versus less than 0.1 at December 31, 2015).

Bonds 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 to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo’s bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

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

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

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

The ratings of Standard & Poor’s and Moody’s confirm Valeo’s investment grade status:

- on March 3, 2016, Standard & Poor’s confirmed its “BBB/A-2” long-term and short-term corporate credit ratings for Valeo with a positive outlook (compared with a stable outlook previously);
- on May 9, 2016, Moody's confirmed its Baa2/P-2 long-term and short-term credit ratings for Valeo with a stable outlook.

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

At June 30, 2016, liabilities associated with put options granted to holders of non-controlling interests amounted to 80 million euros and can be analyzed as follows:

- 56 million euros relating to the put option granted in respect of Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, versus 39 million euros at December 31, 2015.

  As part of the reorganization of the Wiper Systems business in China (see Note 2.2.1, page 29), and in accordance with the amended partnership agreement signed on June 16, 2015, Valeo granted a put option to STEC, which it may exercise at any time. At June 30, 2016, the remeasurement of this option at fair value led to a 2 million euro decrease in the related non-controlling interests and a 15 million euro decrease in consolidated retained earnings attributable to owners of the Company.

- 24 million euros relating to the put option granted in respect of Spheros Climatização do Brasil SA as part of the acquisition of Spheros.

  At June 30, 2016, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option which it may exercise at any time following an agreed period of one year. As part of the opening balance sheet following the acquisition of Spheros (see Note 2.1.2, page 27), a debt corresponding to the present value of the exercise price of this put option was recognized in an amount of 21 million euros. The remeasurement of this option at June 30, 2016 led to a 1 million euro decrease in the related non-controlling interests and a 2 million euro decrease in consolidated retained earnings attributable to owners of the Company.

8.1.4 Cash and cash equivalents

(in millions of euros)	June 30, 2016	December 31, 2015
Marketable securities	1,171	1,025
Cash	682	700
CASH AND CASH EQUIVALENTS	**1,853**	**1,725**

Cash and cash equivalents totaled 1,853 million euros at June 30, 2016, consisting of 1,171 million euros of marketable securities with a low price volatility risk, and 682 million euros in cash. Marketable securities chiefly comprise money market funds.

These items were measured using Level 1 inputs.

The remaining amount of cash and cash equivalents, corresponding to the share of the Group's partners in fully consolidated companies that are not wholly owned by Valeo, totaled 52 million euros at June 30, 2016 and 48 million euros at December 31, 2015.

8.2 Fair value of financial instruments

	2016 carrying amount under IAS 39			June 30, 2016	December 31, 2015
(in millions of euros)	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
■ Available-for-sale financial assets	-	39	-	**39**	31
■ Loans	1	-	-	**1**	1
■ Deposits and guarantees	22	-	-	**22**	19
■ Other non-current financial assets	-	-	4	**4**	4
■ Hedging derivatives	-	8	-	**8**	-
■ Trading derivatives	-	-	29	**29**	-
Assets relating to pensions and other employee benefits	-	-	-	**-**	1
Accounts and notes receivable	2,373	-	-	**2,373**	1,964
Other current financial assets:					
■ Hedging derivatives	-	15	-	**15**	8
■ Trading derivatives	-	-	10	**10**	17
Cash and cash equivalents	-	-	1,853	**1,853**	1,725
LIABILITIES					
Non-current financial liabilities:					
■ Other non-current financial liabilities	-	-	-	**-**	-
■ Trading derivatives	-	-	29	**29**	-
Bonds	2,092	-	-	**2,092**	1,138
Syndicated loan	-	-	-	**-**	250
EIB (European Investment Bank) loans	123	-	-	**123**	122
Other long-term debt	102	-	-	**102**	107
Accounts and notes payable	3,672	-	-	**3,672**	3,224
Other current financial liabilities:					
■ Hedging derivatives	-	5	-	**5**	8
■ Trading derivatives	-	-	9	**9**	82
Liabilities associated with put options granted to holders of non-controlling interests	-	80	-	**80**	39
Short-term debt	202	-	-	**202**	128

The main terms and conditions of borrowings (bonds, EIB loans and private placements) are set out in Note 8.1.2, page 38.

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

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

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy. The fair value of bonds totaled 2,329 million euros at June 30, 2016 versus 1,241 million euros at December 31, 2015.

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

These issuer spreads were estimated (source: Markit Reuters) at:

- 0.2% for the 56 million euro EIB loan;
- 0.6% (two-year CDS including the US dollar/euro basis swap of 0.4%) for the EIB loan drawn in the amount of USD 77 million at June 30, 2016;
- 0.2% for the private placements in an aggregate amount of 100 million euros.

At June 30, 2016, the fair values of these items amounted to 127 million euros for the EIB loans (129 million euros at December 31, 2015) and 100 million euros for the private placements (identical to the fair value at December 31, 2015).

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

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

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

The net impact of taking into account credit risk was calculated according to the probabilities of default issued by Reuters. At June 30, 2016 and December 31, 2015, this impact was not material for the Group.

8.3 Financial income and expenses

8.3.1 Cost of net debt

The cost of net debt was stable as compared to first-half 2016. It includes finance costs relating to undrawn credit lines (1 million euros), and financial expenses relating to the sale of trade receivables, and the 2015 research tax credit (3 million euros).

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8.3.2 Other financial income and expenses

(in millions of euros)	First-half 2016	First-half 2015
Net interest cost on provisions for pensions and other employee benefits(1)	(13)	(13)
Currency gains (losses)	(9)	(13)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	-
Gains (losses) on interest rate derivatives (ineffective portion)	-	-
Other	(1)	-
OTHER FINANCIAL INCOME AND EXPENSES	**(24)**	**(26)**

(1) See Note 5.1, page 34.

Note 9 Income taxes

In accordance with IAS 34 on interim financial reporting, the Group's income tax expense was calculated based on an estimated average tax rate for 2016. This estimated average rate was calculated on the basis of the tax rates likely to apply and on pre-tax earnings forecasts for the Group's tax entities.

In first-half 2016, income tax expense totaling 97 million euros reflects an effective tax rate of 18.7% and takes into account deferred tax assets recognized in the United States for 15 million euros.

The 80 million euro tax expense for first-half 2015 reflected an effective tax rate of 18.8% and included deferred tax assets recognized in the United States for 22 million euros.

Note 10 Stockholders' equity and earnings per share

10.1 Change in share capital

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

10.2 Earnings per share

	First-half 2016	First-half 2015[(1)]
Net income attributable to owners of the Company *(in millions of euros)*	422	344
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	235,554	234,036
DILUTED EARNINGS PER SHARE *(in euros)*	**1.79**	**1.47**

	First-half 2016	First-half 2015[(1)]
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	235,554	234,036
Dilutive effect from *(in thousands)*:		
■ Stock options	993	1,999
■ Free shares	2,080	2,547
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**238,627**	**238,582**
DILUTED EARNINGS PER SHARE *(in euros)*	**1.77**	**1.44**

(1) Earnings per share shown for first-half 2015 differs from the amount presented in the first-half 2015 consolidated financial statements published in July 2015 since it has been adjusted to reflect the impacts of (i) the three-for-one stock split (see Note 10.1, page 42), and (ii) dilutive equity instruments.

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 millions of euros)	First-half 2016	First-half 2015
Depreciation, amortization and impairment of non-current assets	409	370
Net additions to (reversals from) provisions	26	(2)
Losses (gains) on sales of non-current assets	10	5
Expenses related to share-based payment	10	9
Losses (gains) on remeasurement of previously-held interest	(1)	-
TOTAL	**454**	**382**

11.2 Changes in working capital

(in millions of euros)	First-half 2016	First-half 2015
Inventories	(92)	(76)
Accounts and notes receivable	(345)	(307)
Accounts and notes payable	401	422
Other receivables and payables	79	50
TOTAL	**43**	**89**

Accounts and notes receivable falling due after June 30 for which substantially all risks and rewards have been transferred and which are no longer carried in assets, represent an amount of 326 million euros at June 30, 2016 versus 306 million euros at December 31, 2015. A total of 100 million euros out of this amount of 326 million euros relates to receivable assignment transactions carried out on a recurring basis (83 million euros at December 31, 2015).

At June 30, 2016, amounts receivable for the CICE tax credit and the French research tax credit in respect of 2013, 2014 and 2015 are no longer shown in the consolidated statement of financial position.

These derecognized receivables were transferred as follows:

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

The cost of these transfers is shown under "Cost of net debt" in the consolidated statement of income (see Note 8.3.1, page 41).

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

In first-half 2016, the net cash outflow of 610 million euros relates to the impact of the acquisition of peiker (see Note 2.1.1, page 27) and Spheros (see Note 2.1.2, page 27) in an amount of 296 million euros and 314 million euros respectively.

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

In first-half 2016, a net cash inflow of 25 million euros chiefly relates to the impact of the sale of the Engine Control business on February 29, 2016 (see Note 2.1.5, page 28).

11.5 Issuance and repayment of long-term debt

On March 18, 2016, the Group issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. On June 16, 2016, the Group issued USD 450 million worth of five-year non-dilutive convertible bonds maturing in 2021. During the period, redemptions mainly concerned the 250 million euro syndicated loan (see Note 8.1.2, page 38).

Loan issue costs and premiums amounted to 56 million euros in first-half 2016, and mainly concerned the two bond issues carried out during the period.

In first-half 2015, issuances of long-term debt mainly related to the two private placements for an aggregate amount of 100 million euros carried out on June 1, 2015, of which 70 million euros for a term of 18 months and 30 million euros for a term of 13 months.

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

5

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's inerim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of Article L.451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements, for the period from January 1 to June 30, 2016;
- the verification of the information presented in the interim management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

5.1 Conclusion on the financial statements

We conducted our review in accordance with the professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements are not prepared in all material respects in accordance with IAS 34 – "Interim Financial Reporting", as adopted by the European Union.

5.2 Specific verification

We have also verified the information presented in the interim management report in respect of the condensed half-yearly consolidated financial statements subject to our review.

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

Courbevoie and Paris-La Défense, July 26, 2016

The Statutory Auditors

Mazars		Ernst & Young et Autres	
Thierry Colin	Gaël Lamant	Philippe Berteaux	Jean-François Ginies

6 STATEMENT BY THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

"I hereby declare that to the best of my knowledge, the condensed interim consolidated financial statements for the six-month period ended June 30, 2016 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings in the consolidation taken as a whole, and that the accompanying interim financial review gives a fair description of the material events that occurred in the first six months of the financial year and their impact on the financial statements, the main transactions with related parties as well as a description of the principal risks and uncertainties for the remaining six months of the year."

Paris July 26, 2016

Jacques Aschenbroich

Chairman and Chief Executive Officer

Financial Glossary

Capital employed	"Capital employed" used to determine return on capital employed (ROCE) comprises the following items: ■ net property, plant and equipment and intangible assets; ■ working capital requirement, including inventories, accounts and notes receivable and other receivables, accounts and notes payable and other payables; ■ other capital employed, including operating provisions (in an amount of 239 million euros and 321 million euros, respectively, in 2014 and 2015), deferred tax assets and liabilities, current tax assets and liabilities, other current financial assets, other financial liabilities (portions due beyond one year and within one year – excluding other financial assets and liabilities included in net debt), as well as subsidies (portions due beyond one year and within one year). ■ investments in equity-accounted companies excluding goodwill (in an amount of 111 million euros and 131 million euros, respectively, in 2014 and 2015). "Capital employed" used to determine the return on assets (ROA) comprises the following items: ■ "capital employed" used to determine the ROCE as described above; and ■ goodwill (including goodwill of equity-accounted companies).
Free cash flow	Net cash from operating activities (excluding changes in the sale of non-recurring trade receivables) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
Net cash flow	Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments with a change in control and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities, relating to dividends paid, treasury share purchases and sales, interest paid and received, and acquisitions of equity interests without a change in control, and (iii) changes in sales of non-recurring trade receivables.
EBITDA	Corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin), and (ii) net dividends received from equity-accounted companies.
Net debt	Comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items.
Operating margin including share in net earnings of equity-accounted companies	Operating income before other income and expenses.
Order intake	Corresponds to business awarded by automakers during the period (including joint ventures at least 50%-owned by the Group) less any cancelations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. *Unaudited indicator.*
Net attributable income excluding non-recurring items	Net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax shown in operating margin including share in net earnings of equity-accounted companies.
ROA	ROA, or return on assets, corresponds to operating income in relation to capital employed (including investments in equity-accounted companies) including goodwill.
ROCE	ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) in relation to capital employed (including investments in equity-accounted companies) excluding goodwill.

Safe Harbor Statement

Statements contained in this Half-year Report, which are not historical fact, constitute “Forward-Looking Statements”. These statements include projections and estimates and their underlying assumptions, statements regarding plans, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Even though Valeo's management feels that the Forward-Looking Statements are reasonable as at the date of this Half-year Report, investors are put on notice that the Forward-Looking Statements are subject to numerous factors, risks and uncertainties that are difficult to predict and generally beyond Valeo's control, which could cause actual results and events to differ materially from those expressed or projected in the Forward-Looking Statements. Such factors include, among others, the Company’s ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the antitrust authorities as identified in the Registration Document and risks relating to legal action resulting from such investigations, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the French financial markets authority (*Autorité des marchés financiers* – AMF), including those set out in the “Risk Factors” section of Valeo’s Registration Document registered with the AMF on March 25, 2016 (under no. D.16-0211). With respect to risks relating to legal actions resulting from antitrust investigations, Valeo has set aside USD 8,750,000 to pay for settlement agreements entered into with automotive end users and automotive dealers. If approved by the court, these settlements will terminate the two US air conditioning systems class action lawsuits brought by end users and automotive dealers against Valeo. Valeo has not admitted to any wrong-doing or liability in connection with these settlements.

The Company assumes no responsibility for any estimates made by analysts and any other information prepared by third parties which may be used in this document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any Forward-Looking Statements to reflect events or circumstances which occur subsequent to the date of this Half-year Report.

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VALEO

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