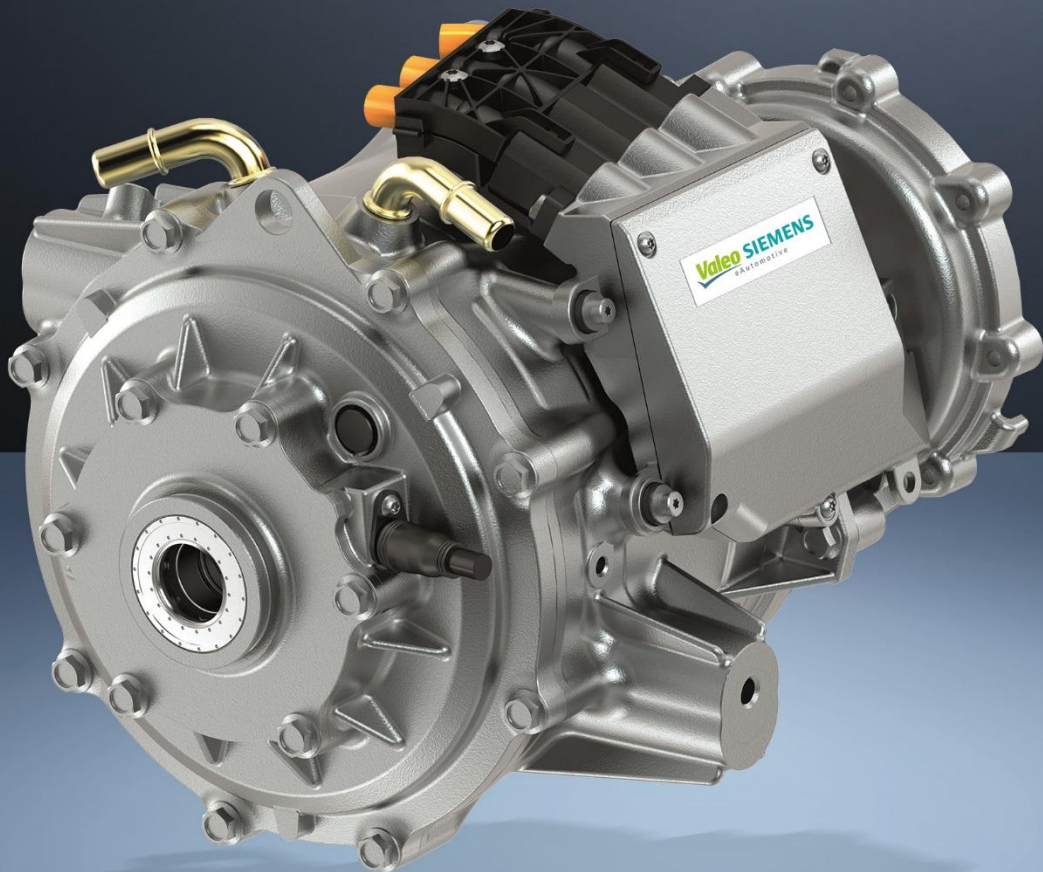


# 2017 HALF-YEAR FINANCIAL REPORT



Permanent Magnet Synchronous Motor (85kW)  
Valeo Siemens eAutomotive technology

SMART TECHNOLOGY FOR SMARTER CARS



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# 1

## GROUP PROFILE AND CORPORATE GOVERNANCE

Valeo is an automotive supplier that partners all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO<sub>2</sub> emissions and to the development of intuitive driving.

In 2016, the Group generated sales of 16.5 billion euros and invested more than 11% of its original equipment sales in Research and Development. At June 30, 2017, Valeo has 168 plants, 20 research centers, 38 development centers and 15 distribution platforms, and employs 102,900 people in 32 countries worldwide.

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

### Board of Directors at June 30, 2017

---

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

On June 30, 2017, the Group Works Council appointed Eric Chauvirey as a director representing employees, in accordance with the Company's articles of association.

### Committees at June 30, 2017

---

#### Audit & Risks Committee

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

#### Governance, Appointments & Corporate Social Responsibility Committee

- **Georges Pauget**  
*Chairman*
- **Pascal Colombani**
- **C. Maury Devine**
- **Michel de Fabiani**
- **Ulrike Steinhorst**

#### Compensation Committee

- **Georges Pauget**  
*Chairman*
- **Pascal Colombani**
- **C. Maury Devine**
- **Michel de Fabiani**
- **Ulrike Steinhorst**

#### Strategy Committee

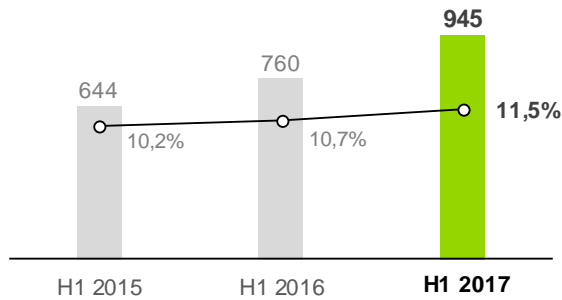
- **Ulrike Steinhorst**  
*Chairman*
- **Pascal Colombani**
- **Jérôme Contamine**
- **Thierry Moulonguet**
- **Georges Pauget**
- **Véronique Weill**

# 2 KEY FIGURES

A new Valeo: more technologically focused, innovative, dynamic and profitable

## GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

In millions of euros and as a % of original equipment sales

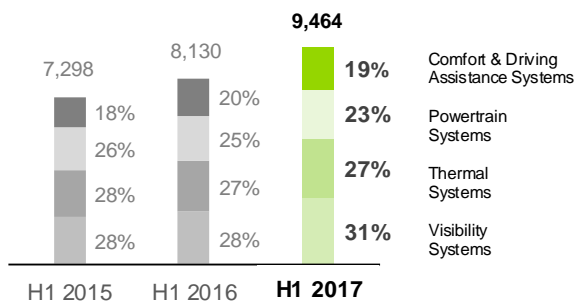


In first-half 2017, net Research and Development expenditure totaled 582 million euros, or 6.1% of total sales.

## SALES

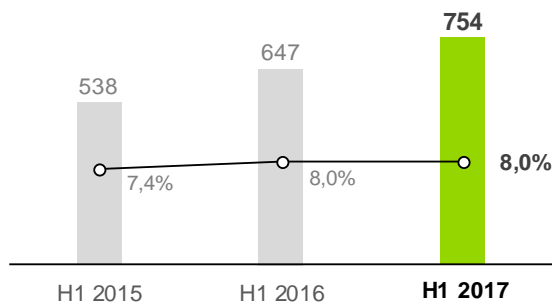
### Total sales and sales by Business Group

In millions of euros and as a % of total sales



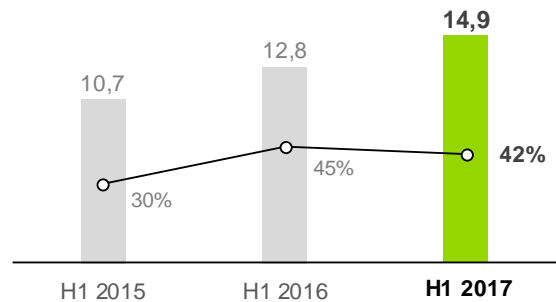
## OPERATING MARGIN

Including share in net earnings of equity-accounted companies<sup>(1)</sup>  
In millions of euros and as a % of sales



## ORDER INTAKE<sup>(1)</sup> EXCLUDING VALEO SIEMENS eAUTOMOTIVE

In billions of euros and weighting of innovative products and systems<sup>(2)</sup>

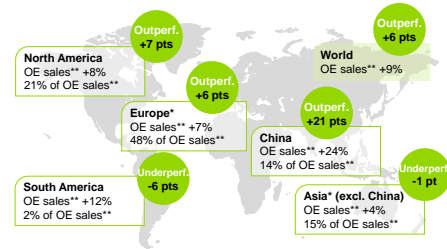


In the first half of 2017, Valeo Siemens eAutomotive also recorded 3 billion euros in order intake.

## PERFORMANCE COMPARED TO AUTOMOTIVE PRODUCTION

### Original equipment sales growth by geographic area

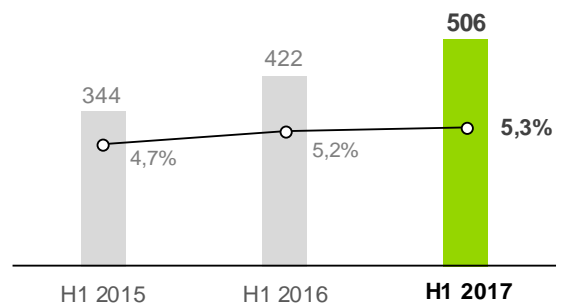
As a % of original equipment sales  
Like for like (constant Group structure and exchange rates)



\* Europe incl. Africa - Asia incl. the Middle East and Oceania  
\*\* Valeo original equipment (OE) sales by destination

## NET ATTRIBUTABLE INCOME

In millions of euros and as a % of sales



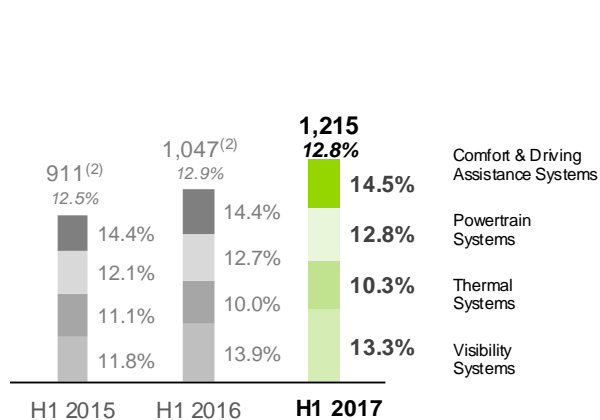
(1) See Financial Glossary, page 58.

(2) Products and technologies in series production for less than three years.

## ► CASH FLOW AND FINANCIAL STRUCTURE

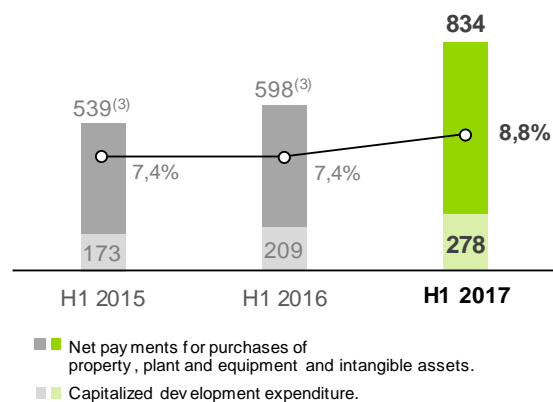
### Total EBITDA<sup>(1)</sup> and EBITDA by Business Group

In millions of euros and as a % of sales



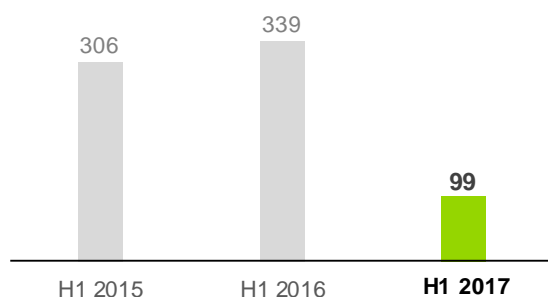
### Investment flows

In millions of euros and as a % of sales



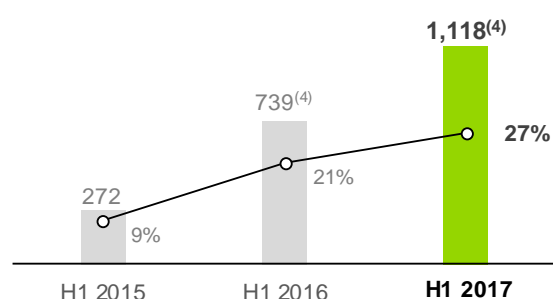
### Free cash flow<sup>(1)</sup>

In millions of euros



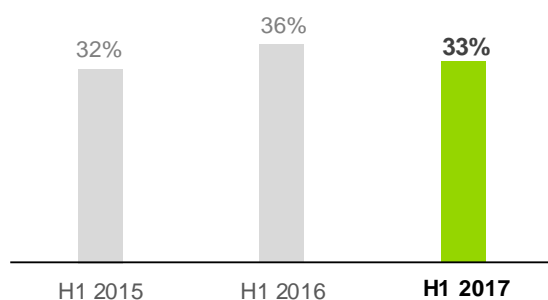
### Net debt

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

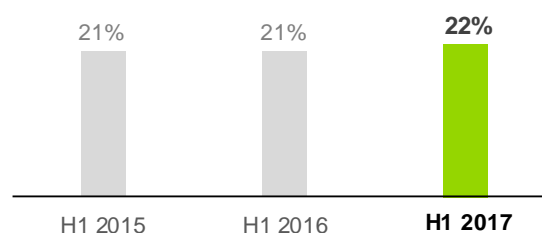


## ► OTHER PROFITABILITY INDICATORS

### ROCE (Return on Capital Employed)



### ROA (Return on Assets)<sup>(1)</sup>



(1) See Financial Glossary, page 58.

(2) The amount shown under this item for first-half 2015 and first-half 2016 differs from the amount presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the new definition of EBITDA.

(3) The amount of investments in property, plant and equipment and intangible assets shown for first-half 2015 and first-half 2016 differs from the amount presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

(4) Valeo acquired Spheros and peiker in the first half of 2016, and acquired control of Ichikoh during the first six months of 2017.

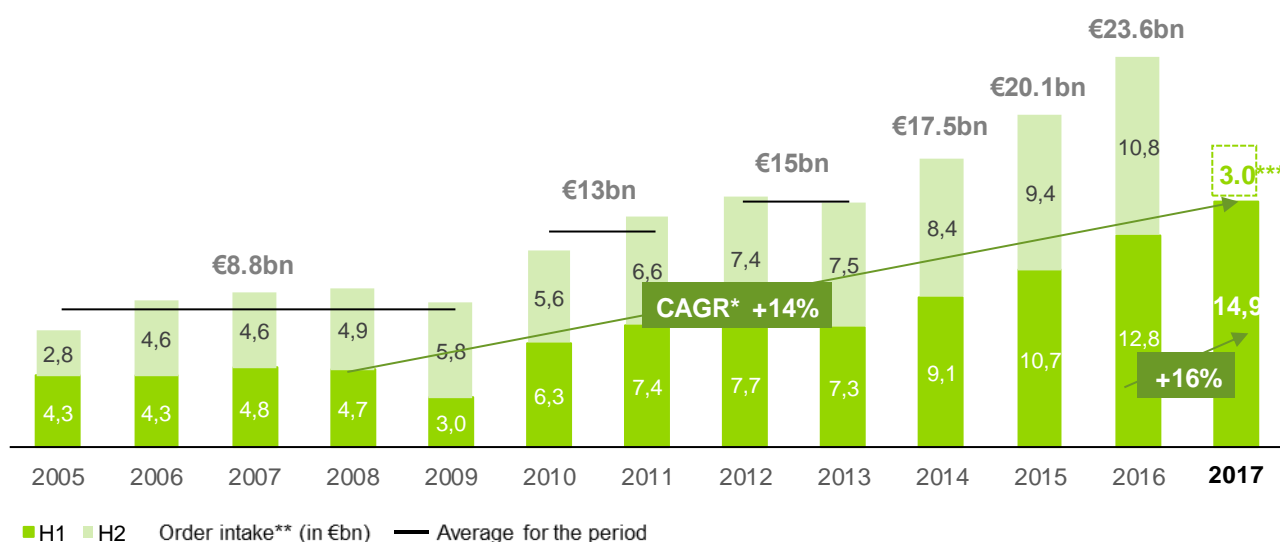
# 3

## INTERIM MANAGEMENT REPORT

### 3.1 Business review

#### 3.1.1 Acceleration in the order intake<sup>(1)</sup>

##### ► CHANGE IN ORDER INTAKE



■ H1 ■ H2 Order intake\*\* (in €bn) — Average for the period

\* Reference 2008 (average over 2005-2008) -> 2017.

\*\* Excluding Access Mechanisms business between 2005 and 2013 and including joint ventures consolidated proportionally (excluding Valeo Siemens eAutomotive).

\*\*\* Total Valeo Siemens eAutomotive order intake registered over the period.

In first-half 2017, the order intake came in higher than in first-half 2016, confirming the Group's ability to deliver structural growth ahead of global automotive production:

- the order intake (excluding Valeo Siemens eAutomotive) jumped 16% to 14.9 billion euros, versus 12.8 billion euros in first-half 2016;
- Valeo Siemens eAutomotive recorded an order intake of 3 billion euros.

The order intake (excluding Valeo Siemens eAutomotive) remained well-balanced across the Group's different regions:

- 41% in Asia; China accounted for 26% of the order intake, of which 39% of orders were booked with local Chinese automakers;
- 36% in Europe (and Africa);
- 20% in North America.

The rise in the order intake during the first half was driven by innovative products<sup>(2)</sup> (42% of new orders) and confirms the successful positioning of Valeo's new technologies and products in the CO<sub>2</sub> emissions reduction and intuitive driving segments.

(1) See Financial Glossary, page 58.

(2) Products and technologies in series production for less than three years.

### 3.1.2 Global automotive production growth

Automotive production rose 3% compared to the first half of 2016. After enjoying strong growth in the first quarter (up 6%), automotive production was stable in the second quarter, impacted by an unfavorable calendar effect in some regions.

Over the period as a whole, growth in automotive production was powered by continued expansion in Asia (up 4%) fueled mainly by China (up 3%) and Japan (up 7%), as well as by an upturn in production in South America (up 18%).

In Europe and North America, automotive production expanded slightly, rising 1% in the first half of the year.

Automotive production (year-on-year change)	First-quarter 2017*	Second-quarter 2017*	First-half 2017*
Europe & Africa	+6%	-3%	+1%
Asia, Middle East & Oceania	+6%	+1%	+4%
of which China	+7%	-2%	+3%
excluding China	+6%	+4%	+5%
North America	+2%	-1%	+1%
South America	+22%	+13%	+18%
<b>TOTAL</b>	<b>+6%</b>	<b>0%</b>	<b>+3%</b>

\* LMC automotive production estimates.

### 3.1.3 Sales growth

**Sales** for first-half 2017 climbed 16% to 9,464 million euros, delivering like-for-like growth of 9% (5% in the second quarter).

**Changes in exchange rates** had a positive 1.3% impact during the period, primarily reflecting the appreciation of the US dollar, South Korean won and Brazilian real against the euro.

**Changes in Group structure** had a positive 6.4% impact over the first half, following the acquisitions of peiker (end-February 2016) and Spheros (end-March 2016), as well as the takeover of Ichikoh. Ichikoh has been fully consolidated in the Group's financial statements since February 1, 2017 and contributed 419 million euros to consolidated sales in the first half of the year.

Sales (in millions of euros)	As a % of H1 2017 sales	First-quarter				Second-quarter				First-half			
		2017	2016	Change	LFL change*	2017	2016	Change	LFL change*	2017	2016	Change	LFL change*
Original equipment	87%	4 174	3 437	+21%	+13%	4 061	3 669	+11%	+5%	8 235	7 106	+16%	+9%
Aftermarket	10%	487	411	+19%	+8%	476	434	+10%	+1%	963	845	+14%	+5%
Miscellaneous	3%	106	69	+54%	+38%	160	110	+46%	+21%	266	179	+49%	+27%
<b>TOTAL</b>	<b>100%</b>	<b>4 767</b>	<b>3 917</b>	<b>+22%</b>	<b>+13%</b>	<b>4 697</b>	<b>4 213</b>	<b>+12%</b>	<b>+5%</b>	<b>9 464</b>	<b>8 130</b>	<b>+16%</b>	<b>+9%</b>

\* Like for like (constant Group structure and exchange rates).

**Original equipment sales** for first-half 2017 came in at 8,235 million euros, or 87% of total sales, representing like-for-like growth of 9% (5% in the second quarter).

**Aftermarket sales** (10% of total sales) rose 5% over the period on a like-for-like basis (1% in the second quarter).

**Miscellaneous sales** (3% of total sales), mainly consisting of tooling revenues related to the launch of new projects, increased by 27% like for like (21% in the second quarter).



### 3.1.4 Growth in original equipment sales, outpacing global automotive production

In first-half 2017, original equipment sales grew 9% like for like, outperforming the market by 6 percentage points thanks to:

- an improved product mix resulting from technological innovations for CO<sub>2</sub> emissions reduction and intuitive driving;
- Valeo's favorable customer and geographic positioning.

Original equipment sales (by destination, in millions of euros)	First-quarter				Second-quarter				First-half			
	2017	2016	LFL change*	Outper- formance**	2017	2016	LFL change*	Outper- formance**	2017	2016	LFL change*	Outper- formance**
Europe & Africa	2,001	1,734	+12%	+6 pts	1,919	1,894	+2%	+5 pts	3,920	3,628	+7%	+6 pts
Asia, Middle East & Oceania	1,189	885	+15%	+9 pts	1,192	896	+13%	+12 pts	2,381	1,781	+14%	+10 pts
of which China	564	451	+25%	+18 pts	548	447	+23%	+25 pts	1,112	898	+24%	+21 pts
excluding China	625	434	+6%	0 pts	644	449	+3%	-1 pt	1,269	883	+4%	-1 pt
North America	895	762	+11%	+9 pts	857	802	+4%	+5 pts	1,752	1,564	+8%	+7 pts
South America	89	56	+16%	-6 pts	93	77	+9%	-4 pts	182	133	+12%	-6 pts
<b>TOTAL</b>	<b>4,174</b>	<b>3,437</b>	<b>+13%</b>	<b>+7 pts</b>	<b>4,061</b>	<b>3,669</b>	<b>+5%</b>	<b>+5 pts</b>	<b>8,235</b>	<b>7,106</b>	<b>+9%</b>	<b>+6 pts</b>

\* Like for like (constant Group structure and exchange rates).

\*\* Based on LMC automotive production estimates.

In the first six months of 2017, the Group outperformed global automotive production by 6 percentage points, powered by original equipment sales growth across all production regions:

- in **Europe** (including Africa), like-for-like original equipment sales rose 7%, lifted by an attractive portfolio of high technological value products and a favorable customer mix, outpacing automotive production by 6 percentage points (5 percentage point outperformance in the second quarter);
- in **China**, like-for-like original equipment sales rose 24%, outpacing automotive production by 21 percentage points (25 percentage point outperformance in the second quarter), driven in particular by market share gains with local Chinese customers, which accounted for 39% of order intake in the country in the first half of the year;
- in **Asia excluding China**, like-for-like original equipment sales were up 4%, underperforming automotive production by 1 percentage point (1 percentage point underperformance in the second quarter). The Group's performance in the region was impacted in particular by the Group's exposure to Korean customers, given the difficult geopolitical context between China and South Korea. After taking into account the consolidation of Ichikoh as from February 1, 2017, the Group's original equipment sales in the Asia excluding China region were up 39%<sup>(1)</sup>;
- in **North America**, like-for-like original equipment sales rose 8%, outpacing automotive production by 7 percentage points (5 percentage point outperformance in the second quarter);
- in **South America**, like-for-like original equipment sales advanced 12%, underperforming automotive production by 6 percentage points (4 percentage point underperformance in the second quarter).

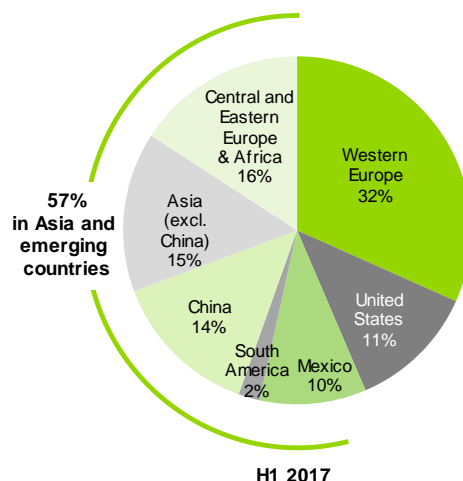
(1) At constant exchange rates.



### 3.1.5 Balanced geographic alignment of Valeo's businesses

#### ► ORIGINAL EQUIPMENT SALES BY PRODUCTION REGION

As a % of original equipment sales



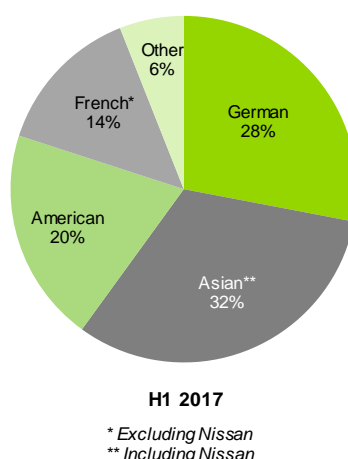
Taking into account the consolidation of Ichikoh in the Group's financial statements as of February 1, 2017, the share of original equipment sales in the four main production regions in the first half of 2017 was as follows:

- 48% of original equipment sales was produced in Europe (down 3 percentage points on 2016), including 32% in Western Europe (down 3 percentage points on 2016) and 16% in Central and Eastern Europe and Africa (stable versus 2016);
- 29% was produced in Asia (up 4 percentage points on 2016);
- 21% was produced in North America (down 1 percentage point on 2016);
- 2% was produced in South America (stable versus 2016).

### 3.1.6 Balanced customer portfolio

#### ► CUSTOMER PORTFOLIO

As a % of original equipment sales



Taking into account the consolidation of Ichikoh in the Group's financial statements as of February 1, 2017, the share of original equipment sales among the Group's customers in the first half of 2017 was as follows:

- German customers accounted for 28% of original equipment sales;
- Asian customers accounted for 32% of original equipment sales;
- American customers accounted for 20% of original equipment sales;
- French customers accounted for 14% of original equipment sales.

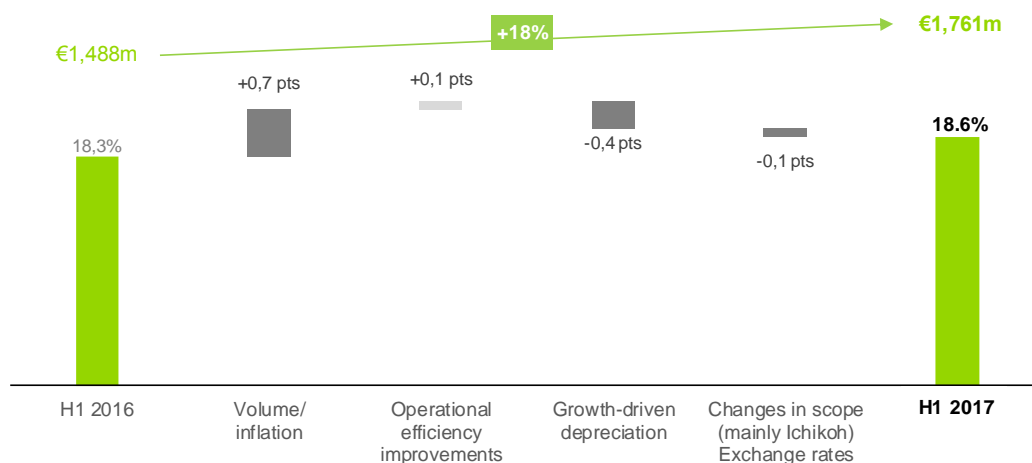
## 3.2 Results

In the first half:

- gross margin was up 18% to 18.6% of sales;
- operating margin<sup>(1)</sup> was up 17% to 8.0% of sales;
- net attributable income rose 20% to 5.3% of sales.

### ► ANALYSIS OF GROSS MARGIN

As a % of sales

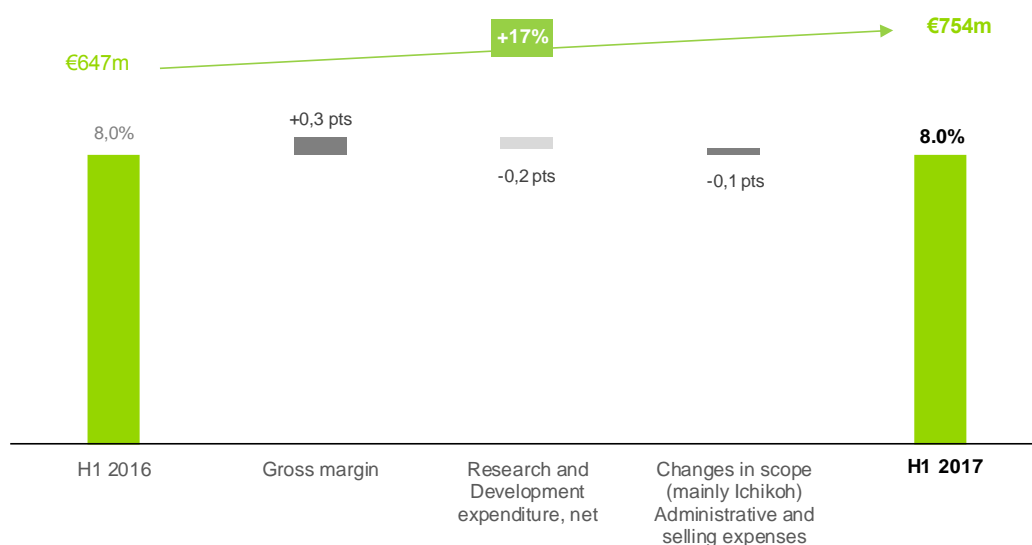


The **gross margin** for first-half 2017 increased by 18% to 1,761 million euros, or 18.6% of sales (up 0.3 percentage points on first-half 2016):

- business growth (positive 0.7 point impact);
- a rise in growth-related costs (negative 0.4 percentage point impact), including depreciation stemming from the capital investments carried out by the Group over the past few years;
- the consolidation of Ichikoh (negative 0.2 percentage point impact).

### ► ANALYSIS OF OPERATING MARGIN<sup>(1)</sup>

As a % of sales



**Operating margin<sup>(1)</sup>** moved up 17% to 754 million euros, or 8.0% of sales (stable versus first-half 2016, despite the takeover of Ichikoh).

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 58.

Valeo continued its Research and Development efforts to enhance its product portfolio amid sharp growth in the order intake and to respond to the twin challenges of powertrain electrification and intuitive and autonomous driving:

- gross Research and Development expenditure was up 24% to 945 million euros, representing over 11% of original equipment sales;
- in line with the figures presented at the Investor Day, net Research & Development expenditure rose 20% to 6.1% of sales (up 0.1 percentage points versus first-half 2016).

General and administrative expenses came out at 3.2% of sales, stable versus first-half 2016.

The share in net earnings of equity-accounted companies was 29 million euros, or 0.3% of sales, stable compared with first-half 2016.

**Operating income**<sup>(1)</sup> rose 19% to 731 million euros, or 7.7% of sales (up 0.2 percentage points on first-half 2016). Operating income includes other income and expenses representing a net expense of 23 million euros.

The cost of net debt totaled 37 million euros, down 14% on first-half 2016.

The effective tax rate came out at 20%.

**Net attributable income** climbed 20% to 506 million euros, or 5.3% of sales (up 0.1 percentage points on first-half 2016).

Excluding non-recurring items, net attributable income<sup>(1)</sup> jumped 14% to 514 million euros, or 5.4% of sales (down 0.1 percentage points on first-half 2016).

**Return on capital employed (ROCE**<sup>(1)</sup>) and **return on assets (ROA**<sup>(1)</sup>) stood at 33% and 22%, respectively.

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(1) See Financial Glossary, page 58.

## 3.3 Segment reporting

### 3.3.1 Vigorous, above-market growth in original equipment sales across all four Business Groups

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* <i>(in millions of euros)</i>	First-quarter				Second-quarter				First-half			
	2017	2016	Change in sales	Change in OE sales**	2017	2016	Change in sales	Change in OE sales**	2017	2016	Change in sales	Change in OE sales**
Comfort & Driving Assistance Systems	938	794	+18%	+10%	899	866	+4%	+4%	1,837	1,660	+11%	+7%
Powertrain Systems	1,105	983	+12%	+11%	1,058	1,028	+3%	+1%	2,163	2,011	+8%	+6%
Thermal Systems	1,312	1,063	+23%	+15%	1,282	1,186	+8%	+7%	2,594	2,249	+15%	+11%
Visibility Systems	1,458	1,119	+30%	+14%	1,495	1,176	+27%	+8%	2,953	2,295	+29%	+11%
<b>GROUP</b>	<b>4,767</b>	<b>3,917</b>	<b>+22%</b>	<b>+13%</b>	<b>4,697</b>	<b>4,213</b>	<b>+12%</b>	<b>+5%</b>	<b>9,464</b>	<b>8,130</b>	<b>+16%</b>	<b>+9%</b>

\* Including intersegment sales.

\*\* Like for like (constant Group structure and exchange rates).

In the first half of 2017, like-for-like growth in original equipment sales outpaced automotive production in all Business Groups:

- the **Powertrain Systems Business Group** reported like-for-like growth in original equipment sales of 6%. In the second quarter, its performance was impacted by its exposure to South Korean customers, given the difficult geopolitical context between China and South Korea;
- buoyed by its attractive portfolio of technologies focused on intuitive driving, like-for-like original equipment sales for the **Comfort & Driving Assistance Systems Business Group** increased 7%;
- original equipment sales for the **Thermal Systems** and **Visibility Systems Business Groups** rose 11% on a like-for-like basis, reflecting the market's keen interest in CO<sub>2</sub> emissions reduction and LED lighting technologies. First-half sales for the Visibility Systems Business Group, which surged 29%, include the contribution of Ichikoh, which has been fully consolidated in the Group's financial statements since February 1, 2017.

### 3.3.2 Growth in EBITDA<sup>(1)</sup> across all four Business Groups

In first-half 2017, consolidated EBITDA<sup>(1)</sup> rose 16% to 1,215 million euros, or 12.8% of sales.

EBITDA <i>(in millions of euros and as a % of sales)</i>	First-half 2017	First-half 2016*	Change
Comfort & Driving Assistance Systems	266 14.5%	239 14.4%	+11% +0.1 pts
Powertrain Systems	276 12.8%	256 12.7%	+8% +0.1 pts
Thermal Systems	267 10.3%	226 10.0%	+18% +0.3 pts
Visibility Systems	392 13.3%	318 13.9%	+23% -0.6 pts
<b>GROUP</b>	<b>1,215</b> <b>12.8%</b>	<b>1,047</b> <b>12.9%</b>	<b>+16%</b> <b>-0.1 pts</b>

\* The amount shown under this item for first-half 2016 differs from the amount presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the new definition of EBITDA<sup>(1)</sup>.

Despite an increase in net Research and Development expenditure to more than 11% of sales, the **Comfort & Driving Assistance Systems Business Group's** EBITDA margin improved slightly by 0.1 percentage points compared to the same year-ago period to 14.5% of sales.

Taking into account the consolidation of Ichikoh since February 1, 2017, the **Visibility Systems Business Group** saw its EBITDA margin decrease by 0.6 percentage points to 13.3% of sales.

Against a backdrop of strong sales growth, the **Powertrain Systems** and **Thermal Systems Business Groups** saw their EBITDA margin increase by 0.1 percentage points and 0.3 percentage points year on year to 12.8% and 10.3% of sales, respectively.

The key performance indicators for each Business Group are presented in Note 3.1, "Key segment performance indicators" to the condensed interim consolidated financial statements for the six months ended June 30, 2017, page 38.

(1) See Financial Glossary, page 58.

## 3.4 Cash flow and financial position

### 3.4.1 Free cash flow<sup>(1)</sup> generation

In line with the figures presented at the Investor Day, the Group generated 99 million euros in free cash flow<sup>(1)</sup> in first-half 2017, chiefly reflecting:

- a 16% increase in EBITDA<sup>(1)</sup> to 1,215 million euros;
- a rise in working capital as a result of strong growth in Asia (particularly in China), which contributed a negative 45 million euros to free cash flow;
- a significant 39% increase in investment outflows to 834 million euros on the back of a sharp increase in the order intake and in order to secure the Group's future growth;
- outflows in an amount of 87 million euros, including in particular restructuring costs and non-recurring payments relating to antitrust investigations.

<i>(in millions of euros)</i>	First-half 2017	First-half 2016
EBITDA <sup>(1)</sup>	1 215	1,047*
Change in operating working capital**	(45)	36
Income tax expense	(150)	(133)
Investments in property, plant and equipment and intangible assets	(834)	(598)***
Other (provisions for pensions, restructuring costs, outflows related to antitrust investigations, etc.)	(87)	(13)
<b>FREE CASH FLOW<sup>(1)</sup></b>	<b>99</b>	<b>339</b>

\* The amount shown under this item for first-half 2016 differs from the amount presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the new definition of EBITDA<sup>(1)</sup>.

\*\* Change in working capital excluding the change in non-recurring sales of accounts and notes receivable in a negative amount of 36 million euros in first-half 2017 and a negative amount of 3 million euros in first-half 2016.

\*\*\* The amount of investments in property, plant and equipment and intangible assets shown for first-half 2016 differs from the amount presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

**Net cash flow<sup>(1)</sup>** amounted to a negative 407 million euros at June 30, 2017, reflecting:

- 61 million euros in net financial expenses paid; and
- other financial items totaling 445 million euros, mainly including an 86 million euro net outflow relating to changes in scope and a 306 million euro disbursement reflecting dividend payments.

### 3.4.2 Net debt<sup>(1)</sup>

**Net debt<sup>(1)</sup>** stood at 1,118 million euros at June 30, 2017, up 581 million euros compared with end-December 2016, after taking into account the consolidation of Ichikoh and dividend payments.

The **leverage ratio** (net debt/EBITDA) came out at 0.48x EBITDA and the **gearing ratio** (net debt/stockholders' equity excluding non-controlling interests) stood at 27% of equity.

Following the 500 million euro bond issue maturing on January 11, 2023 which was carried out in January 2017, the average maturity of borrowings and debt fell to 5.7 years at June 30, 2017.

(1) See Financial Glossary, page 58.

## 3.5 2017 outlook

Based on the following assumptions:

- an increase in global automotive production of between 1.5% and 2%;
- raw material prices and exchange rates in line with current levels.

Valeo confirms its objectives for 2017:

- sales growth outperforming the market by more than 5 percentage points;
- a slight increase in operating margin<sup>(1)</sup> (as a % of sales and before acquisitions).

## 3.6 2017-2021 strategic plan

On the back of its results over the past two years, which put the Group ahead of schedule on its 2015-2020 strategic plan, Valeo organized another Investor Day on February 28, 2017 during which it presented a new strategic plan and new financial objectives through 2021.

As the world leader in CO<sub>2</sub> emissions reduction and intuitive driving, Valeo is intent on continuing its R&D efforts in order to meet its customers' needs and leverage new growth opportunities for powertrain electrification, autonomous and connected vehicles, as well as new forms of mobility driven by digital technology. All four Business Groups will leverage the potential stemming from the new opportunities within the automotive industry, and will undergo several waves of growth as these new technologies enter production.

Valeo has solid fundamentals thanks to its balanced customer and geographic positioning with a footprint that is set to increase in high-growth potential regions, notably in Asia, which is expected to account for 37% of original equipment sales by 2021 (27% in 2016).

Building on the growth in the order intake due to the success of its innovations<sup>(3)</sup>, over the 2016-2021 period, the Group is aiming to accelerate organic growth<sup>(4)</sup> through higher content per vehicle and a better product mix, to improve profitability and to increase free cash flow<sup>(2)</sup> generation with, by 2021:

- sales of over 27 billion euros<sup>(4)</sup>, representing average annual sales growth in excess of 10% and outperforming automotive production by more than 7 percentage points;
- operating margin<sup>(1)</sup> (as a percentage of sales) of around 9%;
- free cash flow<sup>(2)</sup> generation of 3.7 billion euros over the 2017-2021 period, twice the level recorded over the 2012-2016 period of 2 billion euros;
- a return on capital employed (ROCE<sup>(2)</sup>) of around 30% and a return on assets (ROA<sup>(2)</sup>) of more than 20%.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 58.

(2) See Financial Glossary, page 58.

(3) Products and technologies in series production for less than three years.

(4) Including Ichikoh, Valeo-Kaptec and FTE and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.



## 3.7 Highlights

### 3.7.1 Transactions involving the Company's shares

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On May 12, 2017, under the Share Buyback Program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016, Valeo acquired 1,228,009 shares at an average price of 61.0745 euros. These shares will be allocated to cover the implementation of any stock option purchase plans and the allotment of shares to employees as part of their involvement in the performance of the Company or pursuant to a company savings plan.

On May 29, 2017, Valeo announced the launch of a share subscription offering reserved for employees. The offering is part of the development of Valeo's employee shareholding policy in France and abroad, which aims to involve employees in the Group's performance. Around 85,000 Group employees are eligible for the offering, which has been rolled out in 21 countries. The capital increase is scheduled for July 27, 2017.

### 3.7.2 Debt management and ratings

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On January 11, 2017, the Group issued 500 million euros' worth of six-year bonds maturing on January 11, 2023. The issue pays a fixed coupon of 0.625% and was placed on favorable terms.

Valeo is rated "investment grade" by rating agencies Moody's and Standard & Poor's.

- on January 31, 2017, Standard & Poor's confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook;
- on April 5, 2017, Moody's confirmed its "Baa2/P-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

### 3.7.3 Antitrust investigations

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On March 8, 2017, the European Commission published its decision to fine Behr, Calsonic, Denso, Panasonic, Sanden and Valeo a total of 155 million euros for breach of European antitrust rules between 2004 and 2009 concerning supplies of air conditioning and engine cooling components to automakers. The fine accepted by Valeo amounts to 26.8 million euros. At the end of July 2011, antitrust investigations were initiated against several automotive suppliers (including Valeo), in particular by the US and European antitrust authorities.

### 3.7.4 Opening of new plants

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In order to strengthen its presence in high-growth potential regions, especially in Asia, in first-half 2017 Valeo opened three new plants in: Zhengshou (THS, China), Sayama (THS, Japan) and Penang (CDA, Malaysia).

In addition, as part of the takeover of Ichikoh during the year, the Group welcomed the Ichikoh teams (11 plants in Asia), expanding its footprint to 32 countries with 168 plants, 20 research centers and 38 development centers.

### 3.7.5 Innovation

Valeo's innovation strategy is perfectly aligned with the three major revolutions currently disrupting the automotive industry:

- powertrain electrification and smart engines;
- autonomous and connected vehicles;
- new mobility services driven by digital technology.

These revolutions represent growth drivers for the Group, supporting the future development of each Business Group and responding to mobility's paradigm shift towards electric, autonomous, shared cars.

Reflecting this strategy, innovative products (in series production for less than three years) accounted for 42% of all order intake in first-half 2017. Valeo was the leading patent filer in France in 2016. It took first place in the industrial property institute (INPI) rankings, with 994 patents published in 2016 versus 668 in 2015, illustrating a thirst to innovate and the importance of innovation in the Group's strategy.

#### Takeover, joint venture, acquisition and divestment

As part of its continuing efforts to reinforce its portfolio of technologies and strengthen its positioning on the Asian market, Valeo acquired a controlling interest in Japan-based Ichikoh and created the Valeo-Kapec joint venture with its longstanding South Korean partner, Pyeong Hwa.

On January 13, 2017, Valeo announced the successful completion of its **Ichikoh** takeover bid at a price of 408 Japanese yen per share. The takeover bid ran from November 24, 2016 to January 12, 2017. Upon completion of this transaction, Valeo held 55.08% of Ichikoh's capital and thereby took control of one of Japan's leading automotive lighting companies, which remains listed on the Tokyo Stock Exchange. Thanks to the takeover of Ichikoh, Valeo is strengthening its relationship with Japanese customers and continuing to expand in Asia – particularly in Japan and Southeast Asia – which now accounts for around one-third of Group sales. Ichikoh is fully consolidated by Valeo with effect from February 1, 2017.

On February 2, 2017, Valeo signed an agreement with its longstanding South Korean partner, Pyeong Hwa group, to create a 50/50 joint venture in transmission manufacturing. The new company will be called **Valeo-Kapec**. The transaction is subject in particular to clearance from certain antitrust authorities. From its headquarters in South Korea, Valeo-Kapec will leverage a global manufacturing footprint to become the world leader in torque converters for automatic and continuously variable transmissions. The new company will be controlled and therefore fully consolidated by Valeo.

On July 12, 2017, Valeo announced the proposed divestment of its passive hydraulic actuator business (sales of 76 million euros in 2016) to Italian automotive supplier **Raicam**, specialized in clutch and braking systems for both the original equipment market and the replacement market, with a view to obtaining European Commission approval for the acquisition of FTE. The European Commission had expressed concerns relating to the passive hydraulic actuator market in light of its Merger Regulation. If Valeo obtains the European Commission's clearance for the acquisition of **FTE Automotive**, a leading producer of clutch and gear actuators, the proposed divestment could be finalized in the last quarter of 2017.

#### Open innovation

Valeo is adapting its way of innovating to keep abreast of market megatrends and continue tailoring products to its customers' needs.

To strengthen this shared innovation strategy with other players, including those with different research cycles, Valeo has sought to promote cooperation with start-ups, through channels ranging from simple cooperation with joint developments to acquisitions as well as investments. Valeo also works with universities and major industrial groups, which enables it to speed up the product development cycle and reduce time-to-market for its innovations.

On February 28, 2017, Valeo acquired all of the outstanding shares of **gestigon**, a German start-up specialized in developing 3D image processing software for the vehicle cabin.

On June 14, 2017, Valeo launched **Valeo.ai**, the first global research center in artificial intelligence and deep learning dedicated to automotive applications. Valeo.ai aims at being connected to the academic and scientific community and the start-up ecosystem, working closely with Valeo's application centers worldwide to co-develop innovative solutions for the automotive industry.

On June 15, 2017, Valeo and **Cisco** announced that they had signed a cooperation agreement to develop strategic innovations in smart mobility services. Cyber Valet Services, a unique smart parking service resulting from this collaboration, enables vehicles to park safely and autonomously, i.e., without a driver on board, in connected car parks. The vehicle drives itself inside the car park by combining the power of automatic parking technologies (Valeo Park4U<sup>®</sup> Auto), Valeo on board telematics and secure key systems (Valeo InBlue<sup>®</sup>) with Cisco Parking Controller technologies, which equip car parks with Wi-Fi, video sensors and artificial intelligence-based solutions.

In order to strengthen its ties with the rich world of academia, in first-half 2017 Valeo stayed true to tradition by running the fourth annual **Valeo Innovation Challenge**, which continues to form part of the Group's commitment to open innovation. As well as engineering students, Valeo also invites students of a wide range of other disciplines from around the world to play an active role in automobile innovation by designing the product or technology that will create greener, more intuitive cars by 2030 in one of two categories: "best technological innovation" or "best new way of using cars". For the first time, teams may include university professors. In October 2017, the eight finalist teams will present their project before an international panel headed by Chairman and Chief Executive Officer Jacques Aschenbroich.

#### A noteworthy presence at trade shows

In January 2017, Valeo attended the **Consumer Electronics Show (CES)** in Las Vegas (United States) for the fourth year running. The Group presented its technological innovations for the car of tomorrow, in line with new ways of getting around: it will be more electric and therefore more environmentally friendly, offering greater autonomy and improved comfort thanks to enhanced intelligence and better shareability thanks to extended connectivity. Five major innovations were unveiled at the event:

- Valeo eCruise4U, a real technological feat that fully meets the needs of city dwellers. On board the demonstration vehicle, attendees can experience automated driving in electric mode.
- Valeo XtraVue, a set of connected computer-vision cameras that show drivers what is happening on the road, even outside their line of sight.
- Valeo 360AEB Nearshield, a new autonomous emergency braking system, that eliminates blind spots, alerts drivers to any potential obstacles and brings the vehicle to an automatic halt to prevent impact if necessary.
- Valeo C-Stream, the new Valeo dome module that replaces the central rearview mirror and maps out the vehicle's cabin. It can determine the number of people traveling in the car and ensure that drivers are suitably alert;
- Valeo Cockpit, the Experience of Traveling. The technology demonstrator is a unique and original solution that combines a groundbreaking and innovative range of products designed to shape the sensory experience associated with new ways of using cars.

In April 2017, Valeo attended the **Auto Shanghai** exhibition, where it presented the technological innovations that will support its ambitions in the Chinese market. These include: (i) powertrain electrification systems, filters and a sensor that reduce pollutant emissions to ensure a healthy cabin environment; (ii) thermal systems to keep the car cabin at a comfortable temperature and maintain the batteries at an ideal operating temperature; (iii) artificial intelligence demonstrations to accelerate the development of automated driving; and (iv) lighting and sensor cleaning systems for improved visibility both inside and out.

In June 2017, Valeo attended the **Viva Technology** conference for the second year running, where it hosted 32 start-ups in the areas of autonomous driving, low-emission vehicles and new after-sales business models in its Automotive Tech lab.

### 3.7.6 Awards

In first-half 2017, the Group enjoyed widespread recognition from its customers and partners for innovation capability and product and service quality, attesting to its operational excellence.

At its 2017 Supplier Awards, **PSA Peugeot Citroën** recognized Valeo Lighting Systems (Visibility Systems Business Group) in the Program Management category in recognition of its performance in terms of the quality of deliverables, adherence to schedules, cost control, project management, success of launches and technical expertise. Valeo Service received the Independent Aftermarket Performance Award for its commitment to PSA's "One Stop Shop 200" aftermarket project and its flexibility and support for the launch of PSA's "Distrigo" brand. Valeo is also one of the ten main suppliers of the Peugeot 3008, which was voted Car of the Year 2017.

**Toyota** presented the Global Level Award for Regional Contribution to Valeo North America at the Toyota Global Supplier Convention in recognition of its performance in terms of quality, cost and reliability of on-time delivery. Valeo North America also won General Motors' IMPACT Gold Award in recognition of its efforts to promote supplier diversity. Toyota Europe recognized the Powertrain Systems Business Group's Etaples (France) plant for the quality of deliverables to Toyota's Valenciennes (France) plant, where the Yaris subcompact is manufactured.

The Foshan plant (Thermal Systems Business Group, China) received the Excellent Development Supplier Award from **Geely** in recognition of its product development and project management. The Foshan plant is the first Valeo plant in China to win this award.

Valeo Service Turkey was named Best Supplier of the Year 2016 in the original equipment spares (OES) category by **Tofas Turk Otomobil Fabrikalari A.S.**

At the **Automotive News Europe Congress** in Barcelona (Spain), Valeo won a L.E.A.D.E.R. (Leaders in European Automotive Development, Excellence and Research) award in the supplier category in recognition of its commitment to active safety and autonomous driving, in particular through its Mobius solution, which detects favorable conditions for automated driving and enables the driver to let go of and then retake control of the steering wheel without compromising his or her safety or that of other road users. In automated driving mode, the dashboard is reconfigured to free up space for the driver's smartphone or tablet applications.

French financial newspaper *Investir* awarded Valeo the **Grand Prix CAC 40**, the Group ranking top of the three-, five- and ten-year stock market performance categories.

Valeo was certified as a **Global Top Employer** for the third year running. This distinction, launched in 2015, is awarded to companies in recognition of best practices in human resources, particularly talent attraction, compensation and benefits, and training and skills development. The Group has also been certified as a Top Employer Europe and Top Employer Asia-Pacific and was named a Top Employer in 23 countries across five continents

## 3.8 Stock market data

### 3.8.1 Share performance

During the first half of 2017, the share's average closing price was 60.40 euros, with a high of 67.80 euros on May 8 and a low of 54.05 euros on January 5. Over the first six months of the year, the Valeo share rose 8% from 54.61 euros on December 31, 2016 to a closing price of 58.99 euros on June 30, 2017.

The Valeo share (up 8%) outperformed the CAC 40 index (up 5.3%) by 2.7 percentage points. The share outperformed the DJSTOXX Auto index (down 1.1%) by 9.1 percentage points.

### 3.8.2 Changes in ownership structure

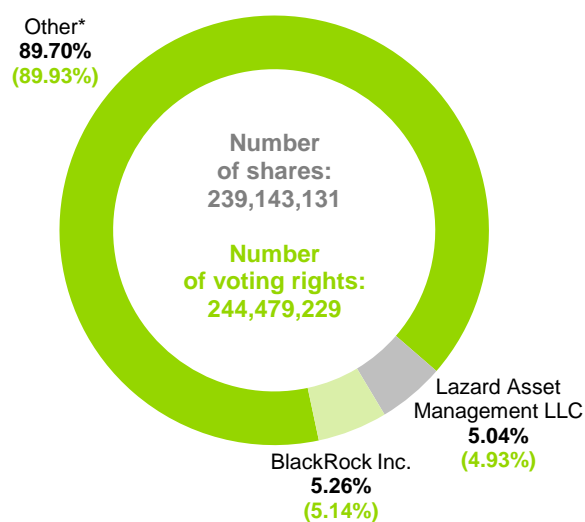
At June 30, 2017, the Company's share capital comprised 239,143,131 shares, unchanged from December 31, 2016. In accordance with Article 223-11 *et seq.* of the General Regulation of the French financial markets authority (*Autorité des marchés financiers* – AMF), the number of voting rights declared was 244,479,229. Excluding treasury stock, the number of voting rights comes out at 242,536,802.

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, held, directly or indirectly, 12,063,564 shares in the Company, i.e., 5.04% 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, 12,567,098 shares in the Company, i.e., 5.26% of the share capital and 5.14% of the voting rights.

At June 30, 2017, Valeo held 1,942,427 treasury shares (i.e., 0.81% of the share capital without voting rights) versus 1,240,865 shares at December 31, 2016 (0.52%).

#### ► OWNERSHIP STRUCTURE AT JUNE 30, 2017



% of share capital (% of voting rights)

\* Including 1,942,427 treasury shares (0.81% of share capital)

### 3.8.3 Stock market data

	First-half 2017	2016	2015*
Market capitalization at period-end (in millions of euros)	14,107	13,060	11,328
Number of shares	239,143,131	239,143,131	238,387,620
Highest share price (in euros)	67.80	56.47	52.23
Lowest share price (in euros)	54.05	33.88	33.20
Average share price (in euros)	60.40	46.20	44.26
Share price at period-end (in euros)	58.99	54.61	47.52

\* The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

### 3.8.4 Data per share

(in euros)	First-half 2017	First-half 2016	First-half 2015*
Earnings per share	2.13	1.79	1.47
Earnings per share excluding non-recurring items	2.16	1.91	1.53

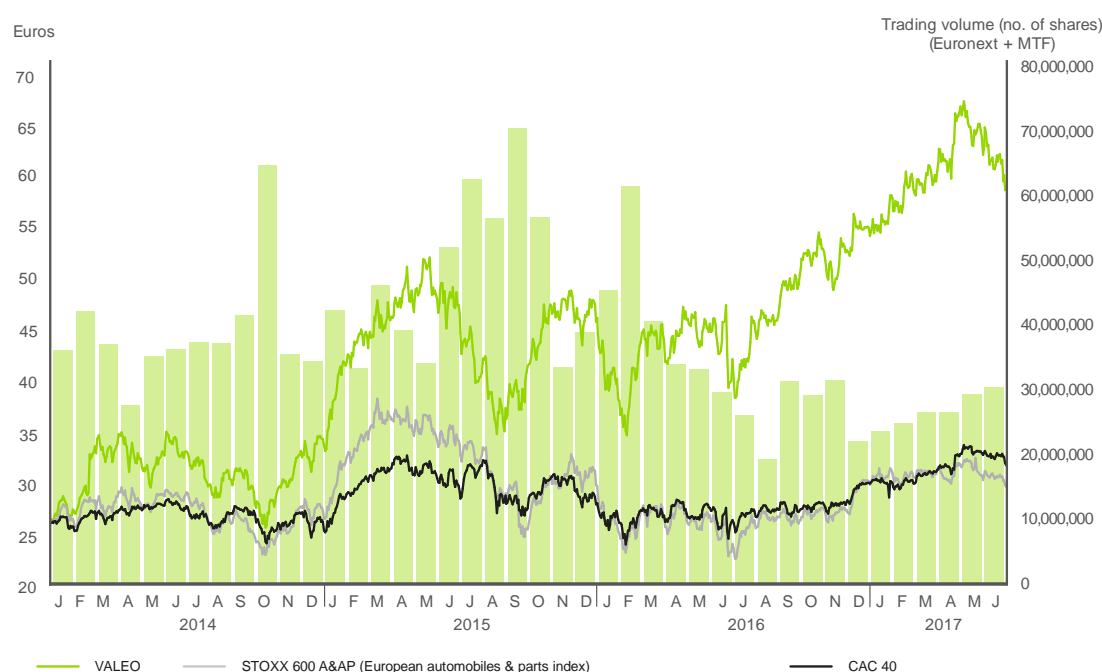
\* The data shown above differs from that presented in the consolidated financial statements for first-half 2015 published in July 2015 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

(in euros)	2016	2015*	2014*
Net dividend per share	1.25**	1.00**	0.73**

\* The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

\*\* Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code (Code général des impôts).

### 3.8.5 Share price and monthly trading volumes



## 3.8.6 Investor relations

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### Provisional financial communication calendar

- Third-quarter 2017 sales: October 24, 2017
- Full-year 2017 results: second half of February 2018
- First-quarter 2018 sales: second half of April 2018
- First-half 2018 results: second half of July 2018

## 3.9 Risk factors and related party transactions

### 3.9.1 Risk factors

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The risk factors are identical to those identified in Chapter 2 of the 2016 Registration Document.

### 3.9.2 Related party transactions

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There were no significant changes in related party transactions during the first half of 2017.



# 4

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2017

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## 4.1 Consolidated statement of income

<i>(in millions of euros)</i>	<i>Notes</i>	<b>First-half 2017</b>	<b>First-half 2016</b>
<b>SALES</b>	4.1	<b>9,464</b>	<b>8,130</b>
Cost of sales	4.2	(7,703)	(6,642)
<b>GROSS MARGIN</b>	4.2	<b>1,761</b>	<b>1,488</b>
<i>as a % of sales</i>		18.6%	18.3%
Research and Development expenditure, net	4.3.1	(582)	(485)
Selling expenses		(149)	(124)
Administrative expenses		(305)	(260)
<b>OPERATING MARGIN</b>		<b>725</b>	<b>619</b>
<i>as a % of sales</i>		7.7%	7.6%
Share in net earnings of equity-accounted companies	4.3.2	29	28
<b>OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</b>		<b>754</b>	<b>647</b>
<i>as a % of sales</i>		8.0%	8.0%
Other income and expenses	4.4.2	(23)	(34)
<b>OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</b>	4.4.1	<b>731</b>	<b>613</b>
Interest expense	8.4.1	(43)	(46)
Interest income	8.4.1	6	3
Other financial income and expenses	8.4.2	(25)	(24)
<b>INCOME BEFORE INCOME TAXES</b>		<b>669</b>	<b>546</b>
Income taxes	9	(130)	(97)
<b>NET INCOME FOR THE PERIOD</b>		<b>539</b>	<b>449</b>
<b>Attributable to:</b>			
■ Owners of the Company		506	422
■ Non-controlling interests		33	27
<b>Earnings per share:</b>			
■ Basic earnings per share <i>(in euros)</i>	10.2	2.13	1.79
■ Diluted earnings per share <i>(in euros)</i>	10.2	2.11	1.77

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

## 4.2 Consolidated statement of comprehensive income

<i>(in millions of euros)</i>	First-half 2017	First-half 2016
<b>NET INCOME FOR THE PERIOD</b>	<b>539</b>	<b>449</b>
Share of changes in comprehensive income from equity-accounted companies recycled to income	(5)	(1)
<i>o/w income taxes</i>	-	-
Translation adjustment	(221)	1
Cash flow hedges:		
■ Gains (losses) taken to equity	36	3
■ (Gains) losses transferred to income for the period	(15)	3
<i>o/w income taxes</i>	(1)	(4)
Remeasurement of available-for-sale financial assets	(1)	-
<i>o/w income taxes</i>	1	-
<b>OTHER COMPREHENSIVE INCOME (LOSS) RECYCLED TO INCOME</b>	<b>(206)</b>	<b>6</b>
Share of changes in comprehensive income from equity-accounted companies not recycled to income	-	(2)
<i>o/w income taxes</i>	-	-
Actuarial gains (losses) on defined benefit plans	62	(124)
<i>o/w income taxes</i>	(5)	24
<b>OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME</b>	<b>62</b>	<b>(126)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>(143)</b>	<b>(120)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>396</b>	<b>329</b>
<b>Attributable to:</b>		
■ Owners of the Company	377	302
■ Non-controlling interests	19	27

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

## 4.3 Consolidated statement of financial position

<i>(in millions of euros)</i>	<i>Notes</i>	June 30, 2017	December 31, 2016 restated <sup>(1)</sup>
<b>ASSETS</b>			
Goodwill	6.1	1,995	1,944
Other intangible assets		1,486	1,372
Property, plant and equipment		3,499	3,063
Investments in equity-accounted companies		372	473
Other non-current financial assets		297	211
Assets relating to pensions and other employee benefits	5.1	2	-
Deferred tax assets		553	625
<b>NON-CURRENT ASSETS</b>		<b>8,204</b>	<b>7,688</b>
Inventories, net		1,520	1,393
Accounts and notes receivable, net		2,872	2,462
Other current assets		441	427
Taxes recoverable		38	38
Other current financial assets		34	20
Cash and cash equivalents	8.2.3	2,251	2,359
Assets held for sale		2	-
<b>CURRENT ASSETS</b>		<b>7,158</b>	<b>6,699</b>
<b>TOTAL ASSETS</b>		<b>15,362</b>	<b>14,387</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		239	239
Additional paid-in capital		1,462	1,462
Translation adjustment		69	282
Retained earnings		2,346	2,134
<b>STOCKHOLDERS' EQUITY</b>		<b>4,116</b>	<b>4,117</b>
Non-controlling interests		307	236
<b>STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS</b>		<b>4,423</b>	<b>4,353</b>
Provisions for pensions and other employee benefits – long-term portion	5.1	997	983
Other provisions – long-term portion	7.1	354	358
Long-term portion of long-term debt	8.2.2.1	2,352	2,069
Other financial liabilities – long-term portion		125	116
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	8.2.2.2	20	23
Subsidies and grants – long-term portion		37	41
Deferred tax liabilities		51	66
<b>NON-CURRENT LIABILITIES</b>		<b>3,936</b>	<b>3,656</b>
Accounts and notes payable		4,235	3,885
Provisions for pensions and other employee benefits – current portion	5.1	75	89
Other provisions – current portion	7.1	214	302
Subsidies and grants – current portion		23	18
Taxes payable		83	107
Other current liabilities		1,312	1,128
Current portion of long-term debt	8.2.2.1	385	225
Other financial liabilities – current portion		16	26
Liabilities associated with put options granted to holders of non-controlling interests – current portion	8.2.2.2	66	56
Short-term debt	8.2.1	594	542
<b>CURRENT LIABILITIES</b>		<b>7,003</b>	<b>6,378</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,362</b>	<b>14,387</b>

(1) The consolidated statement of financial position for December 31, 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.1.2 and 2.1.3, pages 32 and 33, respectively).

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

## 4.4 Consolidated statement of cash flows

<i>(in millions of euros)</i>	<i>Notes</i>	<b>First-half 2017</b>	First-half 2016 <sup>(1)</sup>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the period		539	449
Share in net earnings of equity-accounted companies		(29)	(28)
Net dividends received from equity-accounted companies		25	24
Expenses (income) with no cash effect <sup>(1)</sup>	11.1	426	449
Cost of net debt		37	43
Income taxes (current and deferred)		130	97
<b>GROSS OPERATING CASH FLOWS</b>		<b>1,128</b>	<b>1,034</b>
Income taxes paid		(150)	(133)
Changes in working capital <sup>(1)</sup>	11.2	(9)	40
<b>NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		<b>969</b>	<b>941</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of intangible assets		(300)	(224)
Acquisitions of property, plant and equipment		(546)	(387)
Investment subsidies and grants received <sup>(1)</sup>		2	8
Disposals of property, plant and equipment and intangible assets		10	4
Net change in non-current financial assets		(23)	(8)
Acquisitions of investments with gain of control, net of cash acquired	11.3	(40)	(610)
Acquisitions of investments in associates and/or joint ventures		(7)	-
Disposals of investments with loss of control, net of cash transferred		(1)	25
<b>NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		<b>(905)</b>	<b>(1,192)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid to owners of the Company		(297)	(236)
Dividends paid to non-controlling interests in consolidated subsidiaries		(9)	(16)
Sale (purchase) of treasury stock	11.4	(83)	2
Issuance of long-term debt	11.5	500	997
Loan issue costs and premiums	11.5	(5)	(56)
Interest paid		(67)	(54)
Interest received		6	2
Repayments of long-term debt	11.5	(179)	(266)
Acquisitions of investments without gain of control	11.6	(16)	-
<b>NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		<b>(150)</b>	<b>373</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>(74)</b>	<b>(68)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(160)</b>	<b>54</b>
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>1,817</b>	<b>1,597</b>
<b>NET CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>1,657</b>	<b>1,651</b>
Of which:			
■ Cash and cash equivalents		2,251	1,853
■ Short-term debt		(594)	(202)

(1) The consolidated statement of cash flows shown for first-half 2016 differs from that presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities (see Note 11, page 54).

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

## 4.5 Consolidated statement of changes in stockholders' equity

Number of shares (in millions of euros)	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Total stockholders' equity including non-controlling interests restated		
					Stockholders' equity	Non-controlling interests	Total
<b>235,362,555</b>	<b>238</b>	<b>1,434</b>	<b>245</b>	<b>1,556</b>	<b>3,473</b>	<b>219</b>	<b>3,692</b>
<b>STOCKHOLDERS' EQUITY AT JANUARY 1, 2016</b>							
	-	-	-	(236)	(236)	(16)	(252)
<b>382,082</b>	-	-	-	2	2	-	2
	-	-	-	-	-	-	-
	-	-	-	10	10	-	10
	-	-	-	(17)	(17)	(3)	(20)
	-	-	-	(1)	(1)	-	(1)
	-	-	-	(242)	(242)	(19)	(261)
<b>TRANSACTIONS WITH OWNERS</b>							
	-	-	-	422	422	27	449
	-	-	1	(121)	(120)	-	(120)
	-	-	1	301	302	27	329
<b>TOTAL COMPREHENSIVE INCOME</b>							
<b>235,744,637</b>	<b>238</b>	<b>1,434</b>	<b>246</b>	<b>1,615</b>	<b>3,533</b>	<b>227</b>	<b>3,760</b>
<b>STOCKHOLDERS' EQUITY AT JUNE 30, 2016</b>							
	-	-	-	-	-	(11)	(11)
<b>1,402,118</b>	-	-	-	11	11	-	11
<b>755,511</b>	1	28	-	-	29	-	29
	-	-	-	11	11	-	11
	-	-	-	(1)	(1)	-	(1)
	-	-	-	(24)	(24)	(12)	(36)
	1	28	-	(3)	26	(23)	3
<b>TRANSACTIONS WITH OWNERS</b>							
	-	-	-	503	503	31	534
	-	-	36	19	55	1	56
	-	-	36	522	558	32	590
<b>TOTAL COMPREHENSIVE INCOME</b>							
<b>237,902,266</b>	<b>239</b>	<b>1,462</b>	<b>282</b>	<b>2,134</b>	<b>4,117</b>	<b>236</b>	<b>4,353</b>
<b>STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016</b>							
	-	-	-	(297)	(297)	(9)	(306)
<b>(701,562)</b>	-	-	-	(83)	(83)	-	(83)
	-	-	-	13	13	-	13
	-	-	-	(4)	(4)	(3)	(7)
	-	-	-	(7)	(7)	64	57
	-	-	-	(378)	(378)	52	(326)
<b>TRANSACTIONS WITH OWNERS</b>							
	-	-	-	506	506	33	539
	-	-	(213)	84	(129)	(14)	(143)
	-	-	(213)	590	377	19	396
<b>TOTAL COMPREHENSIVE INCOME</b>							
<b>237,200,704</b>	<b>239</b>	<b>1,462</b>	<b>69</b>	<b>2,346</b>	<b>4,116</b>	<b>307</b>	<b>4,423</b>
<b>STOCKHOLDERS' EQUITY AT JUNE 30, 2017</b>							

(1) Changes in stockholders' equity attributable to treasury stock for first-half 2017 include the impact of the share buyback program entered into with an investment services provider on March 6, 2017 in an amount of 75 million euros (see Note 10.1, page 53).

(2) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.2.2.2, page 51).

(3) Other movements in non-controlling interests mainly include the impacts of the takeover of Ichikoh on January 20, 2017 (see Note 2.1.1, page 31).

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, 2017 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<sub>2</sub> 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 20, 2017.

### Note 1 Accounting policies

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#### 1.1 Accounting standards applied

The condensed interim consolidated financial statements for the six months ended June 30, 2017 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, 2017.

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, 2016;
- 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 2017 and should be read in conjunction with the information set out in the consolidated financial statements for the year ended December 31, 2016 included in the Group's 2016 Registration Document<sup>(1)</sup>.

The accounting principles used to prepare the condensed interim consolidated financial statements for the six months ended June 30, 2017 are the same as those used to prepare the 2016 annual consolidated financial statements, except as regards the specific accounting treatments described in Notes 5.1 and 9.

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<sup>(1)</sup> The 2016 Registration Document is available on the Group's website ([www.valeo.com](http://www.valeo.com)) or on the website of the AMF ([www.amf-france.org](http://www.amf-france.org)), and may be obtained from the Group by writing to the address stated above.



### 1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2017 and not early adopted by the Group

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

Standards, amendments and interpretations	Effective date	Impacts for the Group
<b>IFRS 15</b>  <b>Revenue from Contracts with Customers</b>	January 1, 2018	<p>IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition. It introduces a new model for accounting for revenue from contracts with customers. Clarifications to the standard were published by the IASB on April 12, 2016 following publication of the "Clarifications to IFRS 15" exposure draft in July 2015, and are subject to approval by the European Union in the near future.</p> <p>The European Union adopted IFRS 15 on September 22, 2016.</p> <p>Together with the Business Groups and Valeo Service, Valeo selected the principal transactions and contracts representing the Group's current and future activity. These were analyzed in light of the five-step model required by IFRS 15 in order to identify areas where it needs to exercise judgment and any potential changes resulting from application of the standard. The findings of this initial analysis are presented below and may change in light of the more detailed analysis currently in progress.</p> <p>For a given automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the initial analysis are:</p> <ul style="list-style-type: none"> <li>▪ product development, which includes determining the intrinsic technical features of parts and those related to the relevant production process;</li> <li>▪ supply of tooling such as molds and other equipment used to manufacture parts;</li> <li>▪ supply of parts.</li> </ul> <p>The Group is continuing its analysis in order to determine whether these promises are distinct and whether they must be considered as performance obligations.</p> <p>Valeo also considers that the contractual promise made to the automaker in the form of warranties for the parts supplied does not meet the definition of a separate performance obligation as it does not give rise to an "additional service". Warranty costs will therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".</p> <p>An analysis of the relationship with the end customer under certain specific contracts has led Valeo to consider that it acts as agent in such dealings and not as principal.</p> <p>The Group identified an impact on the presentation of its consolidated net income as a result of applying IFRS 15. This concerns contributions received from customers in respect of development costs and prototypes, which are currently shown as a deduction from Research and Development costs, net. These contributions are now to be included on the "Sales" line as they result from a contract with a customer with a view to obtaining goods or services that are an output of the Group's ordinary activities in exchange for consideration.</p> <p>During the first half of 2017, Valeo estimated the impacts of the new standard (deferred recognition of revenue, treatment of pre-production activities, presentation, disclosure requirements in the financial statements, etc.). The Group is continuing to examine how to present revenue relating to contributions received from customers in respect of development costs and prototypes. Aside from the above, Valeo does not expect the application of this new standard as from January 1, 2018 to have a material impact on the Group's consolidated financial statements.</p> <p>Valeo is working toward applying the standard as from January 1, 2018, with restatement of comparative periods, i.e., an adjustment to equity at January 1, 2017, and data for 2017 presented in accordance with IFRS 15.</p>

Standards, amendments and interpretations	Effective date	Impacts for the Group
<b>IFRS 9</b> <b>Financial Instruments</b>	January 1, 2018	<p>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:</p> <ul style="list-style-type: none"> <li>▪ 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;</li> <li>▪ the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses;</li> <li>▪ the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy.</li> </ul> <p>Owing to the nature of its operations, the Group does not expect the classification and measurement of its financial assets to change significantly.</p> <p>A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, is to be carried out in 2017. The expected credit loss impairment model prescribed by IFRS 9 may result in recognizing impairment losses against accounts and notes receivable not yet due.</p> <p>The Group considers that its existing hedging relationships meeting the definition of effective hedges will continue to meet IFRS 9 hedge accounting criteria.</p> <p>The potential impact of IFRIC's tentative decision published in March 2017 on modifications and exchanges of financial liabilities is currently under review by the Group.</p> <p>These preliminary conclusions are based on the analyses to date and may change during the second half of 2017.</p>

### 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:

Standards, amendments and interpretations	Effective date <sup>(1)</sup>	Impacts for the Group
<b>IFRS 16</b> <b>Leases</b>	January 1, 2019	<p>On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the different accounting treatment previously applicable to operating and finance leases. Lessees will be required to account for all leases with a term of over one year as currently required by IAS 17 for finance leases, thereby recognizing a right-of-use asset representing the right to use the underlying leased asset and a lease liability representing the obligation to make lease payments.</p> <p>In 2016, Valeo began to identify leases of its subsidiaries along with their main provisions, the aim being to analyze the qualitative and quantitative impacts of this future new standard on the Group's consolidated financial statements in 2017.</p> <p>The Group has not yet decided on its transition method.</p>

(1) Subject to adoption by the European Union.

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

<b>Standards, amendments and interpretations</b>		<b>Effective date<sup>(1)</sup></b>
<b>Amendments to IFRS 10 and IAS 28</b>	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	First-time application date postponed by the IASB; new date yet to be specified
<b>Amendments to IAS 12</b>	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
<b>Amendments to IAS 7</b>	Disclosure Initiative	January 1, 2017
<b>Amendments to IFRS 2</b>	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
<b>Annual Improvements to IFRSs 2014-2016 cycle</b>	Various provisions	January 1, 2017/January 1, 2018
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	January 1, 2018
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments	January 1, 2019

(1) Subject to adoption by the European Union.

## 1.2 Basis of preparation

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

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

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

Key estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the six months ended June 30, 2017 chiefly concern:

- the measurement of the disposal gain arising on the takeover of Ichikoh (see Note 2.1.1, page 31);
- the measurement of intangible assets recognized in the allocation of the purchase price to the assets and liabilities of peiker and Spheros (see Notes 2.1.2 and 2.1.3, page 32 and 33, respectively);
- 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 45);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.1 and 7, pages 43 and 46);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9, page 53).

## Note 2 Changes in the scope of consolidation

### 2.1 Transactions that were completed

The main changes in the scope of consolidation that took place in 2016 and first-half 2017 are as follows:

Description	Business Group	Transaction type	Transaction date	Note
Ichikoh	Visibility Systems and Valeo Service	Takeover	January 20, 2017	2.1.1
peiker	Comfort & Driving Assistance Systems	Takeover	March 1, 2016	2.1.2
Spheros	Thermal Systems	Takeover	April 1, 2016	2.1.3
Valeo Siemens eAutomotive	Powertrain Systems	50/50 joint venture with Siemens	December 1, 2016	2.1.4
CloudMade	Comfort & Driving Assistance Systems	Interest acquired	November 10, 2016	2.1.5
gestigon	Comfort & Driving Assistance Systems	Takeover	February 28, 2017	2.1.6
Valeo Penang (formerly Precico)	Comfort & Driving Assistance Systems	Takeover	March 31, 2017	2.1.7
Engine Control business	Powertrain Systems	Sale	February 29, 2016	2.1.8

#### 2.1.1 Ichikoh

On November 22, 2016, Valeo announced the launch of a partial takeover bid for the shares of Ichikoh, a Japanese company listed on the First Section of the Tokyo Stock Exchange. Valeo acquired an initial block of Ichikoh shares on April 27, 2000.

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

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

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

As of settlement-delivery on January 20, 2017 following Valeo's takeover bid for 22,583,000 shares after the prorated reduction, the Group holds 55.08% of Ichikoh's capital (compared with 31.58% of its capital previously) and takes control of one of Japan's leading automotive lighting companies. As the period between the takeover date of January 20, 2017 and the date of February 1, 2017 was not deemed to be material, Ichikoh has been fully consolidated by Valeo, mainly within the Visibility Systems Business Group, since February 1, 2017.

The takeover resulted in (i) recognizing at fair value the Group's previously-held equity-accounted interest, and (ii) recognizing Ichikoh's assets and liabilities in full. Remeasuring the previously-held equity interest technically gave rise to a disposal gain of 14 million euros, which was recognized under "Share in net earnings of equity-accounted companies".

Given how recently the acquisition was finalized, the purchase price has been allocated to Ichikoh's assets and liabilities on a provisional basis over first-half 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 57 million euros. The Group expects to identify the identifiable assets acquired and liabilities assumed and measure them at their acquisition-date fair values in the second half of 2017. The allocation will be finalized within 12 months of the acquisition date, i.e., no later than January 2018.

The main impacts of this acquisition are as follows:

<i>(in millions of euros)</i>	Allocation at June 30, 2017
<b>PURCHASE PRICE (including the fair value of the previously-held equity interest)</b>	<b>145</b>
Carrying amount of acquired net assets at the acquisition date	88
Other individually non-material remeasurements to fair value	-
<b>FAIR VALUE OF IDENTIFIABLE NET ASSETS</b>	<b>88</b>
<b>PROVISIONAL GOODWILL ARISING ON THE ACQUISITION</b>	<b>57</b>

<i>(in millions of euros)</i>	Allocation at June 30, 2017
Net cash and cash equivalents acquired	86
Consideration paid	(62)
Acquisition costs paid during the period	(3)
<b>NET CASH FLOWS RESULTING FROM THE ACQUISITION</b>	<b>21</b>

The purchase of additional shares in Ichikoh also increased Valeo's indirect ownership interest in the six entities of the China Lighting Alliance, jointly held by Valeo (85%) and Ichikoh (15%) and already fully consolidated by the Group prior to the takeover of Ichikoh. In accordance with IFRS 3, this portion of the transaction is classified as a transaction between shareholders and has been considered for accounting purposes as having generated an additional cash outflow of 14 million euros.

Ichikoh contributed 419 million euros to consolidated sales in first-half 2017.

### 2.1.2 Acquisition of peiker

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

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

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

<i>(in millions of euros)</i>	Allocation at June 30, 2016	Allocation at December 31, 2016	Final allocation at February 28, 2017
<b>PURCHASE PRICE</b>	<b>299</b>	<b>283</b>	<b>283</b>
Identifiable assets acquired at the acquisition date	164	164	164
Identifiable liabilities assumed at the acquisition date	(105)	(105)	(105)
Technology <sup>(1)</sup>	-	38	28
Customer relationship <sup>(2)</sup>	-	34	34
Customer relationship on loss-making contracts	-	(28)	(28)
Tax liability	-	(21)	(21)
Other individually non-material remeasurements to fair value	-	(1)	(4)
<b>FAIR VALUE OF IDENTIFIABLE NET ASSETS</b>	<b>59</b>	<b>81</b>	<b>68</b>
<b>GOODWILL ARISING ON THE ACQUISITION</b>	<b>240</b>	<b>202</b>	<b>215</b>

(1) Technology is primarily amortized over 8 years.

(2) The customer relationship is amortized over 11 years.

Final goodwill resulting from the acquisition amounts to 215 million euros. Adjustments to the provisional amounts, determined when finalizing the purchase price allocation, have been recognized as if accounting for the business combination was completed on the acquisition date, thereby impacting the 2016 consolidated statement of financial position.

The value of the goodwill chiefly reflects the expected operating synergies relative to onboard telematics and connectivity, mainly attributable to the improved industrial performance and efficiency of the Company's Sourcing, Logistics and Research & Development networks.

This acquisition gave rise to a net cash outflow of 296 million euros at end-June 2016.

peiker contributed 161 million euros to consolidated sales in first-half 2017, compared with 114 million euros in first-half 2016.

### 2.1.3 Acquisition of Spheros

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

This acquisition will allow Valeo to extend its thermal management activities to the vibrant bus market. It is consistent with the Group's strategy which aims to identify new drivers of growth, particularly in CO<sub>2</sub> emissions reduction.

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

#### 4 – Condensed interim consolidated financial statements for the six months ended June 30, 2017

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

<i>(in millions of euros)</i>	Allocation at June 30, 2016	Allocation at December 31, 2016	Final allocation at March 31, 2017
<b>PURCHASE PRICE</b>	<b>255</b>	<b>256</b>	<b>256</b>
Identifiable assets acquired at the acquisition date	127	127	127
Identifiable liabilities assumed at the acquisition date	(154)	(154)	(154)
Customer relationship <sup>(1)</sup>	-	41	41
Technology <sup>(2)</sup>	-	13	13
Deferred taxes	-	(10)	(10)
Other individually non-material remeasurements to fair value	-	(10)	(19)
<b>FAIR VALUE OF IDENTIFIABLE NET ASSETS</b>	<b>(27)</b>	<b>7</b>	<b>(2)</b>
<b>GOODWILL ARISING ON THE ACQUISITION</b>	<b>282</b>	<b>249</b>	<b>258</b>

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

(2) Technology is amortized over 8 years.

Final goodwill resulting from the acquisition amounts to 258 million euros and chiefly reflects the operating and tax synergies expected to result from the transaction. Adjustments to the provisional amounts, determined when finalizing the purchase price allocation, have been recognized as if accounting for the business combination was completed on the acquisition date, thereby impacting the 2016 consolidated statement of financial position.

This acquisition gave rise to a net cash outflow of 314 million euros at end-June 2016.

Spheros contributed 126 million euros to consolidated sales in first-half 2017, compared with 62 million euros in first-half 2016.

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

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

The entity was set up on December 1, 2016 and aims to become a front-ranking player in the fast-growing automotive electrification market. Valeo and Siemens have joined forces to offer a comprehensive and innovative range of high-voltage (above 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 contributed its high-voltage power electronics activities (onboard chargers, inverters, DC/DC converters), which employ around 200 people, of whom 90 are based in France. Its under-60V powertrain activity is not part of the joint venture. Siemens contributed its E-Car Powertrain Systems Business Unit (e-motors, inverters), which employs around 500 people, of whom 370 are based in Germany and 130 in China.

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

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

The Group recognized this contribution to a joint venture in accordance with IFRS 10. The loss of control of the assets and liabilities led to (i) derecognition of said assets and liabilities from the consolidated statement of financial position, (ii) recognition of the shares received in the new joint venture at their fair value, and (iii) recognition of a disposal gain equal to the difference between the fair value of the shares received and the net carrying amount of the assets and liabilities derecognized as a result of the loss of control. This disposal gain was recognized in full in December 2016 in "Other income and expenses" and represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment. The overall proceeds from this transaction, including the disposal gain, the fair value of the put and call options and the transaction costs, total 159 million euros and are recorded in "Other income and expenses" in the 2016 financial statements.

In the absence of directly or indirectly observable inputs on a listed market, Valeo adopted a discounted cash flow method for the valuation based on the 2016-2020 business plan, drawn up with Siemens during the joint venture negotiations. The fair



value of the equity-accounted investment corresponds to Valeo's share in the venture plus a portion of the expected synergies. The following key non-observable assumptions were used:

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

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

At the time the joint venture was created, Siemens granted Valeo a call option and Valeo granted Siemens a put option. These options were valued by an independent expert using a probability-based approach at 35 million euros and 37 million euros, respectively at end-2016. There is no reason to believe that said valuations are no longer valid at June 30, 2017. The options will therefore be remeasured during the second half of 2017.

### 2.1.5 Acquisition of a stake in CloudMade

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

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

This acquisition resulted in a net cash outflow of 28 million euros. The restated statement of financial position at December 31, 2016 includes the reclassification of an amount of 12 million euros from "Other non-current financial assets" to "Investments in equity-accounted companies".

As part of the acquisition, CloudMade granted Valeo a call option and Valeo granted CloudMade a put option. These options were valued by an independent expert using a probability-based approach at close to 2 million euros each at end-June 2017.

### 2.1.6 Acquisition of gestigon

On February 28, 2017, Valeo completed its acquisition of all of the outstanding shares of gestigon, a German start-up specialized in developing 3D image processing software for the vehicle cabin. gestigon has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2017.

Designed to reinforce Valeo's technological leadership in automated driving, this acquisition provides a solution to the need to develop simple, intuitive and effective human-machine interfaces (HMIs) in a hyper-connected world. With the acquisition, Valeo will be able to develop its cabin comfort and driving assistance operations, particularly in high-growth technologies such as interior cameras and image processing.

Building on Valeo's existing Driver Monitoring system, which can sense driver drowsiness or distraction, the acquisition will lead to the development of a comprehensive offering of object and occupant detection features. Going forward, the vehicle will be able to analyze the cabin environment and seamlessly adapt to the occupants' safety needs – by activating airbags, for example.

Given how recently the acquisition was finalized, the purchase price has been allocated to gestigon's assets and liabilities on a provisional basis over first-half 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 38 million euros and its allocation will be finalized within 12 months of the acquisition date.

Net cash flows resulting from the acquisition represented an outflow of 33 million euros at end-June 2017. The acquisition agreement contains a contingent consideration clause.

The transaction did not have a material impact on consolidated statement of income indicators in the first half of 2017.

### 2.1.7 Acquisition of Valeo Penang (formerly Precico)

On March 31, 2017, Valeo completed its acquisition of the entire share capital of Valeo Penang, a Malaysia-based company specialized in plastic injection molding and electronic components assembly. Valeo Penang has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since April 1, 2017.

Given how recently the acquisition was finalized, the purchase price has been allocated to Valeo Penang's assets and liabilities on a provisional basis over first-half 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 8 million euros and its allocation will be finalized within 12 months of the acquisition date.

Net cash flows resulting from the acquisition represented an outflow of 26 million euros at end-June 2017.

The transaction did not have a material impact on consolidated statement of income indicators in the first half of 2017.

### 2.1.8 Sale of the Engine Control business

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

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

Following the measurement of the definitive loss on disposal, in first-half 2016 income of 1 million euros – mainly relating to recycled translation adjustments – was recognized in "Other income and expenses" relative to the estimated loss recognized in the 2015 financial statements.

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

## 2.2 Transactions that have been announced but not yet completed

Description	Business Group	Transaction type	Announcement date	Status	Note
FTE automotive	Powertrain Systems	Takeover	June 2, 2016	Pending clearance by the relevant antitrust authorities	2.2.1
Kapec	Powertrain Systems	Joint venture	February 6, 2017	Pending clearance by the relevant antitrust authorities	2.2.2

### 2.2.1 Acquisition of FTE automotive

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

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

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

In its Phase 1 review, the European Commission expressed concerns about the acquisition. Following discussions with the European Commission and in agreement with Bain Capital, Valeo decided to withdraw its merger notification and to promptly renotify the Commission with a view to obtaining clearance to acquire FTE and finalize the transaction in 2017 (see Note 2.3, page 37).

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

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

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

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

The agreement is subject to approval by the competent authorities.

## 2.3 Subsequent events

In the context of Valeo's acquisition of FTE and in light of the European Commission's concerns relating to the passive hydraulic actuator market in light of its Merger Regulation, Valeo is considering the divestment of its passive hydraulic actuator business with a view to having its acquisition of FTE approved by the European Commission.

Accordingly, Valeo has sought the best possible option for its employees and customers in order to find a suitable acquirer for this business activity.

Against this background, Valeo initiated discussions with the Italian automotive supplier Raicam, specialized in clutch and braking systems for both the original equipment market and the aftermarket. These discussions have led to a solid acquisition proposal, which was signed on July 11, 2017. The proposal will be subject to prior consultation with labor organizations and requires the prior approval of the European Commission within the framework of its review of the acquisition.

In 2016, Valeo's passive hydraulic actuator business generated sales of 76 million euros. It currently employs just over 400 employees in three plants: Mondovi, Italy (the main site), Gemlik, Turkey and Nanjing, China. The plan to establish a footprint in India, which has been in preparation for some time, should be implemented by Raicam in the northwest of the country.

The acquisition of FTE is pending prior formal clearance by the European Commission.

If Valeo obtains the European Commission's clearance for the FTE transaction, the proposed divestment could be finalized in the last quarter of 2017.

## Note 3 Segment reporting

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

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

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance, Interior Controls and Connected Cars. It focuses on the driver experience and develops a range of solutions to enable safer, greener and more connected intuitive driving by means of innovative interfaces between the driver, the vehicle and the surrounding environment.
- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics, organized around three activities: electrification, transmission automation and clean engines. This Business Group develops innovative powertrain solutions to reduce CO<sub>2</sub> emissions and fuel consumption without compromising driving performance or pleasure.

#### 4 – Condensed interim consolidated financial statements for the six months ended June 30, 2017

- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Bus Systems. It develops and manufactures systems, modules and components to ensure thermal energy management of the powertrain and in-vehicle comfort during all phases of vehicle use and for all types of powertrain.
- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. This Business Group designs and produces efficient and innovative systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

Each of these Business Groups is also responsible for production and for some of the distribution of products in the aftermarket segment. 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 the holding companies and eliminations between the four operating segments.

### 3.1 Key segment performance indicators

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

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

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

#### First-half 2017

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
<b>Sales:</b>						
■ segment (excluding Group)	1,824	2,139	2,582	2,901	18	<b>9,464</b>
■ intersegment (Group)	13	24	12	52	(101)	-
<b>EBITDA</b>	<b>266</b>	<b>276</b>	<b>267</b>	<b>392</b>	<b>14</b>	<b>1,215</b>
Research and Development expenditure, net	(205)	(108)	(108)	(147)	(14)	<b>(582)</b>
Investments in property, plant and equipment and intangible assets	250	174	209	246	15	<b>894</b>
Segment assets	2,143	2,112	2,132	2,398	87	<b>8,872</b>

#### First-half 2016

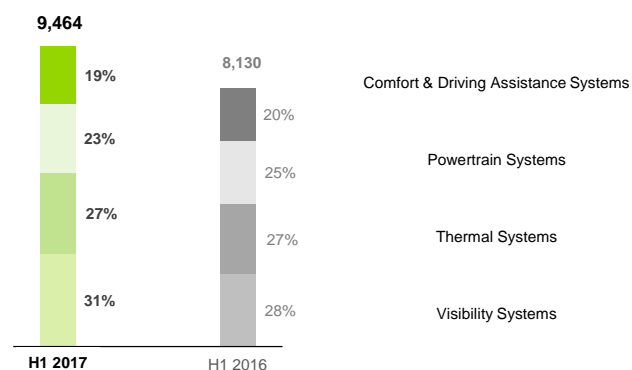
(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
<b>Sales:</b>						
■ segment (excluding Group)	1,652	1,982	2,235	2,244	17	<b>8,130</b>
■ intersegment (Group)	8	29	14	51	(102)	-
<b>EBITDA<sup>(1)</sup></b>	<b>239</b>	<b>256</b>	<b>226</b>	<b>318</b>	<b>8</b>	<b>1,047</b>
Research and Development expenditure, net	(166)	(97)	(92)	(121)	(9)	<b>(485)</b>
Investments in property, plant and equipment and intangible assets	159	166	130	152	10	<b>617</b>
Segment assets	1,854	1,797	1,943	1,919	79	<b>7,592</b>

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

## Segment data

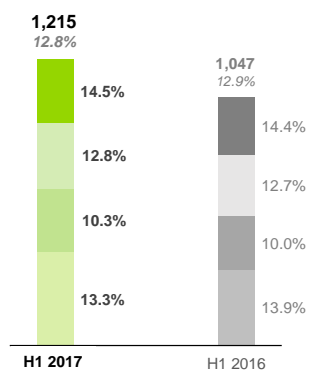
### Breakdown of sales by Business Group (including intersegment sales)

(in millions of euros and as a % of 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 2017	First-half 2016 <sup>(1)</sup>
<b>Operating margin</b>	<b>725</b>	<b>619</b>
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses <sup>(2)</sup>	471	409
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(6)	(5)
Dividends paid by equity-accounted companies	25	24
<b>EBITDA</b>	<b>1,215</b>	<b>1,047</b>
as a % of sales	12.8%	12.9%

(1) EBITDA shown for first-half 2016 differs from the amount presented in the consolidated financial statements for first-half 2016 published in July 2016 since it has been adjusted to reflect the new definition of EBITDA (see Note 3.1, page 38).

(2) Impairment losses recorded in operating margin only.

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

#### 4 – Condensed interim consolidated financial statements for the six months ended June 30, 2017

Total segment assets reconcile to total Group assets as follows:

<i>(in millions of euros)</i>	June 30, 2017	June 30, 2016
<b>Segment assets</b>	<b>8,872</b>	<b>7,592</b>
Accounts and notes receivable	2,872	2,373
Other current assets	441	398
Taxes recoverable	38	31
Financial assets	2,584	1,981
Deferred tax assets	553	562
Assets held for sale <sup>(1)</sup>	2	64
<b>TOTAL GROUP ASSETS</b>	<b>15,362</b>	<b>13,001</b>

(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 34).

### 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 2017

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets
France	715	1,628	700
Other European countries and Africa	3,870	3,192	1,987
North America	1,895	1,926	788
South America	237	209	60
Asia	2,747	2,910	1,824
Eliminations	-	(401)	(2)
<b>TOTAL</b>	<b>9,464</b>	<b>9,464</b>	<b>5,357</b>

#### First-half 2016

<i>(in millions of euros)</i>	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)
<b>TOTAL</b>	<b>8,130</b>	<b>8,130</b>	<b>4,273</b>

## Note 4 Operating data

### 4.1 Sales

Group sales rose 16.4% to 9,464 million euros in first-half 2017, from 8,130 million euros in first-half 2016.

The increase reflects a positive 6.4% impact relating to changes in the scope of consolidation and a positive 1.3% currency effect, mainly relating to the US dollar. Like for like (constant Group structure and exchange rates), consolidated sales climbed 8.7% between first-half 2016 and first-half 2017.

### 4.2 Gross margin and cost of sales

Gross margin totaled 1,761 million euros in first-half 2017, or 18.6% of sales (18.3% of sales in first-half 2016).

Cost of sales can be analyzed as follows:

<i>(in millions of euros)</i>	First-half 2017	First-half 2016
<p><b>(7,703)</b> H1 2017</p> <ul style="list-style-type: none"> <li>■ 58.2% <sup>(2)</sup> – Raw materials consumed</li> <li>■ 12.3% <sup>(2)</sup> – Labor</li> <li>■ 8.0% <sup>(2)</sup> – Direct production costs and production overheads</li> <li>■ 2.9% <sup>(2)</sup> – Depreciation and amortization<sup>(1)</sup></li> </ul>		
<b>COST OF SALES</b>	<b>(7,703)</b>	<b>(6,642)</b>

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

(2) As a % of sales.

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

In first-half 2017, operating margin including share in net earnings of equity-accounted companies came out at 754 million euros, representing 8.0% of sales, stable compared with first-half 2016.

Share in net earnings of equity-accounted companies amounted to 29 million euros in first-half 2017, compared with 28 million euros in first-half 2016. For more information, see Note 4.3.2, page 42.

#### 4.3.1 Research and Development expenditure, net

Net Research and Development expenditure can be analyzed as follows:

<i>(in millions of euros)</i>	First-half 2017	First-half 2016
Research and Development expenditure	(945)	(760)
Contributions received and subsidies and grants	225	194
Capitalized development expenditure	278	209
Amortization and impairment of capitalized development expenditure	(140)	(128)
<b>RESEARCH AND DEVELOPMENT EXPENDITURE, NET</b>	<b>(582)</b>	<b>(485)</b>

The Group continued to step up its Research and Development efforts in first-half 2017 to meet the sharp 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:

<i>(in millions of euros)</i>	First-half 2017	First-half 2016
Share in net earnings of associates	27	12
Share in net earnings of joint ventures	2	16
<b>SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</b>	<b>29</b>	<b>28</b>

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 equity-accounted companies mainly reflects the recognition of a disposal gain related to the remeasurement of the previously-held equity interest in Ichikoh following the takeover in January 2017 (see Note 2.1.1, page 31).

## 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 731 million euros in first-half 2017, versus 613 million euros in first-half 2016.

### 4.4.2 Other income and expenses

Other income and expenses can be analyzed as follows:

<i>(in millions of euros)</i>	Notes	First-half 2017	First-half 2016
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:			
■ Acquisition fees		(5)	(4)
■ Sale of the Engine Control business		-	1
Claims and litigation:	4.4.2.1		
■ Antitrust investigations		(3)	(17)
■ Other disputes		(1)	(1)
Restructuring plans	4.4.2.2	(14)	(13)
<b>OTHER INCOME AND EXPENSES</b>		<b>(23)</b>	<b>(34)</b>

#### 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 46).

In first-half 2017, claims and litigation mainly comprised legal advisory costs relating to these investigations.

#### 4.4.2.2 Restructuring plans

Restructuring costs for first-half 2017 mainly relate to the costs of a new plan announced in South America, a plant closure in China and early retirement plans in Germany.

For the six months ended June 30, 2016, restructuring costs primarily included expenses related to early retirement plans in Germany, costs 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.



## 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 for the most significant plans are adjusted in order to reflect any major 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 1,072 million euros at June 30, 2017, stable compared with December 31, 2016.

The discount rates used at end-June 2017 in the countries representing the Group's most significant obligations were as follows:

Country	Benchmark index (%)	June 30, 2017	December 31, 2016
Eurozone	iBoxx €-Corporate AA 10-year+	2.15	1.80
United Kingdom	iBoxx £-Corporate AA 15-year+	2.55	2.55
United States	iBoxx \$-Corporate AA 10-year+	3.70	3.90
Japan	10-year government bonds	0.30	0.30
South Korea	10-year government bonds	2.80	2.80

At June 30, 2017, the Group reviewed its discount rates and the market value of the assets relating to its most significant plans:

- changes in the benchmark indexes used by the Group for the eurozone and the United States in first-half 2017 led to a 41 million euro decrease 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 26 million euros in first-half 2017 (recognized in other comprehensive income) and a corresponding reduction in the provision.

Excluding this positive 67 million euro impact, changes in provisions for pensions and other employee benefits chiefly reflect:

- utilization of the provision in an amount of 30 million euros;
- a net expense of 46 million euros over the first half of 2017, of which 12 million euros was recorded in other financial income and expenses (see Note 8.4.2, page 53);
- an increase of 72 million euros resulting from the acquisition of Ichikoh during the period;
- a positive 21 million euro impact resulting from changes in foreign exchange rates.

### 5.2 Free share and performance share plans

On March 22, 2017, the Board of Directors approved a free share and performance share plan involving up to 1,012,043 shares. The plan will see the allotment of 545,492 free shares not subject to performance criteria and 466,551 shares subject to performance criteria, with a three-year vesting period for employees based in France 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 2017, fair value is estimated at 25 million euros (23 million euros for the plan awarded in 2016) and will be expensed over the vesting period, mainly with an offsetting entry to equity.

### 5.3 Employee share ownership plan: Shares4U

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

In 2017, a new standard plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on June 3, 2017. The subscription price of 51.62 euros is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price.

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

In all, 513,280 shares were subscribed at a price of 51.62 euros each, representing a 26 million euro capital increase to take place on July 27, 2017.

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

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

	2017	2016
Date rights granted	June 3	September 19
Reference price	€64.52	€47.65
Face value discount	20%	20%
Subscription price	€51.62	€38.12
Beneficiary/s 5-year interest rate	3.93%	3.87%
Risk-free interest rate	0.261%	-0.105%
Repo rate	0.480%	-0.147%

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2017 is 14 million euros, of which 7 million euros was recognized in personnel expenses over first-half 2017 (including social security charges).

## Note 6 Intangible assets and property, plant and equipment

### 6.1 Goodwill

Changes in goodwill in first-half 2017 and full-year 2016 are analyzed below:

(in millions of euros)	June 30, 2017	December 31, 2016 <sup>(1)</sup>
<b>NET GOODWILL AT JANUARY 1</b>	<b>1,944</b>	<b>1,450</b>
Acquisitions during the period	103	475
Reclassification	-	(4)
Translation adjustment	(52)	23
<b>NET GOODWILL</b>	<b>1,995</b>	<b>1,944</b>
Including accumulated impairment losses	-	-

(1) Goodwill shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.1.2 and 2.1.3, pages 32 and 33, respectively).

The increase in goodwill during first-half 2017 primarily relates to the takeover of Ichikoh (see Note 2.1.1, page 31) and the acquisitions of gestigon (see Note 2.1.6, page 35) and Valeo Penang (see Note 2.1.7, page 36). These impacts were partially offset by the decline in the value of the US dollar and the Japanese yen against the euro between the two periods.

The increase in goodwill during 2016 primarily relates to the acquisitions of peiker (see Note 2.1.2, page 32) and Spheros (see Note 2.1.3, page 33) and, to a lesser extent, the increase in the value of the yen over the period. These impacts were very slightly offset by the derecognition of goodwill related to the high-voltage powertrain systems business following the creation of the joint venture with Siemens (see Note 2.1.4, page 34).

Goodwill can be broken down by Business Group as follows:

<i>(in millions of euros)</i>	June 30, 2017	December 31, 2016 <sup>(1)</sup>
<p><b>1,995</b> H1 2017</p> <ul style="list-style-type: none"> <li>■ 28% Comfort &amp; Driving Assistance Systems</li> <li>■ 17% Powertrain Systems</li> <li>■ 30% Thermal Systems</li> <li>■ 25% Visibility Systems</li> <li>■ 0% Other</li> </ul> <p style="text-align: center;"><b>GOODWILL</b></p>	<p>569</p> <p>339</p> <p>589</p> <p>497</p> <p>1</p> <p><b>1,995</b></p>	<p>534</p> <p>344</p> <p>599</p> <p>466</p> <p>1</p> <p><b>1,944</b></p>

(1) Goodwill shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.1.2 and 2.1.3, pages 32 and 33, respectively).

## 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). There were 27 CGUs at end-June 2017.

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, 2016, 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 2016 were still considered appropriate at the 2017 interim reporting date.

The main impairment indicators used to identify CGUs to be tested were a projected negative operating margin in first-half 2017, a fall of more than 20% in first-half 2017 sales compared to first-half 2016, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans.

### 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 2017.


### 6.2.3 Goodwill

The impairment tests performed in the last quarter of 2016 did not lead to the recognition of any goodwill impairment at the end of the year.

At June 30, 2017, the Group considered that there had been no change in the assumptions used to determine the recoverable amount of goodwill at December 31, 2016 that would justify performing further impairment tests in the period.

## Note 7 Other provisions and contingent liabilities

### 7.1 Other provisions

<i>(in millions of euros)</i>		June 30, 2017	December 31, 2016 <sup>(1)</sup>
 <p><b>568</b> H1 2017</p>	■ 43% Provisions for product warranties	245	244
	■ 12% Provisions for tax-related disputes	68	94
	■ 11% Provisions for restructuring costs	61	84
	■ 2% Environmental provisions	14	14
	■ 7% Provisions for loss-making contracts	40	40
	■ 25% Provisions for employee-related and other disputes	140	184
<b>OTHER PROVISIONS</b>		<b>568</b>	<b>660</b>

(1) Other provisions shown for 2016 differ from the amount presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of changes in the scope of consolidation (see Note 2.1, page 31).

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.

Movements in provisions for employee-related and other disputes during the period result mainly from developments in ongoing antitrust proceedings and, in particular, the completion of investigations by the European antitrust authorities (see Note 7.2, page 46).

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 Antitrust investigations

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

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

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

Investigations by the European antitrust authorities have been concluded and the related fines, totaling 26.7 million euros, were paid in June 2017. A provision had been set aside for the full amount at December 31, 2016.

In 2016, Valeo recognized an expense of 99 million euros to cover the main risks relating to the investigations and proceedings involving the Group.

### 7.3 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 provisions deemed necessary have been made to cover the related risks.

## Note 8 Financing and financial instruments

### 8.1 Fair value of financial instruments

	2017 carrying amount under IAS 39			June 30, 2017	December 31, 2016
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
<i>(in millions of euros)</i>					
<b>ASSETS</b>					
<b>Non-current financial assets:</b>					
■ Available-for-sale financial assets	-	110	-	110	44
■ Loans	34	-	-	34	12
■ Deposits and guarantees	26	-	-	26	24
■ Other non-current financial assets	4	-	-	4	3
■ Hedging derivatives	-	2	-	2	17
■ Trading derivatives	-	-	121	121	111
Assets relating to pensions and other employee benefits	-	2	-	2	-
Accounts and notes receivable	2,872	-	-	2,872	2,462
<b>Other current financial assets:</b>					
■ Hedging derivatives	-	16	-	16	15
■ Trading derivatives	-	-	18	18	5
Cash and cash equivalents	-	-	2,251	2,251	2,359
<b>LIABILITIES</b>					
<b>Non-current financial liabilities:</b>					
■ Hedging derivatives	-	7	-	7	4
■ Trading derivatives	-	-	116	116	110
Bonds	2,453	-	-	2,453	2,131
EIB (European Investment Bank) loans	44	-	-	44	47
Other long-term debt	240	-	-	240	116
Liabilities associated with put options granted to holders of non-controlling interests	-	86	-	86	79
Accounts and notes payable	4,235	-	-	4,235	3,884
<b>Other current financial liabilities:</b>					
■ Hedging derivatives	-	6	-	6	9
■ Trading derivatives	-	-	10	10	17
Short-term debt	594	-	-	594	542

The main terms and conditions of borrowings (bonds and EIB loans) are set out in Note 8.2.2, page 49.

#### 4 – Condensed interim consolidated financial statements for the six months ended June 30, 2017

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

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

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

The fair value of the European Investment Bank (EIB) loans 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 technique corresponds to Level 2 in the fair value hierarchy.

(in millions of euros)	June 30, 2017			December 31, 2016 <sup>(1)</sup>		
	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
<b>ASSETS</b>						
Cash and cash equivalents	2,251	2,251	1	2,359	2,359	1
Derivative financial instruments <sup>(1)</sup>	157	157	2-3	148	148	2-3
<b>LIABILITIES</b>						
Bonds	2,453	2,524	1	2,131	2,190	1
EIB (European Investment Bank) loan	44	45	2	47	47	2
Other long-term debt	240	240	2	116	116	2
<b>Loans recognized at amortized cost</b>	<b>2,737</b>	<b>2,809</b>		<b>2,294</b>	<b>2,353</b>	
Short-term debt	594	594	1-2	542	542	1-2
Derivative financial instruments <sup>(2)</sup>	139	139	2-3	140	140	2-3
Put options granted to holders of non-controlling interests	86	86	3	79	79	3

(1) Other long-term debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to Spheros (see Note 2.1.3, page 33).

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

IFRS 13 prescribes the methods for assessing fair value and for taking into account the credit risk on 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 Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The net impact of taking into account credit risk was calculated according to the probabilities of default issued by Reuters. At June 30, 2017 and December 31, 2016, this has only a minimal impact on the Group.

## 8.2 Debt

### 8.2.1 Net debt

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.

(in millions of euros)	June 30, 2017			December 31, 2016 <sup>(1)</sup>		
	Non-current	Current	TOTAL	Non-current	Current	TOTAL
Long-term debt	2,352	385	2,737	2,069	225	2,294
Put options granted to holders of non-controlling interests	20	66	86	23	56	79
Short-term debt	-	594	594	-	542	542
<b>GROSS DEBT</b>	<b>2,372</b>	<b>1,045</b>	<b>3,417</b>	<b>2,092</b>	<b>823</b>	<b>2,915</b>
Long-term loans and receivables	(34)	-	(34)	(12)	-	(12)
Cash and cash equivalents	-	(2,251)	(2,251)	-	(2,359)	(2,359)
<b>DERIVATIVE INSTRUMENTS ASSOCIATED WITH INTEREST RATE AND CURRENCY RISKS<sup>(2)</sup></b>	<b>(1)</b>	<b>(13)</b>	<b>(14)</b>	<b>(20)</b>	<b>13</b>	<b>(7)</b>
<b>NET DEBT</b>	<b>2,337</b>	<b>(1,219)</b>	<b>1,118</b>	<b>2,060</b>	<b>(1,523)</b>	<b>537</b>

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.1.5, page 35) as well as the impacts of finalizing the allocation of goodwill to Spheros (see Note 2.1.3, page 33).

(2) The fair value of derivative instruments associated with an item of net debt solely comprises the fair value of derivatives hedging financial currency risk as the derivative instruments hedging interest rate risk matured in 2016.

### 8.2.2 Long-term debt

#### 8.2.2.1 Long-term debt

##### Analysis of long-term debt

(in millions of euros)	June 30, 2017	December 31, 2016 <sup>(1)</sup>
Bonds	2,453	2,131
EIB (European Investment Bank) loans	44	47
Lease obligations	40	19
Other borrowings	184	50
Accrued interest	16	47
<b>LONG-TERM DEBT</b>	<b>2,737</b>	<b>2,294</b>

(1) Other borrowings shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to Spheros (see Note 2.1.3, page 33).

*Change in and characteristics of long-term debt*

<i>(in millions of euros)</i>	<b>Bonds</b>	<b>EIB (European Investment Bank) loans</b>	<b>Other loans and lease obligations</b>	<b>Accrued interest</b>	<b>Total</b>
<b>CARRYING AMOUNT AT JANUARY 1, 2017</b>	<b>2,131</b>	<b>47</b>	<b>69</b>	<b>47</b>	<b>2,294</b>
Increases/subscriptions	500	-	-	-	<b>500</b>
Redemptions/repayments	(146)	-	(33)	-	<b>(179)</b>
Changes in scope of consolidation <sup>(1)</sup>	-	-	195	-	<b>195</b>
Value adjustments	5	1	1	-	<b>7</b>
Translation adjustment	(37)	(4)	(8)	-	<b>(49)</b>
Other movements	-	-	-	(31)	<b>(31)</b>
<b>CARRYING AMOUNT AT JUNE 30, 2017</b>	<b>2,453</b>	<b>44</b>	<b>224</b>	<b>16</b>	<b>2,737</b>

(1) Changes in the scope of consolidation under Other loans and lease obligations mainly relate to the takeover of Ichikoh in January 2017 (see Note 2.1.1, page 31).

As part of the Euro Medium Term Note financing program, on January 11, 2017 Valeo issued 500 million euros' worth of six-year bonds maturing in 2023 and paying a fixed coupon of 0.625%.

Also in January 2017, the Group redeemed the 146 million euro bond issued in 2012 under the Euro Medium Term Note financing program.

At June 30, 2017, the key terms and conditions of long-term debt were as shown below:

<b>Type</b>	<b>Outstanding at June 30, 2017 (in millions)</b>	<b>Issuance</b>	<b>Maturity</b>	<b>Nominal (in millions)</b>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Other information</b>
Bond (EMTN program)	273	May 2011	May 2018	500	EUR	4.875%	-
European Investment Bank	44	November 2011	November 2018	103	USD	6-month USD Libor +1.90%	Euro/dollar currency swaps for a total of 51 million US dollars with the same maturity
Convertible bond	460	June/November 2016	June 2021	575	USD	0%	Euro/dollar currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	496	January 2017	January 2023	500	EUR	0.625%	-
Bond (EMTN program)	633	January 2014	January 2024	700	EUR	3.25%	-
Bond (EMTN program)	591	March 2016	March 2026	600	EUR	1.625%	-
Other long-term debt <sup>(1)</sup>	240	-	-	-	-	-	-
<b>TOTAL LONG-TERM DEBT</b>	<b>2,737</b>						

(1) Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 169 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

Covenants relating to borrowings and debt are detailed in Note 8.2.4.1, page 51.



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

<i>(in millions of euros)</i>	<b>TOTAL</b>	<b>Valeo Shanghai Automotive Electric Motors &amp; Wiper Systems Co. Ltd.</b>	<b>Spheros Climatização do Brasil SA</b>
<b>LIABILITIES AT JANUARY 1, 2016</b>	<b>39</b>	<b>39</b>	<b>-</b>
New transactions	19	-	19
Fair value adjustments recognized against non-controlling interests	3	1	2
Fair value adjustments recognized in retained earnings	18	16	2
Other movements	-	-	-
<b>LIABILITIES AT DECEMBER 31, 2016</b>	<b>79</b>	<b>56</b>	<b>23</b>
New transactions	-	-	-
Fair value adjustments recognized against non-controlling interests	3	2	1
Fair value adjustments recognized in retained earnings	4	8	(4)
Other movements	-	-	-
<b>LIABILITIES AT JUNE 30, 2017</b>	<b>86</b>	<b>66</b>	<b>20</b>

At June 30, 2017, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. STEC has been granted a put option which it may exercise at any time for a period of ten years.

At June 30, 2017, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option which it may exercise at any time following an agreed period of one year. In the opening balance sheet after the acquisition of Spheros (see Note 2.1.3, page 33), a debt corresponding to the present value of the exercise price of this put option was recognized in an amount of 19 million euros.

### 8.2.3 Cash and cash equivalents

<i>(in millions of euros)</i>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Marketable securities	1,124	1,691
Cash	1,127	668
<b>CASH AND CASH EQUIVALENTS</b>	<b>2,251</b>	<b>2,359</b>

Cash and cash equivalents totaled 2,251 million euros at June 30, 2017, consisting of 1,124 million euros of marketable securities with a low price volatility risk, and 1,127 million euros in cash. Marketable securities chiefly comprise money market funds.

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

### 8.2.4 Financial covenants and credit ratings

#### 8.2.4.1 Financial covenants

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

<b>Financing agreements</b>	<b>Ratios</b>	<b>Thresholds</b>	<b>Ratio at June 30, 2017<sup>(1)</sup></b>
Credit lines	Consolidated net debt/ consolidated EBITDA	<3.25	0.48
EIB (European Investment Bank) loans			

(1) Calculated over 12 months.

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

For the outstanding European Investment Bank loan, 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 loan. The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

The Group's bank credit lines and long-term debt (bond issues under the EMTN program and convertible bond issue) include "cross default" clauses. This means that if a given amount of debt is likely to be called for early repayment, then the other debt amounts may also be called for early repayment.

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

#### 8.2.4.2 Credit ratings

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at June 30, 2017:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 31, 2017	BBB	Positive	A-2
Moody's	April 5, 2017	Baa2	Stable	P-2

### 8.3 Available-for-sale financial assets

(in millions of euros)	June 30, 2017	December 31, 2016
<b>AVAILABLE-FOR-SALE SECURITIES AT JANUARY 1</b>	44	31
Acquisitions	22	12
Changes in scope of consolidation	49	-
Changes in fair value recognized in equity	(2)	-
Translation adjustment	(3)	1
<b>AVAILABLE-FOR-SALE SECURITIES</b>	<b>110</b>	<b>44</b>

Changes in the scope of consolidation relate to the takeover of Ichikoh (see Note 2.1.1, page 31), which holds securities listed on an active market. At June 30, 2017, the fair value of these securities corresponded to their stock market value.

Acquisitions during the period mainly reflect Valeo's subscription to the Iris Capital investment fund following the fundraising carried out in June 2017.

### 8.4 Financial income and expenses

#### 8.4.1 Cost of net debt

The cost of net debt totaled 37 million euros at June 30, 2017, down on first-half 2016 primarily due to the renewal of borrowings on more favorable terms. It includes finance costs relating to undrawn credit lines (1 million euros), and financial expenses relating to the sale of trade receivables, and the 2016 research tax credit (3 million euros).

### 8.4.2 Other financial income and expenses

<i>(in millions of euros)</i>	First-half 2017	First-half 2016
Net interest cost on provisions for pensions and other employee benefits <sup>(1)</sup>	(12)	(13)
Currency gains (losses)	(13)	(9)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Other	-	(1)
<b>OTHER FINANCIAL INCOME AND EXPENSES</b>	<b>(25)</b>	<b>(24)</b>

(1) See Note 5.1, page 43.

## 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 2017. 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 2017, income tax expense amounts to 130 million euros, reflecting an effective tax rate of 20.3%. This rate primarily takes into account the impact of remeasuring certain tax risks and the recognition of deferred taxes in the United States, Canada and India in an amount of 18 million euros.

The 97 million euro tax expense for first-half 2016 reflected an effective tax rate of 18.7% and included deferred tax assets recognized in the United States for 15 million euros.

## Note 10 Stockholders' equity

### 10.1 Share buyback program

Valeo requested the assistance of an investment services provider to meet certain objectives of its share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016. The share buyback program will be allocated in full to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

Upon expiry of the agreement signed on March 6, 2017, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, who undertook to acquire them at term, within the limit of 75 million euros, at an average price determined in an objective and independent manner by the market during the full term of the agreement. This average price could not in any case exceed the maximum purchase price set by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016.

This agreement was effective between March 7, 2017 and May 12, 2017. At this date, Valeo was therefore bound to purchase all of the treasury shares acquired by the investment services provider over the term of the agreement. Delivery of 1,228,009 treasury shares at an average price of 61.0745 each resulted in a cash outflow of 75 million euros.

## 10.2 Earnings per share

	First-half 2017	First-half 2016
Net income attributable to owners of the Company <i>(in millions of euros)</i>	506	422
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	237,551	235,554
<b>BASIC EARNINGS PER SHARE <i>(in euros)</i></b>	<b>2.13</b>	<b>1.79</b>

	First-half 2017	First-half 2016
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	237,551	235,554
Dilutive effect from <i>(in thousands)</i> :		
■ Stock options	602	993
■ Free shares	2,188	2,080
<b>WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES <i>(in thousands of shares)</i></b>	<b>240,341</b>	<b>238,627</b>
<b>DILUTED EARNINGS PER SHARE <i>(in euros)</i></b>	<b>2.11</b>	<b>1.77</b>

As part of the Shares4U 2017 plan (see Note 5.3, page 44), a capital increase reserved for employees will take place on July 27, 2017, issuing 513,280 new shares, each with a par value of 1 euro. This capital increase would not have significantly changed the number of ordinary shares outstanding at June 30, 2017 if it had taken place during the first half of the year.

## 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:

<i>(in millions of euros)</i>	First-half 2017	First-half 2016 <sup>(1)</sup>
Depreciation, amortization and impairment of non-current assets	465	404
Net additions to (reversals from) provisions	(55)	26
Losses (gains) on sales of non-current assets	4	10
Expenses related to share-based payment	13	10
Losses (gains) on available-for-sale financial assets	(1)	0
Losses (gains) on remeasurement of previously held interests	-	(1)
<b>TOTAL</b>	<b>426</b>	<b>449</b>

(1) The 5 million euro decrease in depreciation, amortization and impairment of non-current assets in relation to the amount shown in the consolidated financial statements for first-half 2016 published in July 2017 reflects the impact of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

### 11.2 Changes in working capital

<i>(in millions of euros)</i>	First-half 2017	First-half 2016 <sup>(1)</sup>
Inventories	(77)	(92)
Accounts and notes receivable	(324)	(345)
Accounts and notes payable	272	401
Other receivables and payables	120	76
<b>TOTAL</b>	<b>(9)</b>	<b>40</b>

(1) Other receivables and payables shown for first-half 2016 differ from the amount presented in the consolidated financial statements for first-half 2016 published in July 2017 since they have been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

Accounts and notes receivable falling due after June 30, 2017 for which substantially all risks and rewards have been transferred and which are no longer carried in assets represent an amount of 333 million euros at June 30, 2017 versus 301 million euros at December 31, 2016. A total of 94 million euros out of the 333 million euros relates to sale operations carried out on a recurring basis (98 million euros at December 31, 2016).

At June 30, 2017, amounts receivable in respect of the CICE tax credit and the research tax credit in France for 2014, 2015 and 2016 are no longer carried 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 2016 CICE tax credit receivable on December 21, 2016 for 15 million euros;
- the 2016 research tax credit receivable on June 22, 2017 for 57 million euros.

The cost of these transfers is shown under "Cost of net debt" in the consolidated statement of income (see Note 8.4.1, page 52).

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

In first-half 2017, the net cash outflow of 40 million euros relates mainly to the impacts of acquiring gestigon for 33 million euros (see Note 2.1.6, page 35) and Valeo Penang (formerly Precico) for 26 million euros, partially offset by the net cash inflow of 21 million euros from the acquisition of Ichikoh (see Note 2.1.1, page 31).

### 11.4 Sale (purchase) of treasury stock

In first-half 2017, a net cash outflow of 83 million euros chiefly relates to the impact of the share buyback program implemented during the period, giving rise to a cash outflow of 75 million euros (see Note 10.1, page 53).

### 11.5 Issuance and repayment of long-term debt

In first-half 2017, the Group issued 500 million euros' worth of six-year bonds maturing in 2023 and paying a fixed coupon of 0.625%, and redeemed the 146 million euro bond issued in 2012 under the Euro Medium Term Note financing program (see Note 8.2.2, page 49).

### 11.6 Acquisitions of investments without gain of control

The net cash outflow of 16 million euros chiefly relates to the impact of the increase in Valeo's indirect ownership interest in the entities of the China Lighting Alliance following the acquisition of Ichikoh (see Note 2.1.1, page 31).

# 5

## STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEAR FINANCIAL INFORMATION

*This is a free translation into English of the Statutory Auditors' review report on the half-year 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 interim 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-year consolidated financial statements, for the period from January 1 to June 30, 2017;
- 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 20, 2017

The Statutory Auditors

**Mazars**

**Ernst & Young et Autres**

Thierry Colin

Gaël Lamant

Jean-François Ginies

Philippe Berteaux

# 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, 2017 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 20, 2017

**Jacques Aschenbroich**

Chairman and Chief Executive Officer

# 7

## FINANCIAL GLOSSARY

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<b>EBITDA</b>	Corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends from equity-accounted companies.
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<b>Free cash flow</b>	Net cash from operating activities (excluding the change in non-recurring sales of receivables) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
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<b>Net attributable income excluding non-recurring items</b>	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.
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<b>Net cash flow</b>	Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments with a change 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 non-recurring sales of receivables.
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<b>Net debt</b>	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.
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<b>Operating margin including share in net earnings of equity-accounted companies</b>	Operating income before other income and expenses.
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<b>Order intake</b>	Corresponds to business awarded by automakers during the period (including joint ventures at least 50%-owned by the Group) less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Unaudited indicator.
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<b>ROA</b>	ROA, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.
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<b>ROCE</b>	ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.
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## Safe Harbor Statement

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Statements contained in this document, which are not historical fact, constitute "forward-looking statements". These statements include projections and estimates and their underlying assumptions, statements regarding projects, 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 document, 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, 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 2016 Registration Document registered with the AMF on March 24, 2017 (under no. D.17-0226).

The Company assumes no responsibility for any analyses issued 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 document.





## VALEO

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Scan for more information  
on Valeo investor relations

