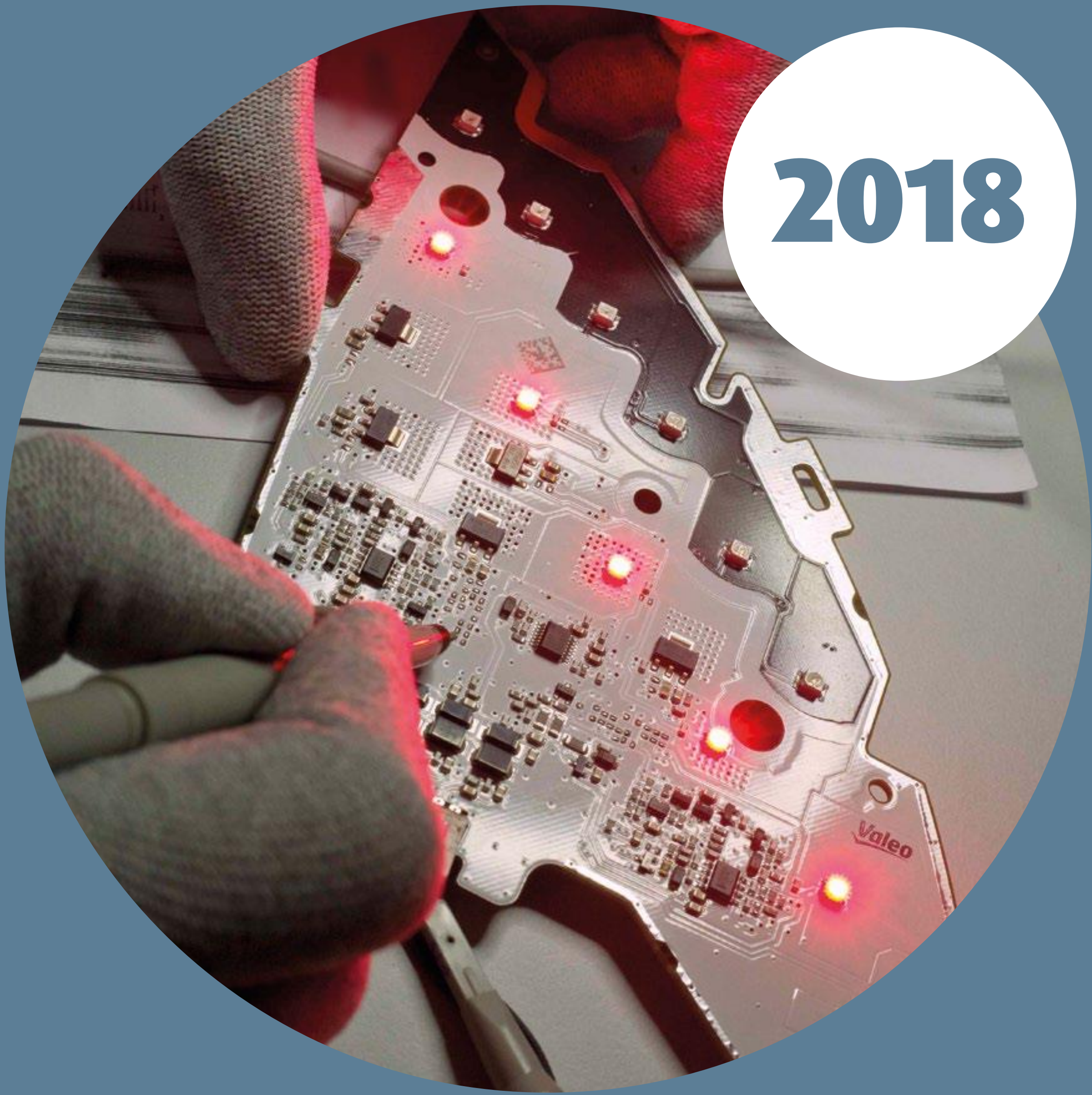


HALF-YEAR FINANCIAL REPORT

LED signal light circuit board

SMART TECHNOLOGY FOR SMARTER CARS

Valeo

Contents

1

GROUP PROFILE AND CORPORATE GOVERNANCE

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

In 2017, the Group generated sales of 18.5 billion euros and invested 12% of its original equipment sales in Research and Development. Valeo has 185 plants, 20 research centers, 36 development centers and 15 distribution platforms, and at June 30, 2018, employs 115,000 people in 33 countries worldwide.

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

Board of Directors at June 30, 2018

- **Jacques Aschenbroich**
  Chairman and Chief Executive Officer
- **Pascal Colombani**
  Honorary Chairman
- **Georges Pauget**
  Lead Director
- **Éric Chauvirey**
- *Director representing employees*
- **Bruno Bézard**
- **C. Maury Devine**
- **Michel de Fabiani**
- **Mari-Noëlle Jégo-Laveissière**
- **Noëlle Lenoir**
- **Gilles Michel**
- **Thierry Moulonguet**
- **Ulrike Steinhorst**
- **Véronique Weill**

Committees at June 30, 2018

Audit & Risks Committee

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

Governance, Appointments & Corporate Social Responsibility Committee

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

Compensation Committee

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

Strategy Committee

- **Ulrike Steinhorst**
  Chair
- **Pascal Colombani**
- **Thierry Moulonguet**
- **Georges Pauget**
- **Véronique Weill**

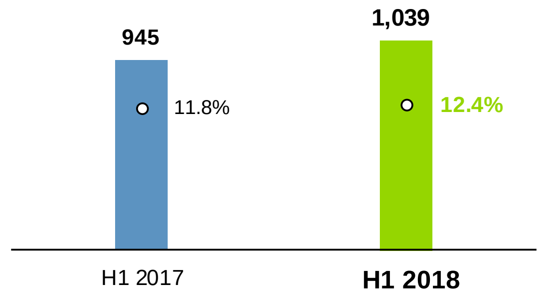
2

KEY FIGURES

2.1 Business review and results

GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

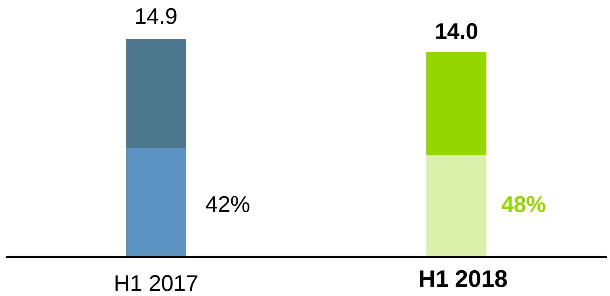
In millions of euros and as a % of original equipment sales



In first-half 2018, net Research and Development expenditure totaled 774 million euros, or 7.8% of total sales.

ORDER INTAKE[2]

In billions of euros and innovative products and systems as a % thereof[3]

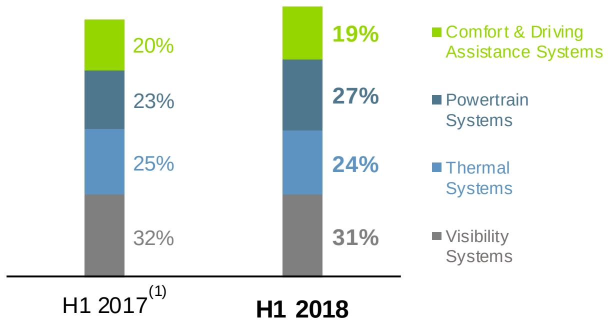


The Valeo Siemens eAutomotive joint venture also had cumulative order intake of 10.8 billion euros at end-June 2018, of which 4.7 billion euros was recorded in the first half of 2018.

SALES

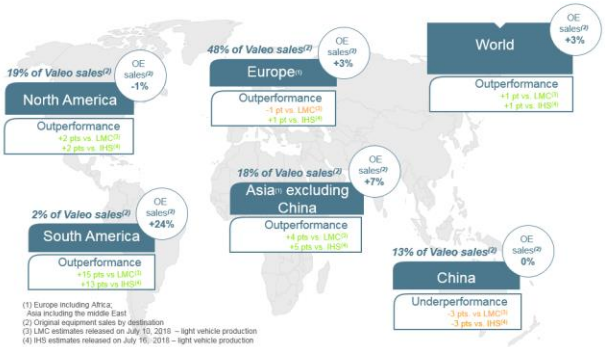
Sales by Business Group

As a % of total sales



PERFORMANCE COMPARED TO AUTOMOTIVE PRODUCTION

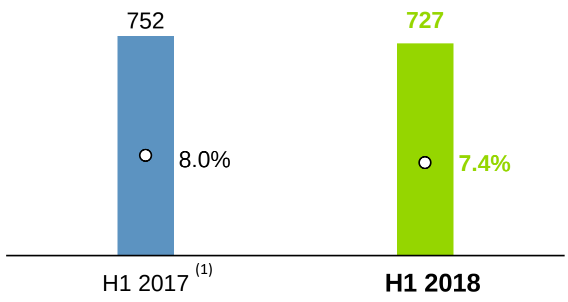
Original equipment sales growth and breakdown by destination region - *Like for like (constant Group structure and exchange rates)[4]*



OPERATING MARGIN

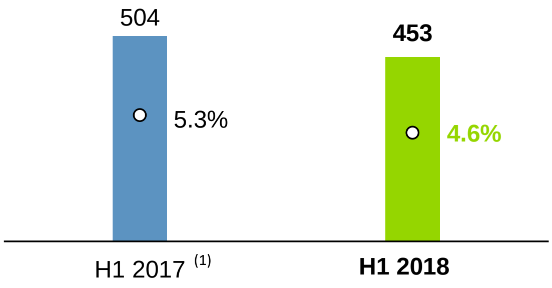
Including share in net earnings of equity-accounted companies[4]

In millions of euros and as a % of sales



NET ATTRIBUTABLE INCOME

In millions of euros and as a % of sales

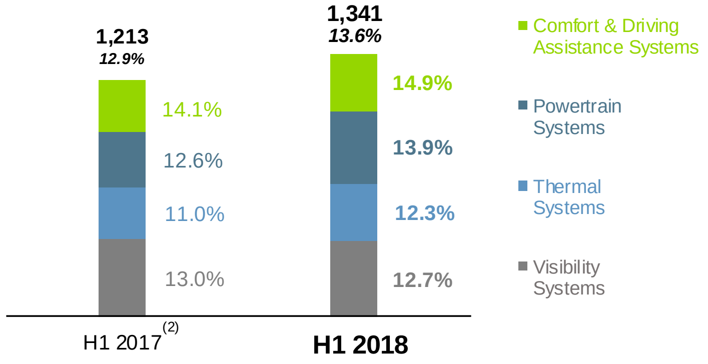


(1) 2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.
(2) Valeo Group order intake, excluding Valeo Siemens eAutomotive. See Financial Glossary, page 61.
(3) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive.
(4) See Financial Glossary, page 61.

2.2 Cash flow and financial structure

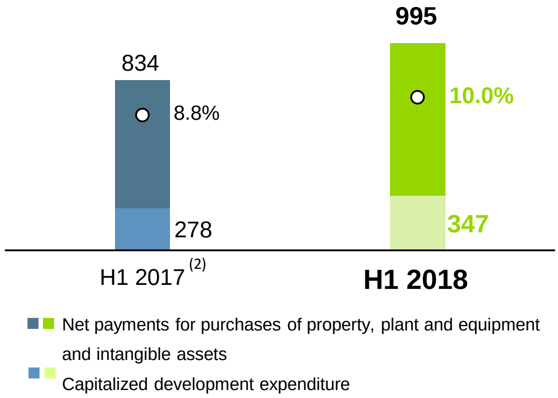
TOTAL EBITDA[(1)] AND EBITDA BY BUSINESS GROUP

In millions of euros and as a % of each Business Group's sales



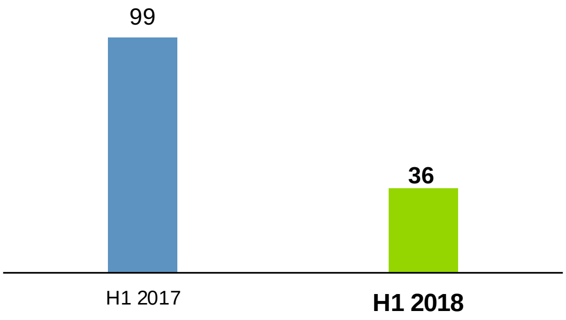
INVESTMENT FLOWS

In millions of euros and as a % of sales



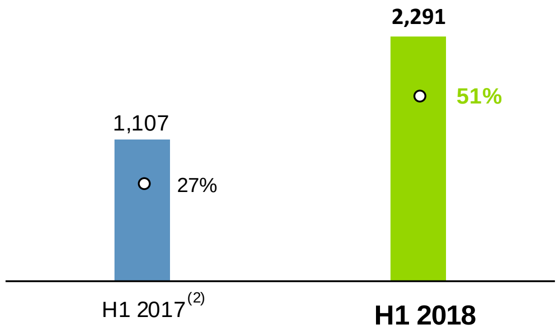
FREE CASH FLOW[(1)]

In millions of euros



NET DEBT

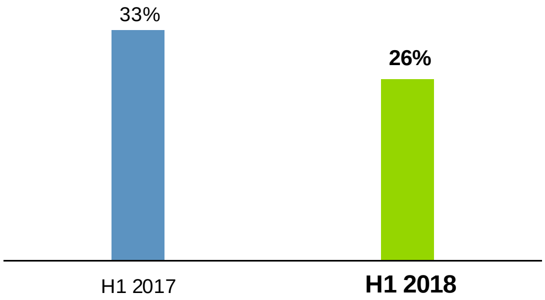
In millions of euros and as a % of consolidated stockholders' equity attributable to owners of the Company



2.3 Other profitability indicators

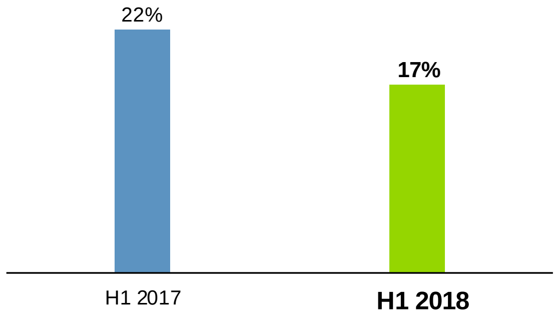
ROCE[(1)]

(return on capital employed)



ROA[(1)]

(return on assets)



(1) See Financial Glossary, page 61.

(2) 2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.

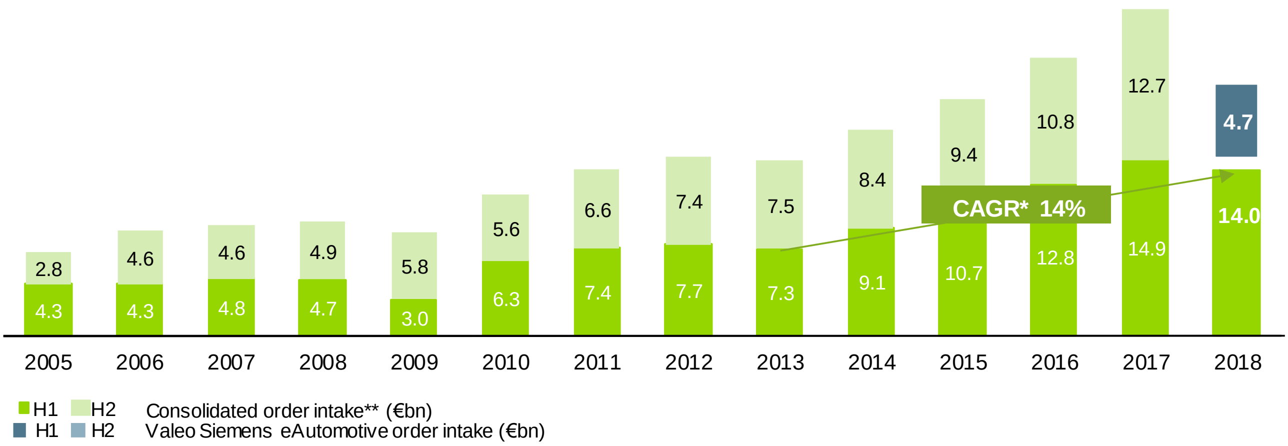
3

INTERIM MANAGEMENT REPORT

3.1 Business review

3.1.1 Order intake

CHANGE IN ORDER INTAKE



* Compound annual growth in order intake for 2013-2018.
** See Financial Glossary, page 61, excluding Valeo Siemens eAutomotive.

In first-half 2018, the order intake increased to a total of 18.7 billion euros, confirming the Group's ability to deliver structural growth ahead of global automotive production:

- Valeo recorded an order intake(1) of 14.0 billion euros in first-half 2018, resulting in a CAGR(2) of 14% over the past five years;
- taken at 100%, Valeo Siemens eAutomotive recorded an order intake of 4.7 billion euros in first-half 2018 and had a cumulative order intake of 10.8 billion euros at end-June 2018.

Valeo's order intake was well-balanced across the Group's different production regions:

- 44% in Asia;
- 30% in China, of which 55% of orders were booked with local Chinese automakers;
- 38% in Europe (and Africa);
- 16% in North America.

In all, 48% of the order intake(1) related to innovative products(3) (56% including Valeo Siemens eAutomotive), confirming the successful positioning of Valeo's new technologies and products in the CO_2 emissions reduction and intuitive driving segments.

(1) See Financial Glossary, page 61.
(2) Compound annual growth rate for order intake over the 2013-2018 period.
(3) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive.

3.1.2 Global automotive production growth

In first-half 2018, automotive production rose 2% compared with first-half 2017, according to LMC.

Growth in automotive production was driven by continued expansion in Europe (up 4%) and Asia (up 3%), particularly in China (up 3%). In North America, automotive production contracted by 3%.

Automotive production	First-quarter 2018		Second-quarter 2018		First-half 2018	
(year-on-year change)	LMC*	IHS**	LMC*	IHS**	LMC*	IHS**
Europe & Africa	+2%	0%	+6%	+4%	+4%	+2%
Asia, Middle East & Oceania	0%	0%	+6%	+6%	+3%	+3%
of which China	*-2%*	*-2%*	*+9%*	*+9%*	*+3%*	*+3%*
excluding China	*+2%*	*+2%*	*+3%*	*+3%*	*+3%*	*+2%*
North America	-3%	-3%	-2%	-3%	-3%	-3%
South America	+9%	+11%	+10%	+10%	+9%	+11%
TOTAL	**0%**	**0%**	**5%**	**+4%**	**+2%**	**+2%**

* *Based on LMC automotive production estimates released on July 10, 2018.*
** *Based on IHS automotive production estimates released on July 16, 2018.*

3.1.3 Sales growth (before application of IFRS 15)(2)

In first-half 2018, **sales** were:

- up 9% at constant exchange rates;
- up 3% like for like(2).

Changes in exchange rates had a negative 4.3% impact during the period, primarily reflecting the appreciation of the euro against the US dollar and Japanese yen.

In first-half 2018, **changes in Group structure** had a positive 6.4% impact, following:

- the takeover of Ichikoh, which was fully consolidated in the Group's financial statements as of February 1, 2017. Ichikoh contributed 100 million euros to consolidated sales in January 2018;
- the acquisition of FTE automotive at the end of October 2017, which contributed 269 million euros to consolidated sales in first-half 2018;
- the creation of Valeo-Kapec, which is controlled by Valeo and was fully consolidated in the Group's financial statements as of December 1, 2017. Valeo-Kapec contributed 255 million euros to consolidated sales in first-half 2018.

It should be noted that the integration of Ichikoh, FTE automotive and Valeo-Kapec is going according to expectations.

Sales *(in millions of euros)*	As a % of total H1 2018 sales	First-quarter 2018*	2017	CER change**	LFL change***	Change	Second-quarter 2018*	2017	CER change**	LFL change***	Change	First-half 2018*	2017	CER change**	LFL change***	Change
Original equipment	87%	4,275	4,174	+8%	+1%	+2%	4,353	4,061	+10%	+5%	+7%	8,628	8,235	+9%	+3%	+5%
Aftermarket	10%	523	487	+13%	+3%	+7%	518	476	+13%	+8%	+9%	1,041	963	+13%	+5%	+8%
Miscellaneous	3%	119	106	+18%	-2%	+12%	151	160	-3%	-3%	-6%	270	266	+6%	-3%	+1%
TOTAL	**100%**	**4,917**	**4,767**	**+9%**	**+1%**	**+3%**	**5,022**	**4,697**	**+10%**	**+5%**	**+7%**	**9,939**	**9,464**	**+9%**	**+3%**	**+5%**

* *2018 data are presented in accordance with the same accounting principles as those used in the first-half 2017 consolidated financial statements published in July 2017, i.e., before the application of IFRS 15 (unaudited data).*
** *At constant exchange rates.*
*** *Like for like (constant Group structure and exchange rates)(2).*

In first-half 2018, **original equipment sales** were:

- up 9% at constant exchange rates;
- up 3% like for like(2).

Aftermarket sales expanded 13% at constant exchange rates and 5% like for like(2).

Miscellaneous sales (3% of total sales) declined 3% like for like(2).

(1) For the sake of consistency in our financial communications, sales are presented using the same accounting principles as in 2017 (i.e., before the application of IFRS 15). The impacts of the application of IFRS 15 are presented on pages 58, 59 and 60.
(2) See Financial Glossary, page 61.

3.1.4 Original equipment sales growth by region (before application of IFRS 15)(1)

Original equipment sales *(by destination, in millions of euros)*	First-quarter 2018*	First-quarter 2017	First-quarter LFL change**	First-quarter Outper-formance vs. LMC***	First-quarter Outper-formance vs. IHS****	Second-quarter 2018*	Second-quarter 2017	Second-quarter LFL change**	Second-quarter Outper-formance vs. LMC***	Second-quarter Outper-formance vs. IHS****
Europe & Africa	2,081	2,001	+1%	-1 pt	+1 pt	2,071	1,919	+5%	-1 pt	+1 pt
Asia, Middle East & Oceania	1,296	1,189	+1%	+1 pt	+1 pt	1,366	1,192	+7%	+1 pt	+1 pt
▪ *of which China*	*551*	*564*	*-3%*	*-1 pt*	*-1 pt*	*587*	*548*	*+3%*	*-6 pts*	*-6 pts*
▪ *excluding China*	*745*	*625*	*+4%*	*+2 pts*	*+2 pts*	*779*	*644*	*+11%*	*+8%*	*+8 pts*
North America	796	895	-2%	+1 pt	+1 pt	819	857	-1%	+1 pt	+2 pts
South America	102	89	+29%	+20 pts	+18 pts	97	93	+18%	+8 pts	+8 pts
TOTAL	**4,275**	**4,174**	**+1%**	**+1 pt**	**+1 pt**	**4,353**	**4,061**	**+5%**	**0 pts**	**+1 pt**

Original equipment sales *(by destination, in millions of euros)*	First-half 2018*	First-half 2017	First-half LFL change**	First-half Outper-formance vs. LMC***	First-half Outper-formance vs. IHS****
Europe & Africa	4,152	3,920	+3%	-1 pt	+1 pt
Asia, Middle East & Oceania	2,662	2,381	+4%	+1 pt	+1 pt
▪ *of which China*	*1,138*	*1,112*	*0%*	*-3 pts*	*-3 pts*
▪ *excluding China*	*1,524*	*1,269*	*+7%*	*+4 pts*	*+5 pts*
North America	1,615	1,752	-1%	+2 pts	+2 pts
South America	199	182	+24%	+15 pts	+13 pts
TOTAL	**8,628**	**8,235**	**+3%**	**+1 pt**	**+1 pt**

** 2018 data are presented in accordance with the same accounting principles as those used in the first-half 2017 consolidated financial statements published in July 2017, i.e., before the application of IFRS 15 (unaudited data).*
*** Like for like (constant Group structure and exchange rates)(2).*
**** Based on LMC automotive production estimates released on July 10, 2018.*
***** Based on IHS automotive production estimates released on July 16, 2018.*

Like-for-like(2) original equipment sales increased by 3% over the first six months of 2018, outperforming global automotive production by 1 percentage point, as estimated by LMC:

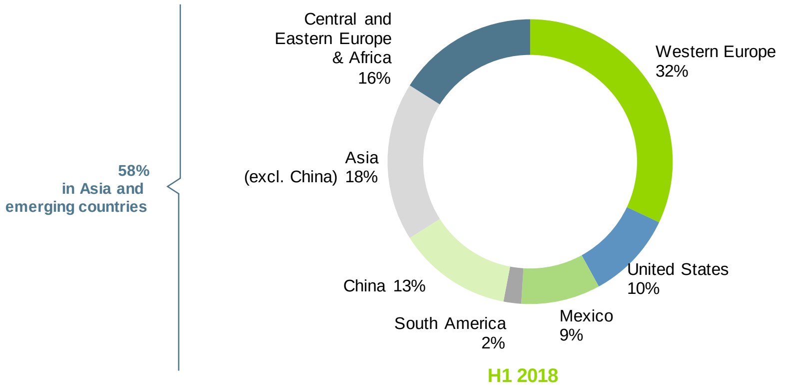
- in Europe (including Africa), like-for-like(2) original equipment sales rose 3%, underperforming automotive production (LMC estimates) by 1 percentage point. Excluding Russia, Valeo's performance was in line with automotive production;
- in China, like-for-like(2) original equipment sales were stable, underperforming automotive production (LMC estimates) by 3 percentage points;
- in Asia excluding China, like-for-like(2) original equipment sales increased 7%, outpacing automotive production (LMC estimates) by 4 percentage points. In South Korea, Valeo outperformed automotive production (LMC estimates) by 8 percentage points, lifted by the return to normal levels of its South Korean customers' sales in China from second-quarter 2018;
- in North America, like-for-like(2) original equipment sales fell 1%, outpacing automotive production (LMC estimates) by 2 percentage points;
- in South America, like-for-like(2) original equipment sales surged 24%, outpacing automotive production (LMC estimates) by 15 percentage points.[3]

(1) For the sake of consistency in our financial communications, sales are presented using the same accounting principles as in 2017 (i.e., before the application of IFRS 15). The impacts of the application of IFRS 15 are presented on pages 58, 59 and 60.
(2) See Financial Glossary, page 61.

3.1.5 Balanced geographic alignment of Valeo's businesses (before application of IFRS 15)(1)

ORIGINAL EQUIPMENT SALES BY PRODUCTION REGION

As a % of original equipment sales



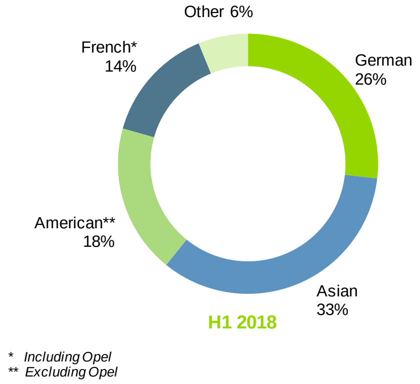
Taking account of the external growth transactions carried out in 2017, changes in the share of original equipment sales in the four main production regions in first-half 2018 compared to first-half 2017 were as follows:

- a rise of 3 percentage points for Asia, accounting for 31% of original equipment sales;
- a fall of 3 percentage points for North America, accounting for 19% of original equipment sales;
- stable for Europe, accounting for 48% of original equipment sales;
- stable for South America, accounting for 2% of original equipment sales.

3.1.6 Balanced customer portfolio (before application of IFRS 15)(1)

CUSTOMER PORTFOLIO

As a % of original equipment sales



Taking account of the external growth transactions carried out in 2017, changes in the share of original equipment sales among the Group's customers in first-half 2018 compared to first-half 2017 were as follows:

- a rise of 2 percentage points for Asian customers, accounting for 33% of original equipment sales, further to the takeover of Ichikoh as of February 1, 2017 and the creation of Valeo-Kapec, fully consolidated since December 1, 2017;
- a rise of 1 percentage point for German customers, accounting for 29% of original equipment sales;
- a fall of 2 percentage points for American customers, accounting for 18% of original equipment sales;
- a fall of 1 percentage point for French customers, accounting for 14% of original equipment sales.

(1) For the sake of consistency in our financial communications, sales are presented using the same accounting principles as in 2017 (i.e., before the application of IFRS 15). The impacts of the application of IFRS 15 are presented on pages 58, 59 and 60.

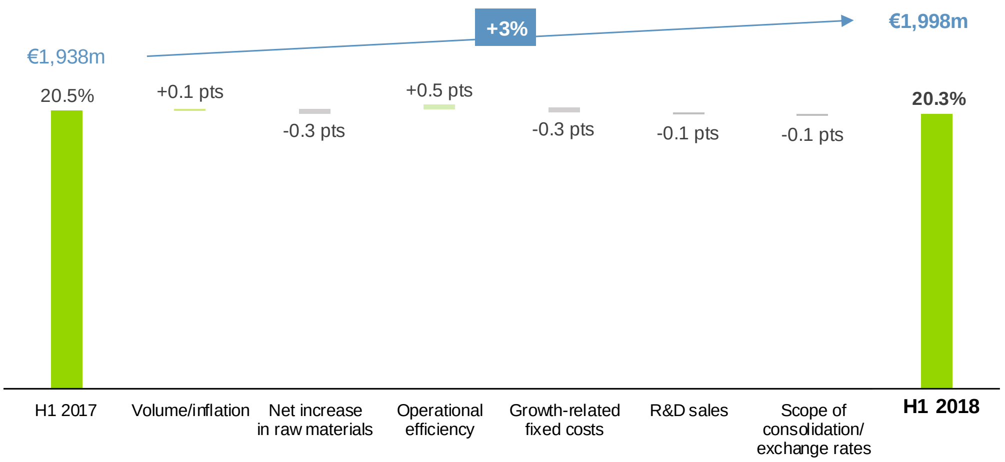
3.2 Results

(in millions of euros and as a % of sales)	First-half 2018	First-half 2017*	Change
Sales	9,863	9,433	+5%
Gross margin	1,998	1,938	+3%
	20.3%	*20.5%*	*-0.2 pts*
Operating margin excluding share in net earnings of equity-accounted companies	755	723	+4%
	7.7%	*7.7%*	*0 pts*
Share in net earnings of equity-accounted companies	(28)	29	-197%
	-0.3%	*0.3%*	*-0.6 pts*
Operating margin including share in net earnings of equity-accounted companies (1)	727	752	-3%
	7.4%	*8.0%*	*-0.6 pts*
NET ATTRIBUTABLE INCOME	**453**	**504**	**-10%**
	4.6%	***5.3%***	***-0.7 pts***

***** *2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.*

ANALYSIS OF GROSS MARGIN

As a % of sales



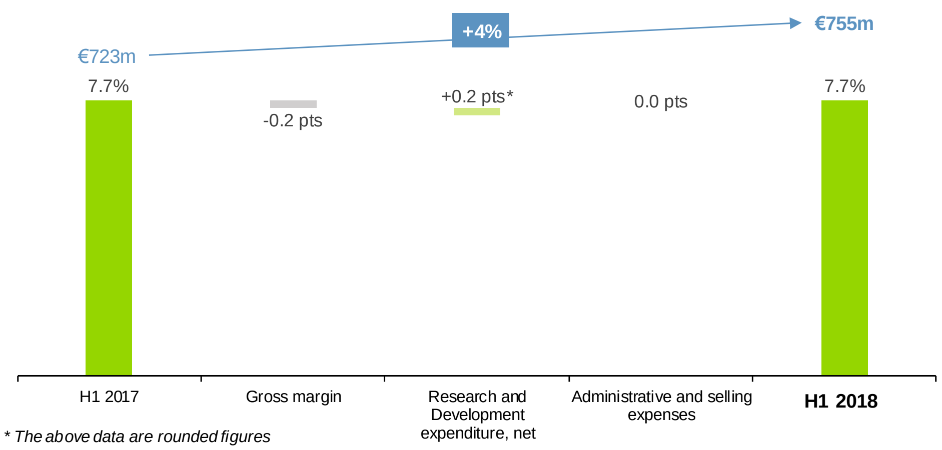
Gross margin rose 3% to 1,998 million euros, or 20.3% of sales, primarily reflecting:

- continued growth (positive 0.1 percentage point impact), including price and volume effects;
- the rise in raw material prices, after taking into account increases in sales prices for customers (negative 0.3 percentage point impact);
- operational efficiency (positive 0.5 percentage point impact);
- a rise in depreciation relating to the capital investments carried out by the Group over the past few years (negative 0.3 percentage point impact).

(1) See Financial Glossary, page 61.

ANALYSIS OF OPERATING MARGIN

Including share in net earnings of equity-accounted companies (as a % of sales)



* *The above data are rounded figures*

Operating margin excluding share in net earnings of equity-accounted companies held firm versus first-half 2017 came in at 755 million euros in first-half 2018, stable year on year at 7.7% of sales, despite the rise in raw material prices.

Valeo continued its R&D 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 R&D expenditure climbed 10% to 1,039 million euros, representing more than 12% of original equipment sales;
- net R&D expenditure rose 2% to 774 million euros, representing 7.8% of sales (down 0.3 percentage points on 2017).

Administrative and selling expenses were flat versus 2017 at 4.8% of sales.

The share in net earnings of equity-accounted companies represented a loss of 28 million euros, or a negative 0.3% of sales. In particular, it reflects the share of the loss recorded by Valeo Siemens eAutomotive (54 million euros), which is bearing the costs required to set up its organization to accommodate its fast-paced expansion going forward and push ahead with ongoing projects resulting from its cumulative 10.8 billion euro order intake at end-June 2018.

Operating margin including share in net earnings of equity-accounted companies[1] amounted to 727 million euros, or 7.4% of sales, down 3% on first-half 2017.

Operating income totaled 709 million euros, or 7.2% of sales, down 3% year on year. It includes other income and expenses for a net expense of 18 million euros in first-half 2018.

The cost of net debt totaled 32 million euros, down 16% on first-half 2017.

The effective tax rate came out at 22.4%.

Non-controlling interests jumped 58% versus first-half 2017 to 52 million euros, following the creation of Valeo-Kapec (which is controlled by Valeo and has been fully consolidated in the Group's financial statements since December 1, 2017) and the takeover of Ichikoh (which has been fully consolidated in the Group's financial statements since February 1, 2017).

Net attributable income amounted to 453 million euros, or 4.6% of sales, down 10% year on year.

Return on capital employed (ROCE[1]) and **return on assets** (ROA[1]) stood at 26% and 17%, respectively.

(1) See Financial Glossary, page 61.

3.3 Segment reporting

3.3.1 Sales growth by Business Group (before application of IFRS 15)[1]

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 (a) *(in millions of euros)*	First-quarter					Second-quarter				
	2018 (b)	2017	CER change (c)	Change in OE sales (d)	Change in sales	2018 (b)	2017	CER change (c)	Change in OE sales (d)	Change in sales
Comfort & Driving Assistance Systems	913	938	+1%	+1%	-3%	928	899	+5%	+5%	+3%
Powertrain Systems	1,310	1,105	+23% (e)	-1%	+23% (e)	1,323	1,058	+28% (e)	+7%	+25% (e)
Thermal Systems	1,240	1,312	+2%	+2%	-6%	1,308	1,282	+6%	+4%	+2%
Visibility Systems	1,491	1,458	+8% (f)	+1%	+2% (f)	1,497	1,495	+5%	+4%	0%
GROUP	**4,917**	**4,767**	**+9%**	**+1%**	**+3%**	**5,022**	**4,697**	**+10%**	**+5%**	**+7%**

Sales by Business Group (a) *(in millions of euros)*	First-half				
	2018 (b)	2017	CER change (c)	Change in OE sales (d)	Change in sales
Comfort & Driving Assistance Systems	1,841	1,837	+3%	+3%	0%
Powertrain Systems	2,633	2,163	+26% (e)	+3%	+22% (e)
Thermal Systems	2,548	2,594	+4%	+3%	-2%
Visibility Systems	2,988	2,953	+6% (f)	+3%	+1% (f)
GROUP	**9,939**	**9,464**	**+9%**	**+3%**	**+5%**

(a) Including intersegment sales.
(b) 2018 data are presented in accordance with the same accounting principles as those used in the first-half 2017 consolidated financial statements published in July 2017, i.e., before the application of IFRS 15 (unaudited data).
(c) At constant exchange rates.
(d) Like-for-like (constant Group structure and exchange rates)[2].
(e) Including FTE automotive & Valeo-Kapec.
(f) Including Ichikoh.

All four Business Groups delivered better like-for-like[2] growth in original equipment sales in the second quarter than in the first quarter:

- growth in the **Powertrain Systems Business Group's** like-for-like original equipment sales accelerated to 7% in the second quarter (versus a decline of 1% in the first quarter), lifted by the return to normal levels of its South Korean customers' sales in China;
- the **Comfort & Driving Assistance**, **Thermal Systems**, and **Visibility Systems Business Groups** reported like-for-like growth in sales in the second quarter, in line with automotive production.

In first-half 2018, all four Business Groups reported like-for-like growth in original equipment sales of 3%.

Overall sales for the **Powertrain Systems Business Group**, which rose 22% in the first half, include the contributions of FTE automotive and Valeo-Kapec, which have been fully consolidated in Valeo's consolidated financial statements since November 1, 2017 and December 1, 2017, respectively.

(1) For the sake of consistency in our financial communications, sales are presented using the same accounting principles as in 2017 (i.e., before the application of IFRS 15). The impacts of the application of IFRS 15 are presented on pages 58, 59 and 60.
(2) See Financial Glossary, page 61.

3.3.2. EBITDA[1] by Business Group

EBITDA[1] *(in millions of euros and as a % of sales by Business Group)*	First-half 2018	First-half 2017*	Change
Comfort & Driving Assistance Systems	283	267	+6%
	14.9%	*14.1%*	*+0.8 pts*
Powertrain Systems	369	275	+34%
	13.9%	*12.6%*	*+1.3 pts*
Thermal Systems	288	266	+8%
	12.3%	*11.0%*	*+1.3 pts*
Visibility Systems	385	391	-2%
	12.7%	*13.0%*	*-0.3 pts*
GROUP	**1,341**	**1,213**	**+11%**
	13.6%	***12.9%***	***+0.7 pts***

* *2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15.*

In first-half 2018, EBITDA[1] rose 11% versus first-half 2017 to 1,341 million euros, or 13.6% of sales.

All Business Groups reported significant growth in profitability except the **Visibility Systems Business Group**, which was impacted by the rise in the price of raw materials such as non-ferrous metals and resins.

3.4 Cash flow and financial position

3.4.1 Free cash flow generation[1]

(in millions of euros)	First-half 2018	First-half 2017
EBITDA[1]	**1,341**	**1,213***
Change in operating working capital**	(141)	(43)
Restructuring costs and outflows related to antitrust investigations	(18)	(77)
Income tax expense	(138)	(150)
Provisions for pensions	(1)	2
Other operating items	(12)	(12)
Investments in property, plant and equipment and intangible assets	(995)	(834)
FREE CASH FLOW[1]	**36**	**99**
Cash conversion rate[2]	***3%***	***8%***
Net financial expenses	(53)	(61)
Other financial items	(532)	(445)
NET CASH FLOW[1]	**(549)**	**(407)**

* *2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.*

** *Change in working capital excluding the change in non-recurring sales of accounts and notes receivable in a positive amount of 10 million euros in first-half 2018 and a negative amount of 36 million euros in first-half 2017.*

The Group generated 36 million euros in **free cash flow**[1] in first-half 2018, chiefly reflecting:

- an 11% increase in EBITDA[1] to 1,341 million euros;
- a 141 million euro negative impact on free cash flow generation of the change in working capital. Over the full year, the impact of working capital on free cash flow generation is expected to be neutral;
- investment outflows of 995 million euros on the back of a sharp increase in the order intake and in order to support the Group's expected future growth.

Accordingly, the cash conversion rate[1] stood at 3%.

(1) See Financial Glossary, page 61.
(2) Conversion of EBITDA into free cash flow.
(3) Figures presented in accordance with IFRS 9.

Net cash flow[1] amounted to a negative 549 million euros, reflecting:

- 53 million euros in net financial expenses paid; and
- other financial items totaling 532 million euros, mainly including a 314 million euro outflow relating to dividend payments and a 100 million euro outflow in connection with the share buyback program.

3.4.2 Net debt[1][2]

Net debt[1][2] stood at 2,291 million euros at June 30, 2018, up 449 million euros compared with end-December 2017, after taking into account dividend payments and the share buyback program.

The **leverage ratio** (net debt[1][2]/EBITDA) came out at 0.90x EBITDA and the **gearing ratio** (net debt[1][2]/stockholders' equity excluding non-controlling interests) stood at 51% of equity.

The average maturity of gross long-term debt increased to 5 years at June 30, 2018, from 4.8 years at December 31, 2017.

(1) See Financial Glossary, page 61.
(2) Figures presented in accordance with IFRS 9.

3.5. Outlook

Based on the following assumptions:

- an increase in global automotive production of 1.5% in 2018;
- raw material prices and exchange rates in line with current levels.

The Valeo Group has set the following objectives:

In view of uncertainties relating to the rise in raw material prices (in particular, steel and resins) and disruptions to the production of certain vehicles in Europe (mainly during the third quarter) due to the new Worldwide Harmonised Light Vehicle Test (WLTP):

- growth of 9% at constant exchange rates in 2018;
- like-for-like growth in original equipment sales of around 5% in second-half 2018, ahead of expected double-digit growth in 2019 based on our order book;
- 2018 operating margin excluding share in net earnings of equity-accounted companies (as a % of sales), which might be slightly below that of 2017 (7.8% of sales);
- free cash flow generation in line with that of 2017 (278 million euros).

Valeo Siemens eAutomotive:

- Valeo Siemens eAutomotive had a strong order intake of 4.7 billion euros in first-half 2018 and a cumulative 10.8 billion euros at end-June 2018;
- to accommodate its fast-paced expansion going forward, Valeo Siemens eAutomotive will bear the costs required to push ahead with ongoing projects and structure its organization. Accordingly, the "Share in net earnings of equity-accounted companies" caption will have an impact of around -0.3 points on Valeo's statement of income in 2018;
- by 2022, Valeo Siemens eAutomotive should be delivering sales of more than 2 billion euros and a similar EBITDA margin (as a % of sales) to that of Valeo.

3.6 Medium-term strategic plan

Valeo presented its 2021 financial objectives at the Investor Day in London on February 28, 2017.

MEDIUM-TERM GROWTH PLAN

	2016 (REPORTED)	2017 (REPORTED)	2021 PLAN
SALES *(in billions of euros)*	€16.5bn	€18.5bn	>€27bn
OPERATING MARGIN(2) *(as a % of sales)*	8.1%	8.0%	~9.0%(1)
FREE CASH FLOW(3) *(in billions of euros)*	€0.7bn	€0.3bn	€3.7bn(1) *between 2017 and 2021*
ROCE(3)	34%	30%	~30%
ROA(3)	21%	19%	>20%

3.7 Highlights

3.7.1 Transactions involving the Company's shares

Following the launch of a new share subscription offering reserved for employees, Valeo issued 599,979 new shares on June 28, 2018, thereby increasing its share capital by 0.25% versus end-December 2017. The plan 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. In 2018, around 95,000 Group employees were eligible for the offering, which was rolled out in 22 countries.

On May 31, 2018, under the Share Buyback Program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017, Valeo acquired 1,837,417 shares at an average price of 54.4242 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.

3.7.2 Debt management and ratings

On June 11, 2018, Valeo announced the successful placement of 600 million euros' worth of new seven-year bonds maturing on June 18, 2025. The issue pays a coupon of 1.50% and was placed on favorable terms.

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

- on January 29, 2018, Standard & Poor's maintained its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo and revised its outlook from positive to stable;
- on January 3, 2018, Moody's confirmed its "Baa2/P-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

3.7.3 Opening of new plants

In order to strengthen its presence in high-growth potential regions, especially in Asia, in first-half 2018 Valeo opened two new plants in the following locations: Guangzhou, China (VIS) and San Luis Potosí, Mexico (THS).

3.7.4 Innovation

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

- powertrain electrification;
- the autonomous vehicle;
- digital mobility.

These revolutions represent growth drivers for the Group, which will support the future development of each Business Group and respond to the market's paradigm shift towards electric, autonomous, shared cars.

Innovative products accounted for 48% of all order intake in first-half 2018[(1)]. Valeo protects its innovations through an active patent filing policy: 2,053 patents were filed in 2017, a 12% increase on 2016. It therefore maintains its status as the biggest patent filer in France. For the second year in a row, Valeo is also the top French company in terms of patents filed with the European Patent Office, and now ranks in the top 20 patent filers across all nationalities.

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive.

Open innovation

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

In recent years, Valeo has stepped up and internationalized its efforts to implement an innovation-oriented ecosystem by forming numerous collaborations with universities, laboratories, start-ups and other major companies working in manufacturing or the new economy.

- in March 2018, an internationally renowned expert in machine learning and computer vision research was appointed Scientific Director of **Valeo.ai**, the first global research center specializing in artificial intelligence and deep learning for automotive applications. Alongside the appointment of a Scientific Director, the Group announced that it had entered into strategic partnerships and strengthened academic ties with the French National Institute of IT and Automation Research (INRIA), Telecom ParisTech, Mines ParisTech and the French Alternative Energies and Atomic Energy Commission (CEA);
- in March 2018, Valeo signed a partnership agreement with start-up **Ellcie Healthy**, aiming to accelerate the development of smart connected eyeglasses for driving. Valeo is already active in the field, having already introduced smart anti-glare glasses that synchronize with vehicle headlamps. Now, it is partnering with Ellcie Healthy to capitalize on the start-up's expertise in eyewear with integrated sensors. The aim of the partnership is to accelerate the development of new vehicle applications, leading to improved road safety, more comfortable driving and enhanced human-machine interfaces;
- in April 2018, **NTT Docomo**, Japan's leading mobile operator, and Valeo entered into a partnership to jointly develop and offer connectivity solutions for vehicles. Valeo and Docomo will combine their respective expertise and solutions to offer telecommunication services and on board equipment for connected cars, including next-generation mobility services, digital services for cars using smart phones, and enhanced controls for on board equipment;
- Valeo announced that it had entered into strategic cooperation with Apollo, the open autonomous driving platform created by Baidu, the leading Chinese language internet search provider. Valeo will contribute its expertise in sensors, connectivity between autonomous vehicles, and control and optimization of air quality in the vehicle interior. Valeo will benefit from the full range of software, hardware and data tools provided by Apollo to its partners through its open, reliable and secure platform;
- In order to strengthen its ties with the rich world of academia, Valeo is running the fifth annual **Valeo Innovation Challenge**. It presents an opportunity for students worldwide to create their own start-up and play an active role in automotive innovation by imagining the technologies and user practices that will shape the car of tomorrow. For the 2018 edition, nine teams have been selected to develop their start-up project addressing one of the three automotive industry revolutions: powertrain electrification, the autonomous vehicle, and digital mobility. Enthusiasm for the Valeo Innovation Challenge is as strong as ever in the contest's fifth year, with 3,575 students worldwide and 1,470 teams from 107 countries and 67 universities and schools taking part in the most international edition yet.

This open innovation strategy notably allows Valeo to shorten development cycles for its products and time-to-market for its innovations.

A noteworthy presence at trade shows

Trade shows are an excellent opportunity for Valeo to showcase its technological innovations for the car of tomorrow, in line with new ways of getting around: electric, autonomous, connected and shared cars that are widely affordable yet adaptable to individual needs. With these technologies, Valeo once again demonstrates its capacity for innovation, the cornerstone of its strategy. In the first half of 2018, Valeo attended three major trade shows:

- in January 2018, Valeo took part in the **Consumer Electronics Show** (CES) in Las Vegas (United States) for the fifth year in a row. Valeo unveiled a low-voltage (48 V) all-electric prototype, which is fitted with a powertrain system that is 20% more economical than existing high-voltage solutions. Valeo technologies are also central to Autonom Cab, the world's first robo-taxi, which was presented by its French designer Navya. This all-electric, driverless vehicle is fitted with seven Valeo SCALA™ laser scanners, the world's first LiDAR (light detection and ranging) device certified for mass automotive production, and is a key component of the autonomous vehicle;
- in April 2018, Valeo attended **Auto China 2018** in Beijing, where it unveiled its latest technologies for developing electric, autonomous and connected vehicles. In addition to its low-voltage (48 V) all-electric prototype, the Group presented its battery thermal management solutions, which are essential for optimizing battery life and driving range. Valeo also showcased its connected air purifier, which helps protect passengers from outside pollution and allergens. Lastly, in the field of autonomous driving where the Group is currently the leader with the most comprehensive portfolio of sensors on the market, Valeo presented its automatic LiDAR cleaning system, which enables this key sensor to function optimally at all times, regardless of weather conditions;
- in May 2018, Valeo took part in the **Viva Technology** conference for the third year running. The Group showcased its latest innovations and hosted some 40 start-ups from around the world at its "Automotive Tech" Lab, with four challenges on the agenda: "The electric vehicle revolution", "The autonomous vehicle revolution", "The digital mobility revolution" and "Well-being at work". The start-ups' projects will be evaluated by a panel of Valeo experts and venture capital fund representatives, based on their relevance, their ability to meet needs, their innovative nature and their market potential.

3.7.5 Awards

In first-half 2018, the Group enjoyed widespread recognition from its customers and partners for innovation capability and product and service quality, attesting to its operational excellence:

- Valeo won two Automotive News **2018 PACE** (Premier Automotive Suppliers' Contribution to Excellence) **Awards**, for its SCALA™ laser scanner and its new natural refrigerant air conditioning system. For more than 20 years, the PACE Awards have honored top innovation, technological advancement and business performance by automotive suppliers. The prestigious awards are recognized around the world as the industry benchmark for innovation. In 2018, Valeo was the only company to win two PACE Awards;
- Valeo was certified as a "Global Top Employer" for the fourth year running. It is among 13 companies worldwide to be recognized for their best practices in human resources, particularly talent attraction, compensation and benefits, and training and skills development. Valeo was also named a "Top Employer" in Europe, Asia-Pacific and North America, with certification in 13 (Belgium, the Czech Republic, France, Germany, Hungary, Ireland, Italy, the Netherlands, Poland, Romania, Spain, Turkey and the United Kingdom), five (China, India, Japan, South Korea and Thailand) and three (Canada, Mexico and the United States) countries, respectively. For the first time, Valeo received "Top Employer" certification in three different regions, up from two in 2017;
- Valeo received the "Best Support Award on OES Parts Delivery" at the "FY 2018 Isuzu Purchasing Policy Meeting" which was held in Tokyo (Japan) at the headquarters of Japanese automaker **Isuzu Motors Ltd.**, one of Valeo's main customers in Japan;
- at the "First-Half R&D Tech Day" organized by **Hyundai Motor Company**, Valeo-Kapec won the "Durability Improvement Award", thereby becoming one of the South Korean automaker's top three suppliers.

3.8 Stock market data

3.8.1 Share performance

During the first half of 2018, the share's average closing price was 57.02 euros, with a high of 66.48 euros on January 12, 2018 and a low of 46.55 euros on June 29, 2018. Over the first six months of the year, the Valeo share fell 24.8% from 62.27 euros on December 31, 2017 to a closing price of 46.82 euros on June 29, 2018.

The Valeo share (down 24.8%) underperformed the CAC 40 index (up 0.2%) by 25 percentage points. The share underperformed the DJSTOXX Auto index (down 10.9%) by 13.9 percentage points.

3.8.2 Changes in ownership structure

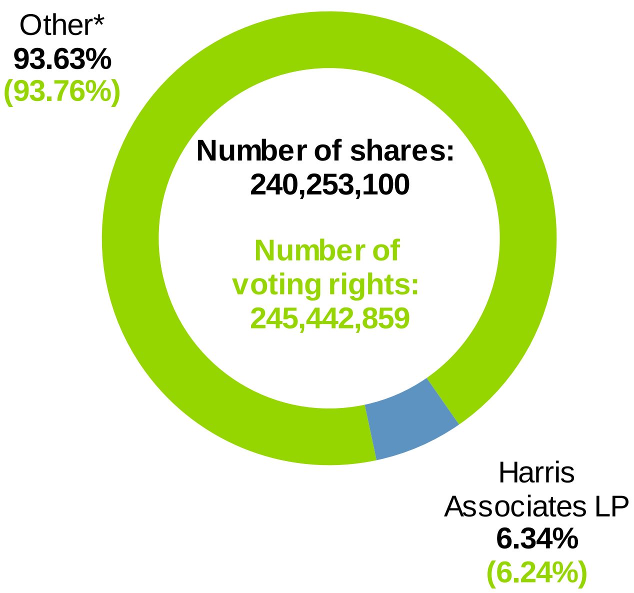
At June 30, 2018, the Company's share capital comprised 240,253,100 shares, up 599,979 shares since December 31, 2017 following the implementation of an employee share ownership plan in May 2018. In accordance with Article 223-11 *et seq.* of the General Regulation of the French financial markets authority (*Autorité des marchés financiers* – AMF), the number of voting rights declared was 245,442,859. Excluding treasury shares, the number of voting rights comes out at 242,697,142.

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at June 30, 2018, other than:

- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 15,307,611 shares in the Company, i.e., 6.37% of the share capital and 6.24% of the voting rights.

At June 30, 2018, Valeo held 2,745,717 treasury shares (i.e., 1.14% of the share capital without voting rights) versus 1,729,121 shares at December 31, 2017 (0.72%).

OWNERSHIP STRUCTURE AT JUNE 30, 2018



% of share capital (% of voting rights)
** Including 2,745,717 treasury shares (1.14% of the share capital)*

3.8.3 Stock market data

	First-half 2018	Full-year 2017
Market capitalization at year-end *(in billions of euros)*	11.25	14.92
Number of shares	240,253,100	239,653,121
Highest share price *(in euros)*	66,48	67.80
Lowest share price *(in euros)*	46.55	54.05
Average share price *(in euros)*	57.02	60.28
Share price at period-end *(in euros)*	46.82	62.27

3.8.4 Data per share

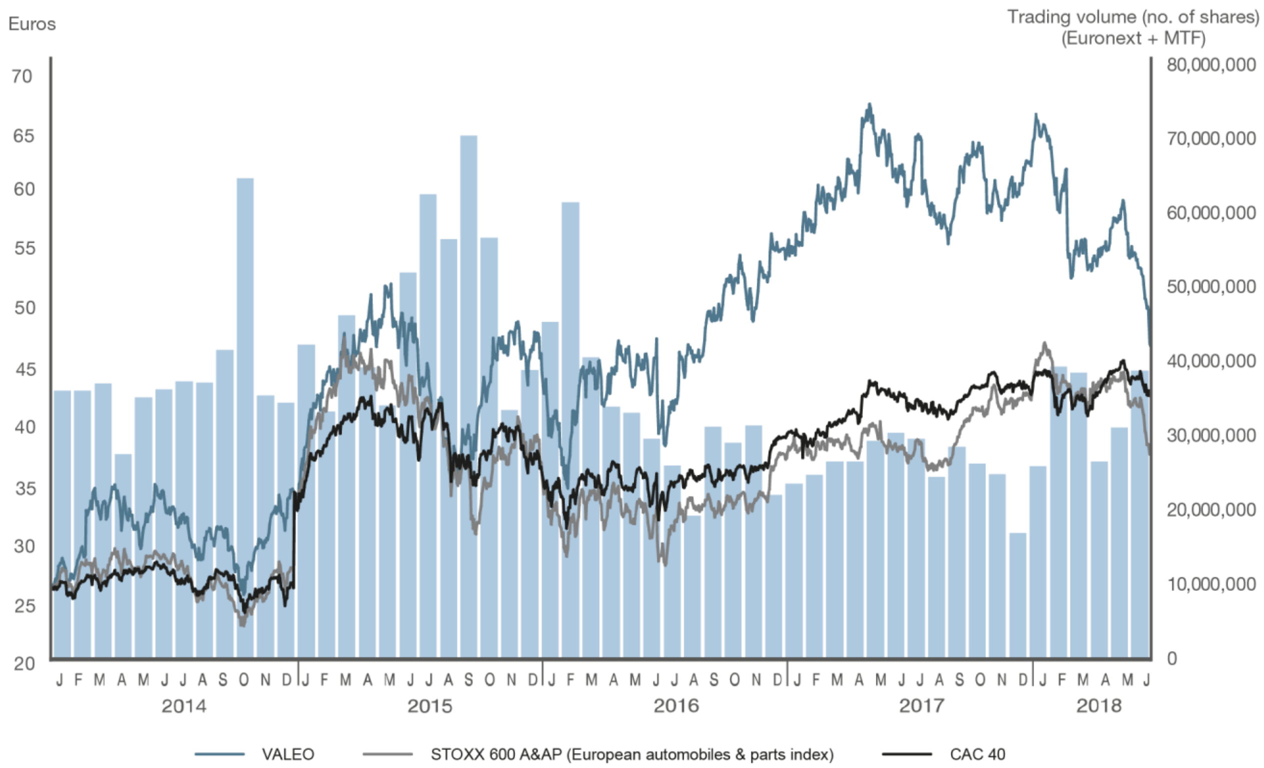
(in euros)	First-half 2018	First-half 2017*
Basic earnings per share	1.91	2.12
Basic earnings (excluding non-recurring items)	1.95	2.16

* *2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.*

(in euros)	2017	2016
Net dividend per share	1.25*	1.25*

* *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 publications calendar

- Third-quarter 2018 sales: October 25, 2018
- Full-year 2018 results: second half of February 2019
- First-quarter 2019 sales: second half of April 2019
- First-half 2019 results: second half of July 2019

3.9 Risk factors and related party transactions

3.9.1 Risk factors

The risk factors are identical to those identified in Chapter 2 of the 2017 Registration Document.

3.9.2 Related party transactions

There were no significant changes in related party transactions during the first half of 2018.

4

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

4.1 Consolidated statement of income

(in millions of euros)	*Notes*	First-half 2018	First-half 2017 restated[(1)]
SALES	*4.1*	**9,863**	**9,433**
Cost of sales	*4.2*	(7,865)	(7,495)
Research and Development expenditure	*4.3.1*	(774)	(761)
Selling expenses		(158)	(149)
Administrative expenses		(311)	(305)
OPERATING MARGIN		**755**	**723**
as a % of sales		*7.7%*	*7.7%*
Share in net earnings of equity-accounted companies	*4.3.2*	(28)	29
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES		**727**	**752**
as a % of sales		*7.4%*	*8.0%*
Other income and expenses	*4.4.2*	(18)	(23)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.4.1*	**709**	**729**
Interest expense	*8.4.1*	(43)	(44)
Interest income	*8.4.1*	11	6
Other financial income and expenses	*8.4.2*	(18)	(25)
INCOME BEFORE INCOME TAXES		**659**	**666**
Income taxes	*9*	(154)	(129)
NET INCOME FOR THE PERIOD		**505**	**537**
Attributable to:			
■ Owners of the Company		453	504
■ Non-controlling interests		52	33
Earnings per share:			
■ Basic earnings per share *(in euros)*	*10.3*	1.91	2.12
■ Diluted earnings per share *(in euros)*	*10.3*	1.89	2.10

(1) The consolidated statement of income for first-half 2017 differs from that presented in the first-half 2017 consolidated financial statements published in July 2017 since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2).

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

4.2 Consolidated statement of comprehensive income

(in millions of euros)	First-half 2018	First-half 2017 restated[(1)]
NET INCOME FOR THE PERIOD	**505**	**537**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	3	(5)
o/w income taxes	*-*	*-*
Translation adjustment	31	(221)
Cash flow hedges:		
■ Gains (losses) taken to equity	(5)	36
■ (Gains) losses transferred to income for the period	(4)	(15)
o/w income taxes	*1*	*(1)*
Remeasurement of long-term investments	20	(1)
o/w income taxes	*1*	*1*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**45**	**(206)**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	-	-
o/w income taxes	*-*	*-*
Actuarial gains (losses) on defined benefit plans	18	62
o/w income taxes	*(6)*	*(5)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**18**	**62**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**63**	**(143)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**568**	**394**
Attributable to:		
■ Owners of the Company	511	375
■ Non-controlling interests	57	19

(1) The consolidated statement of comprehensive income for first-half 2017 differs from that presented in the first-half 2017 consolidated financial statements published in July 2017 since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2).

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

4.3 Consolidated statement of financial position

(in millions of euros)	*Notes*	June 30, 2018	December 31, 2017 restated(1)
ASSETS			
Goodwill	*6.1*	2,586	2,566
Other intangible assets		2,114	1,921
Property, plant and equipment		4,318	4,073
Investments in equity-accounted companies		274	360
Other non-current financial assets		480	420
Assets relating to pensions and other employee benefits	*5.1*	6	5
Deferred tax assets		446	458
NON-CURRENT ASSETS		**10,224**	**9,803**
Inventories, net		1,848	1,706
Accounts and notes receivable, net		3,213	2,916
Other current assets		561	484
Taxes receivable		45	42
Other current financial assets		21	40
Cash and cash equivalents	*8.2.4*	2,557	2,436
Assets held for sale		-	41
CURRENT ASSETS		**8,245**	**7,665**
TOTAL ASSETS		**18,469**	**17,468**
EQUITY AND LIABILITIES			
Share capital		240	240
Additional paid-in capital		1,513	1,487
Translation adjustment		(7)	(35)
Retained earnings		2,776	2,696
STOCKHOLDERS' EQUITY		**4,522**	**4,388**
Non-controlling interests		684	649
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**5,206**	**5,037**
Provisions for pensions and other employee benefits – long-term portion	*5.1*	1,031	1,018
Other provisions – long-term portion	*7.1*	370	395
Long-term portion of long-term debt	*8.2.2.1*	3,457	3,227
Other financial liabilities – long-term portion		75	162
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.2.3*	16	17
Subsidies and grants – long-term portion		55	43
Deferred tax liabilities		94	92
NON-CURRENT LIABILITIES		**5,098**	**4,954**
Accounts and notes payable		4,608	4,397
Provisions for pensions and other employee benefits – current portion	*5.1*	99	117
Other provisions – current portion	*7.1*	200	208
Subsidies and grants – current portion		28	19
Taxes payable		114	116
Other current liabilities		1,547	1,456
Current portion of long-term debt	*8.2.2.1*	443	383
Other financial liabilities – current portion		36	15
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.2.3*	73	65
Short-term debt	*8.2.1*	1,007	664
Liabilities held for sale	*2.1.1*	10	37
CURRENT LIABILITIES		**8,165**	**7,477**
TOTAL EQUITY AND LIABILITIES		**18,469**	**17,468**

(1) The consolidated statement of financial position at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2), as well as allocating the purchase price for FTE automotive (see Notes 2.1.3 and 1.2.2).

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

4.4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	First-half 2018	First-half 2017 restated[1]
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period[1]		505	537
Share in net earnings of equity-accounted companies		28	(29)
Net dividends received from equity-accounted companies		39	25
Expenses (income) with no cash effect	*11.1*	552	426
Cost of net debt[1]		32	38
Income taxes (current and deferred)[1]		154	129
GROSS OPERATING CASH FLOWS		**1,310**	**1,126**
Income taxes paid		(138)	(150)
Changes in working capital[1]	*11.2*	(151)	(7)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**1,021**	**969**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(378)	(300)
Acquisitions of property, plant and equipment		(634)	(546)
Investment subsidies and grants received		12	2
Disposals of property, plant and equipment and intangible assets		5	10
Net change in non-current financial assets		(100)	(23)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(20)	(40)
Acquisitions of investments in associates and/or joint ventures		-	(7)
Disposals of investments with loss of control, net of cash transferred	*11.4*	2	(1)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(1,113)**	**(905)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(296)	(297)
Dividends paid to non-controlling interests in consolidated subsidiaries		(18)	(9)
Capital increase		26	-
Sale (purchase) of treasury shares	*11.5*	(112)	(83)
Issuance of long-term debt	*11.6*	602	500
Loan issue costs and premiums	*11.6*	(4)	(5)
Interest paid		(57)	(67)
Interest received		4	6
Repayments of long-term debt	*11.6*	(310)	(179)
Acquisitions of investments without gain of control	*11.7*	-	(16)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(165)**	**(150)**
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		**6**	**-**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**29**	**(74)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(222)**	**(160)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		1,772	1,817
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,550**	**1,657**
Of which:			
■ Cash and cash equivalents		2,557	2,251
■ Short-term debt		(1,007)	(594)

(1) The consolidated statement of cash flows for first-half 2017 differs from that presented in the first-half 2017 consolidated financial statements published in July 2017 since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2).

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

4.5 Consolidated statement of changes in stockholders' equity

						Total stockholders' equity including non-controlling interests restated[(1)]		
Number of shares	*(in millions of euros)*	**Share capital**	**Additional paid-in capital**	**Cumulative translation adjustment**	**Retained earnings[(1)]**	**Stockholders' equity**	**Non-controlling interests**	**Total**
237,902,266	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016**	**239**	**1,462**	**282**	**2,134**	**4,117**	**236**	**4,353**
	Adoption of IFRS 15	-	-	-	(30)	(30)	-	**(30)**
	Adoption of IFRS 9	-	-	-	11	11	-	**11**
237,902,266	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2017[(1)]**	**239**	**1,462**	**282**	**2,115**	**4,098**	**236**	**4,334**
	Dividends paid[(2)]	-	-	-	(297)	(297)	(9)	**(306)**
(701,562)	Treasury shares[(3)]	-	-	-	(83)	(83)	-	**(83)**
	Share-based payment	-	-	-	13	13	-	**13**
	Put options granted[(4)]	-	-	-	(4)	(4)	(3)	**(7)**
	Other movements[(5)]	-	-	-	(7)	(7)	64	**57**
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(378)**	**(378)**	**52**	**(326)**
	Net income for the period[(1)]	-	-	-	504	504	33	**537**
	Other comprehensive income (loss), net of tax	-	-	(213)	84	(129)	(14)	**(143)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(213)**	**588**	**375**	**19**	**394**
237,200,704	**STOCKHOLDERS' EQUITY AT JUNE 30, 2017[(1)]**	**239**	**1,462**	**69**	**2,325**	**4,095**	**307**	**4,402**
	Dividends paid	-	-	-	-	-	(11)	**(11)**
213,306	Treasury shares	-	-	-	10	10	-	**10**
509,990	Capital increase	1	25	-	-	26	-	**26**
	Share-based payment	-	-	-	14	14	-	**14**
	Put options granted[(4)]	-	-	-	5	5	(1)	**4**
	Others movements	-	-	-	(22)	(22)	315	**293**
	TRANSACTIONS WITH OWNERS	**1**	**25**	**-**	**7**	**33**	**303**	**336**
	Net income for the period[(1)]	-	-	-	374	374	46	**420**
	Other comprehensive income (loss), net of tax	-	-	(104)	(10)	(114)	(7)	**(121)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(104)**	**364**	**260**	**39**	**299**
237,924,000	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017[(1)]**	**240**	**1,487**	**(35)**	**2,696**	**4,388**	**649**	**5,037**
	Dividends paid[(2)]	-	-	-	(296)	(296)	(25)	**(321)**
(1,016,596)	Treasury shares[(3)]	-	-	-	(110)	(110)	-	**(110)**
599,979	Capital increase	-	26	-	-	26	-	**26**
	Share-based payment	-	-	-	13	13	-	**13**
	Put options granted[(4)]	-	-	-	(10)	(10)	3	**(7)**
	TRANSACTIONS WITH OWNERS	**-**	**26**	**-**	**(403)**	**(377)**	**(22)**	**(399)**
	Net income for the period	-	-	-	453	453	52	**505**
	Other comprehensive income (loss), net of tax	-	-	28	30	58	5	**63**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**28**	**483**	**511**	**57**	**568**
237,507,383	**STOCKHOLDERS' EQUITY AT JUNE 30, 2018**	**240**	**1,513**	**(7)**	**2,776**	**4,522**	**684**	**5,206**

(1) The consolidated statement of changes in stockholders' equity for full-year 2016, first-half 2017 and full-year 2017 differs from that presented in the full-year 2016, first-half 2017 and full-year 2017 consolidated financial statements published in February 2017, July 2017 and February 2018, respectively, since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from Contracts with Customers" as of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2).

(2) A cash dividend of 1.25 euros per share was paid in June 2018, representing a total payout of 296 million euros in first-half 2018. The per-share amount was unchanged from June 2017.

(3) Changes in stockholders' equity attributable to treasury shares for first-half 2017 and first-half 2018 include the impact of share buyback programs entered into with an investment services provider on March 6, 2017 in an amount of 75 million euros and on March 7, 2018 in an amount of 100 million euros (see Note 10.2).

(4) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.2.3).

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, 2018 include:

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

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

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

Valeo's condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 25, 2018.

Note 1 Accounting policies

1.1. Accounting standards applied

The condensed interim consolidated financial statements for the six months ended June 30, 2018 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, 2018.

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, 2017;
- 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 2018 and should be read in conjunction with the information set out in the consolidated financial statements for the year ended December 31, 2017 included in the Group's 2017 Registration Document[(1)].

The accounting principles used to prepare the condensed interim consolidated financial statements for the six months ended June 30, 2018 are the same as those used to prepare the 2017 annual consolidated financial statements, except as regards:

- the changes in accounting policy relating primarily to the retrospective application as of January 1, 2017 of IFRS 15 – "Revenue from Contracts with Customers" and IFRS 9 – "Financial Instruments". A description of the nature and effects of their application are provided in Notes 1.1.1 and 1.2;
- the specific accounting treatments described in Notes 5.1 and 9.

(1) The 2017 Registration Document is available on the Group's website (www.valeo.com) or on the website of the AMF (www.amf-france.org), and may be obtained from the Group by writing to the address stated above.

1.1.1. Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2018

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

Standards, amendments and interpretations	**IFRS 15 – Revenue from Contracts with Customers** Effective as of January 1, 2018
Presentation and general principles	On May 28, 2014, the IASB published a standard on revenue recognition, under which revenue must be recognized upon transfer of control of the goods or services sold in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. IFRS 15, and the related clarifications published by the IASB on April 12, 2016, replace IAS 11 and IAS 18, as well as the associated IFRIC and SIC interpretations. The European Union adopted IFRS 15 on September 22, 2016.

Impacts for the Group	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 general findings of this analysis are presented below.
	
	<u>Analysis of the Group's main promises</u>
	For each automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the analysis are:
	▪ Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is usually considered to be related to the promise to Supply Parts; any contributions from customers in respect of Product Development are therefore recognized in sales over the period of series production, as the promise to deliver the parts is fulfilled. However, the accounting treatment applied may vary based on each project's specific contractual or operational features;
	▪ Supply of Tooling such as molds and other equipment used to manufacture parts:
	    ▪ for certain businesses, the supply of molds may be considered to be a distinct promise in view of the manner in which control is transferred. In such cases, sales are recognized at the start of series production for the project,
	    ▪ the supply of other equipment used to manufacture parts is considered to be related to the supply of parts. Any contributions received in this respect are therefore deferred and recognized over the duration of the manufacturing phase of the project and as the promise to deliver the parts is fulfilled;
	▪ Supply of Parts, sales of which are recognized when control of the parts is transferred to the customer, i.e., generally upon delivery.
	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 therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".
	
	<u>Impacts on the presentation of sales and the Group's consolidated statement of income</u>
	Under specific contracts, analysis of the relationship with the end customer leads Valeo to consider that it acts as agent when it supplies said end customer with "imposed" components. As such, the transactions in which Valeo acts as agent are now recognized based on their net amount. As a result, a presentation impact of 425 million euros for 2017 was recognized as a deduction from "Sales" on the one hand and "Raw materials consumed" within "Cost of sales" on the other. This reclassification mainly concerns the Thermal Systems Business Group's front-end module operations.
	Customer contributions to development costs and prototypes, which were previously presented as a deduction from "Research and Development expenditure", are now presented under "Sales" 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. This reclassification represents an amount of 364 million euros for 2017. As research and development costs continue to be presented under "Research and Development expenditure", gross margin is no longer included in the consolidated statement of income.

Application by the Group	Valeo has applied IFRS 15 since January 1, 2018, with restatement of comparative periods, i.e., a reduction in equity at January 1, 2017 of 30 million euros. The impacts of the retrospective application of IFRS 15 on the Group's consolidated financial

Standards, amendments and interpretations	**IFRS 15 – Revenue from Contracts with Customers** Effective as of January 1, 2018
	statements are described in Note 1.2.

Standards, amendments and interpretations	**IFRS 9 – Financial instruments** Effective as of January 1, 2018
Presentation and general principles	On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39: ▪ the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question; ▪ the impairment model no longer uses the approach based on identified credit losses but an approach based on expected credit losses; ▪ the accounting for hedges has been significantly improved and is now more closely aligned with the Group's risk management strategy.
Impacts for the Group	Owing to the nature of its operations, the Group has not identified any significant changes to the classification and measurement of its financial assets, with the exception of its interests in investment funds, for which changes in fair value will henceforth be recognized in income. When the Group considers that a long-term investment in equity instruments is not held for trading but for the purposes of establishing close and lasting business relationships and/or as part of technological monitoring, the Group may apply the irrevocable option under which changes in the fair value of such investments are recognized in other comprehensive income. As part of the transition to IFRS 9, Valeo elected to apply this option to the reciprocal shareholdings held by Ichikoh and the stakes acquired in the start-ups Aledia and Navya. Application of this option under the transition to IFRS 9 did not have a material impact on the consolidated financial statements. A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, has been carried out. The expected credit loss impairment model prescribed by IFRS 9 results in recognizing impairment losses against accounts and notes receivable not yet due and represents an impact of 1 million euros at January 1, 2017. The Group considers that its existing hedging relationships meeting the qualifying criteria as effective hedges continue to meet IFRS 9 hedge accounting criteria. Lastly, the impacts of applying IFRS 9 to the debt renegotiation that took place in January 2014 represent: ▪ an increase of around 12 million euros in consolidated retained earnings (excluding deferred tax) at January 1, 2017; ▪ an additional annual financial expense of around 2 million euros, to be recognized over the remaining term of the renegotiated debt (i.e., over a period up to 2024).
Application by the Group	Valeo has applied IFRS 9 since January 1, 2018, with restatement of comparative periods, i.e., a positive impact of 11 million euros on consolidated retained earnings at January 1, 2017. The impacts of the retrospective application of IFRS 9 on the Group's consolidated financial statements are described in Note 1.2.

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

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2018

Annual Improvements to IFRSs 2014-2016 cycle	Various provisions
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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

1.1.2. Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2018 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	**IFRS 16 – Leases** Effective as of January 1, 2019
Presentation and general principles	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.
Impacts for the Group	In 2016 and 2017, Valeo began to identify leases of its subsidiaries along with their main provisions. The Group is continuing to analyze the qualitative and quantitative impacts of this forthcoming standard on its consolidated financial statements.
Application by the Group	The Group has not yet decided on its transition method.

The IASB has also published "Prepayment Features with Negative Compensation" (Amendments to IFRS 9), which will be effective as of January 1, 2019. Valeo does not expect these amendments to have a material impact on the Group's consolidated financial statements.

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

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

Standards, amendments and interpretations		**Effective date(1)**
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Annual Improvements to IFRSs 2015-2017 cycle	Various provisions	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
Revised Conceptual Framework for Financial Reporting	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

(1) Subject to adoption by the European Union.

1.2. Restatement of comparative periods

The consolidated financial statements for the six months ended June 30, 2017 and for the year ended December 31, 2017, which were published in July 2017 and February 2018, respectively, have been restated to reflect the impacts of:

- retrospectively applying IFRS 15 – "Revenue from Contracts with Customers" and IFRS 9 – "Financial Instruments" (see Note 1.1.1); and
- allocating the FTE automotive purchase price to the entity's assets and liabilities on a provisional basis (see Note 2.1.3).

1.2.1. Consolidated statement of income

(in millions of euros)	First-half 2017 published	IFRS 15	IFRS 9	First-half 2017 restated	Full-year 2017 published	IFRS 15	IFRS 9	Full-year 2017 restated
SALES	9,464	(31)	-	9,433	18,550	(66)	-	18,484
Cost of sales	(7,703)	208	-	(7,495)	(15,076)	425	-	(14,651)
Research and Development expenditure[(1)]	(582)	(179)	-	(761)	(1,130)	(364)	-	(1,494)
Selling expenses	(149)	-	-	(149)	(302)	-	-	(302)
Administrative expenses	(305)	-	-	(305)	(587)	-	-	(587)
OPERATING MARGIN	725	(2)	-	723	1,455	(5)	-	1,450
as a % of sales	*7.7%*			*7.7%*	*7.8%*			*7.8%*
Share in net earnings of equity-accounted companies	29	-	-	29	22	(2)	-	20
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	754	(2)	-	752	1,477	(7)	-	1,470
as a % of sales	*8.0%*			*8.0%*	*8.0%*			*8.0%*
Other income and expenses	(23)	-	-	(23)	(67)	-	-	(67)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**731**	**(2)**	**-**	**729**	**1,410**	**(7)**	**-**	**1,403**
Interest expense	(43)	-	(1)	(44)	(88)	-	(2)	(90)
Interest income	6	-	-	6	15	-	-	15
Other financial income and expenses	(25)	-	-	(25)	(47)	-	-	(47)
INCOME BEFORE INCOME TAXES	**669**	**(2)**	**(1)**	**666**	**1,290**	**(7)**	**(2)**	**1,281**
Income taxes	(130)	1	-	(129)	(325)	1	-	(324)
NET INCOME FOR THE PERIOD	539	(1)	(1)	537	965	(6)	(2)	957
Attributable to:								
■ Owners of the Company	506	(1)	(1)	504	886	(6)	(2)	878
■ Non-controlling interests	33	-	-	33	79	-	-	79

(1) In 2017, Research and Development expenditure was presented net of customer contributions to Research and Development, which are now presented under "Sales".

1.2.2 Consolidated statement of financial position

(in millions of euros)	June 30, 2017 published	IFRS 15	IFRS 9	June 30, 2017 restated	December 31, 2017 published	IFRS 15	IFRS 9	Allocation to FTE automotive	December 31, 2017 restated
ASSETS									
Goodwill	1,995	-	-	1,995	2,615	-	-	(49)	2,566
Other intangible assets	1,486	-	-	1,486	1,830	-	-	91	1,921
Property, plant and equipment	3,499	-	-	3,499	4,055	-	-	18	4,073
Investments in equity-accounted companies	372	-	-	372	357	(2)	-	5	360
Other non-current financial assets	297	-	-	297	420	-	-	-	420
Assets relating to pensions and other employee benefits	2	-	-	2	5	-	-	-	5
Deferred tax assets	553	1	-	554	456	2	-	-	458
NON-CURRENT ASSETS	**8,204**	**1**	**-**	**8,205**	**9,738**	**-**	**-**	**65**	**9,803**
Inventories, net	1,520	-	-	1,520	1,720	-	-	(14)	1,706
Accounts and notes receivable, net	2,872	-	(1)	2,871	2,919	-	(1)	(2)	2,916
Other current assets	441	-	-	441	483	-	-	1	484
Taxes receivable	38	-	-	38	42	-	-	-	42
Other current financial assets	34	-	-	34	40	-	-	-	40
Cash and cash equivalents	2,251	-	-	2,251	2,436	-	-	-	2,436
Assets held for sale	2	-	-	2	41	-	-	-	41
CURRENT ASSETS	**7,158**	**-**	**(1)**	**7,157**	**7,681**	**-**	**(1)**	**(15)**	**7,665**
TOTAL ASSETS	**15,362**	**1**	**(1)**	**15,362**	**17,419**	**-**	**(1)**	**50**	**17,468**
EQUITY AND LIABILITIES									
Share capital	239	-	-	239	240	-	-	-	240
Additional paid-in capital	1,462	-	-	1,462	1,487	-	-	-	1,487
Translation adjustment	69	-	-	69	(36)	1	-	-	(35)
Retained earnings	2,346	(31)	10	2,325	2,723	(36)	9	-	2,696
STOCKHOLDERS' EQUITY	**4,116**	**(31)**	**10**	**4,095**	**4,414**	**(35)**	**9**	**-**	**4,388**
Non-controlling interests	307	-	-	307	649	-	-	-	649
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS	**4,423**	**(31)**	**10**	**4,402**	**5,063**	**(35)**	**9**	**-**	**5,037**
Provisions for pensions and other employee benefits – long-term portion	997	-	-	997	1,018	-	-	-	1,018
Other provisions – long-term portion	354	-	-	354	388	-	-	7	395
Long-term portion of long-term debt	2,352	-	(11)	2,341	3,237	-	(10)	-	3,227
Other financial liabilities – long-term portion	125	-	-	125	162	-	-	-	162
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	20	-	-	20	17	-	-	-	17
Subsidies and grants – long-term portion	37	-	-	37	43	-	-	-	43
Deferred tax liabilities	51	-	-	51	73	-	-	19	92
NON-CURRENT LIABILITIES	**3,936**	**-**	**(11)**	**3,925**	**4,938**	**-**	**(10)**	**26**	**4,954**
Accounts and notes payable	4,235	-	-	4,235	4,394	-	-	3	4,397
Provisions for pensions and other employee benefits – current portion	75	-	-	75	117	-	-	-	117
Other provisions – current portion	214	-	-	214	207	-	-	1	208
Subsidies and grants – current portion	23	-	-	23	19	-	-	-	19
Taxes payable	83	-	-	83	116	-	-	-	116
Other current liabilities	1,312	32	-	1,344	1,401	35	-	20	1,456
Current portion of long-term debt	385	-	-	385	383	-	-	-	383
Other financial liabilities – current portion	16	-	-	16	15	-	-	-	15
Liabilities associated with put options granted to holders of non-controlling interests – current portion	66	-	-	66	65	-	-	-	65
Short-term debt	594	-	-	594	664	-	-	-	664
Liabilities held for sale	-	-	-	-	37	-	-	-	37
CURRENT LIABILITIES	**7,003**	**32**	**-**	**7,035**	**7,418**	**35**	**-**	**24**	**7,477**
TOTAL EQUITY AND LIABILITIES	**15,362**	**1**	**(1)**	**15,362**	**17,419**	**-**	**(1)**	**50**	**17,468**

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

Significant estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the six months ended June 30, 2018 chiefly concern:

- the measurement of intangible assets recognized in the allocation of the purchase price to the assets and liabilities of FTE automotive and Kapec (see Notes 2.1.3 and 2.1.2, 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);
- 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);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9).

Note 2 Changes in the scope of consolidation

2.1. Transactions that were completed

The main changes that impacted the Group's structure and consolidated financial statements during the period are as follows:

Description	Business Group	Transaction type	Transaction date	Note
Passive Hydraulic Actuator business	Powertrain Systems	Sale	March 28, 2018	2.1.1
Valeo-Kapec	Powertrain Systems	Company created with Pyeong Hwa	November 30, 2017	2.1.2
FTE automotive	Powertrain Systems	Takeover	October 31, 2017	2.1.3

2.1.1. Sale of the Passive Hydraulic Actuator business

On March 28, 2018, Valeo sold its Passive Hydraulic Actuator business, part of the Powertrain Systems Business Group, to the Italian group Raicam.

In accordance with IFRS 5, following the July 2017 announcement of the planned sale, the assets and liabilities relating to this business were classified as assets and liabilities held for sale in the consolidated statement of financial position at December 31, 2017 in an amount of 41 million euros and 37 millions of euros, respectively.

The business represented sales of 18 million euros for the three months of activity in first-half 2018, versus 38 million euros in first-half 2017 (six months of activity).

The sale of this business represented a loss of 33 million euros, primarily reflecting (i) an impairment loss, and (ii) future costs to be incurred directly in connection with the divestment of this business. These items have been recognized in other income and expenses (see Note 4.4.2).

The residual liabilities held for sale in the consolidated statement of financial position at June 30, 2018 represent obligations that remain to be fulfilled by Valeo.

2.1.2. Creation of Valeo-Kapec

On February 6, 2017, Valeo announced it had signed an agreement with Pyeong Hwa group, its long-standing South Korean partner in transmission manufacturing, to create Valeo-Kapec, in which Valeo owns a 50% stake. Valeo-Kapec, headquartered in Daegu in South Korea, has a global manufacturing footprint and aims to become the world leader in torque converters for automatic and continuously variable transmissions. The partners have contributed 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).

Having received the necessary regulatory clearance, Valeo and its partner Pyeong Hwa group announced the completion of the transaction on November 30, 2017.

Valeo-Kapec employs around 3,150 people. The new company is controlled by Valeo and has therefore been fully consolidated in its consolidated financial statements since December 1, 2017.

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

Valeo's contribution of assets and liabilities to Valeo-Kapec has been accounted for as an equity transaction in accordance with IFRS 10.

Given how recently the acquisition was finalized, the purchase price was allocated to Valeo-Kapec's assets and liabilities on a provisional basis at June 30, 2018, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 200 million euros at June 30, 2018. The Group will identify and measure the identifiable assets acquired and liabilities assumed at the acquisition date in second-half 2018. The allocation will be finalized within 12 months of the acquisition date, i.e., no later than November 30, 2018.

The main impacts of this operation are as follows:

(in millions of euros)	Allocation at December 31, 2017	Allocation at June 30, 2018
PURCHASE PRICE (including the fair value of the in-kind contribution)	**458**	**458**
Identifiable assets acquired at the acquisition date	361	361
Identifiable liabilities assumed at the acquisition date	(103)	(103)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**258**	**258**
PROVISIONAL GOODWILL ARISING ON THE ACQUISITION	**200**	**200**

(in millions of euros)	Allocation at December 31, 2017	Allocation at June 30, 2018
Net cash and cash equivalents acquired	4	-
Consideration paid	(114)	-
Acquisition costs paid during the period	(1)	(8)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(111)**	**(8)**

These new South Korean operations contributed 257 million euros to consolidated sales in first-half 2018.

2.1.3. Acquisition of FTE automotive

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

FTE automotive, headquartered in Germany, is a leading producer of clutch and gear actuators. Its product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable 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 3,800 employees and a diversified industrial footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China. In 2016, FTE automotive generated sales of around 550 million euros.

Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016. Further to its decision to sell its Passive Hydraulic Actuator business (see Note 2.1.1), Valeo received clearance from the European Commission on October 13, 2017 and completed its acquisition of FTE automotive on October 31, 2017.

Given how recently the acquisition was finalized, the purchase price was allocated to FTE automotive's assets and liabilities on a provisional basis at June 30, 2018, in accordance with IFRS 3, with restatement of comparative periods (see Note 1.2). Provisional goodwill resulting from the acquisition amounts to 438 million euros at June 30, 2018. The Group will finalize the identification and measurement of the identifiable assets acquired and liabilities assumed at the acquisition date within 12 months of the acquisition, i.e., no later than October 31, 2018.

The main impacts of this acquisition are as follows:

(in millions of euros)	Allocation at December 31, 2017	Allocation at June 30, 2018
PURCHASE PRICE	**414**	**414**
Identifiable assets acquired at the acquisition date	449	449
Identifiable liabilities assumed at the acquisition date	(522)	(522)
Remeasurement of the trademark(1)	-	3
Remeasurement of the customer relationship(2)	-	46
Remeasurement of technology(3)	-	53
Other remeasurements of intangible assets	-	(11)
Remeasurement of land and buildings	-	18
Remeasurement of inventories, net	-	(14)
Remeasurement of other payables	-	(20)
Remeasurement of deferred taxes	-	(19)
Remeasurement of other provisions	-	(8)
Other individually non-material remeasurements to fair value(4)	-	1
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**(73)**	**(24)**
PROVISIONAL GOODWILL ARISING ON THE ACQUISITION	**487**	**438**

(1) The trademark represents a gross amount of 15 million euros and has an indefinite useful life.

(2) The customer relationship represents a gross amount of 92 million euros and is amortized over 10 years.

(3) Technology represents a gross amount of 62 million euros and is amortized over a period of between 11 and 15 years.

(4) Other remeasurements to fair value include remeasurements of investments in equity-accounted companies in an amount of 5 million euros.

(in millions of euros)	Allocation at December 31, 2017	Allocation at June 30, 2018
Net cash and cash equivalents acquired	30	-
Consideration paid	(414)	-
Acquisition costs paid during the period	(2)	(6)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(386)**	**(6)**

FTE automotive contributed 269 million euros to consolidated sales in first-half 2018.

2.2. Subsequent events

None

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, Intuitive Interior Controls and Connected Cars. Tomorrow's cars will be automated and connected: innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected.
- Powertrain Systems, comprising five Product Groups: Electrical Systems, Electronic Systems, Transmission Systems, Combustion Engine Systems and Active Hydraulic Actuator Systems, organized around three activities: electrification, transmission automation and clean engines. This Business Group develops innovative powertrain solutions to reduce CO_2 emissions and fuel consumption without compromising driving performance or pleasure.
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Bus Systems. To address the new challenges facing the automotive industry, the strategic objectives of this Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase travel range and battery life for hybrid and electric vehicles, and promote passenger health and well-being.
- Visibility Systems, comprising two Product Groups: Interior and Exterior Lighting Systems, and Wiper Systems. This Business Group designs and produces efficient and innovative lighting and wiper 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 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;
- 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 2018

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	1,885	2,615	2,317	2,988	58	**9,863**
■ intersegment (Group)	14	49	24	42	(129)	**-**
EBITDA	**283**	**369**	**288**	**385**	**16**	**1,341**
Research and Development expenditure	(270)	(166)	(139)	(187)	(12)	**(774)**
Investments in property, plant and equipment and intangib	277	207	215	272	17	**988**
Segment assets	2,504	3,396	2,405	2,740	95	**11,140**

First-half 2017

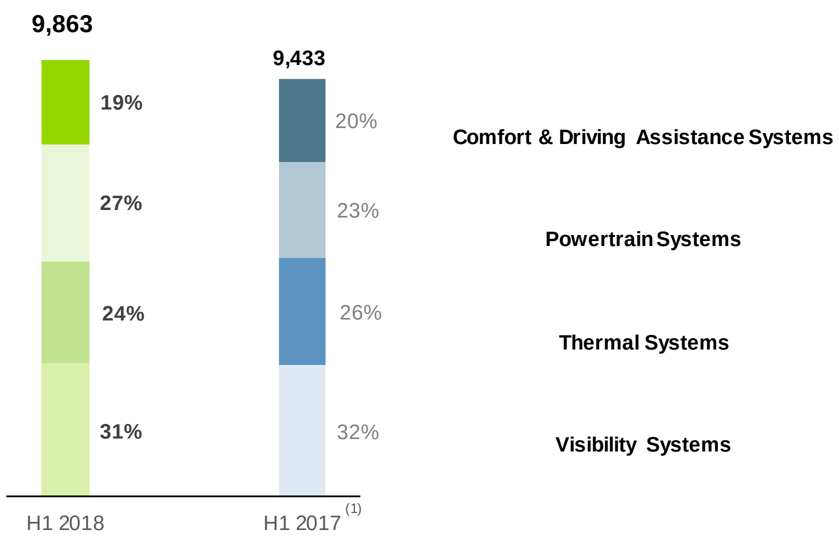
(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)(1)	1,876	2,164	2,413	2,962	18	**9,433**
■ intersegment (Group)	13	24	12	52	(101)	**-**
EBITDA(1)	**267**	**275**	**266**	**391**	**14**	**1,213**
Research and Development expenditure(1)	(256)	(136)	(146)	(209)	(14)	**(761)**
Investments in property, plant and equipment and intangib	250	174	209	246	15	**894**
Segment assets	2,143	2,112	2,132	2,398	87	**8,872**

(1) *These data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2).*

Segment data

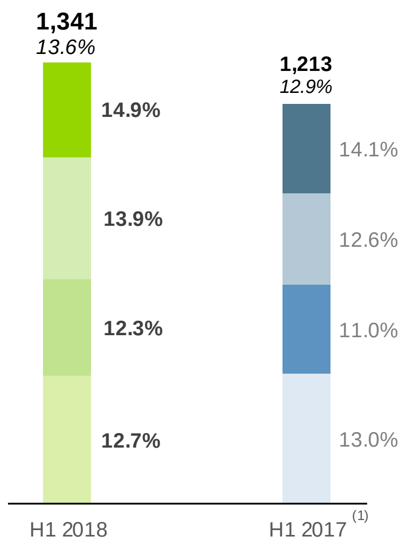
BREAKDOWN OF SALES BY BUSINESS GROUP (INCLUDING INTERSEGMENT SALES)

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



EBITDA BY BUSINESS GROUP

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



(1) *These data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2).*

3.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	First-half 2018	First-half 2017[(1)]
Operating margin	**755**	**723**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[(2)]	552	471
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(5)	(6)
Dividends paid by equity-accounted companies	39	25
EBITDA	**1,341**	**1,213**
as a % of sales	*13.6%*	*12.9%*

(1) These data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2).

(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.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	June 30, 2018	June 30, 2017[(1)]
Segment assets	**11,140**	**8,872**
Accounts and notes receivable	3,213	2,871
Other current assets	561	441
Taxes receivable	45	38
Financial assets	3,064	2,584
Deferred tax assets	446	554
Assets held for sale	-	2
TOTAL GROUP ASSETS	**18,469**	**15,362**

(1) These data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the application of IFRS 15 and IFRS 9 (see Notes 1.1.1 and 1.2).

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 2018

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	741	1,626	775
Other European countries and Africa	4,231	3,541	2,501
North America	1,648	1,690	1,065
South America	260	213	71
Asia	2,983	3,175	2,296
Eliminations	-	(386)	(2)
TOTAL	**9,863**	**9,863**	**6,706**

First-half 2017

(in millions of euros)	External sales by market[(1)]	Sales by production area[(1)]	Non-current assets
France	759	1,671	700
Other European countries and Africa	3,939	3,262	1,987
North America	1,770	1,801	788
South America	240	211	60
Asia	2,725	2,889	1,824
Eliminations	-	(401)	(2)
TOTAL	**9,433**	**9,433**	**5,357**

(1) These data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the application of IFRS 15 and IFRS 9 (see Notes 1.1.1 and 1.2).

Note 4 Operating data

4.1. Sales

Group sales rose 4.6% to 9,863 million euros in first-half 2018, from 9,433 million euros in first-half 2017.

The increase reflects a positive 6.6% impact relating to changes in the scope of consolidation and an unfavorable 4.2% currency effect, mainly relating to the US dollar. Like for like (constant Group structure and exchange rates), consolidated sales climbed 2.2% between first-half 2017 and first-half 2018.

4.1.1. Sales by type

Sales can be analyzed by type as follows:

(in millions of euros)	First-half 2018	First-half 2017[(1)]
Original equipment	8,375	8,027
Aftermarket	1,041	963
Other	447	443
SALES	**9,863**	**9,433**

(1) These data have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2).

4.1.2. Original equipment sales by customer portfolio

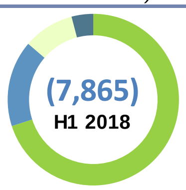
Original equipment sales can be analyzed by customer portfolio as follows:

(in millions of euros)	First-half 2018	%	First-half 2017[(1)]	%
German automakers	2,491	30%	2,288	29%
Asian automakers	2,676	32%	2,445	30%
US automakers	1,448	17%	1,569	20%
French automakers	1,237	15%	1,229	15%
Other	523	6%	496	6%
ORIGINAL EQUIPMENT SALES	**8,375**	**100%**	**8,027**	**100%**

(1) These data have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2).

4.2. Cost of sales

Cost of sales can be analyzed as follows:



(in millions of euros)	First-half 2018	First-half 2017
55.8% [(1)] – Raw materials consumed[(2)]	(5,507)	(5,304)
13.0% [(1)] – Labor	(1,279)	(1,159)
7.7% [(1)] – Direct production costs and production overheads	(757)	(761)
3.3% [(1)] – Depreciation and amortization[(3)]	(322)	(271)
COST OF SALES	**(7,865)**	**(7,495)**

(1) As a % of sales.

(2) The amount shown for Raw materials consumed differs from the amount presented in the first-half 2017 consolidated financial statements published in July 2017 since it has been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2).

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

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

In first-half 2018, operating margin including share in net earnings of equity-accounted companies came out at 727 million euros, representing 7.4% of sales, down 0.6 points compared with first-half 2017.

Share in net earnings of equity-accounted companies represented a loss of 28 million euros in first-half 2018, compared with a gain of 29 million euros in first-half 2017. See Note 4.3.2 for more information.

4.3.1. Research and Development expenditure

Research and Development expenditure can be analyzed as follows:

(in millions of euros)	First-half 2018	First-half 2017[(1)]
Gross Research and Development expenditure	(1,039)	(945)
Subsidies and grants, and tax credits	60	46
Capitalized development expenditure	347	278
Amortization and impairment of capitalized development expenditure	(142)	(140)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(774)**	**(761)**

(1) The breakdown of Research and Development expenditure differs from that presented in the first-half 2017 consolidated financial statements published in July 2017 since it has been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2), particularly the obligation to present customer contributions to development expenditure under "Sales".

The Group continued to step up its Research and Development efforts in the first half of 2018 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:

(in millions of euros)	First-half 2018	First-half 2017
Share in net earnings of associates	5	27
Share in net earnings (losses) of joint ventures	(33)	2
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**(28)**	**29**

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 33 million euro loss in respect of the Group's share in net earnings of joint ventures is mainly attributable to Valeo Siemens eAutomotive's development activities.

In first-half 2017, the share in net earnings of associates included the recognition of a 14 million euro disposal gain relating to the remeasurement of the previously-held equity interest in Ichikoh following the takeover in January 2017.

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 709 million euros in first-half 2018, versus 729 million euros in first-half 2017.

4.4.2. Other income and expenses

Other income and expenses can be analyzed as follows:

(in millions of euros)	*Notes*	First-half 2018	First-half 2017
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:			
▪ Acquisition fees		(2)	(5)
▪ Sale of the Passive Hydraulic Actuator business	*2.1.1*	(5)	-
Claims and litigation:	*4.4.2.1*		
▪ Antitrust investigations		(2)	(3)
▪ Other disputes		(1)	(1)
Restructuring plans	*4.4.2.2*	(8)	(14)
OTHER INCOME AND EXPENSES		**(18)**	**(23)**

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).

In first-half 2018, claims and litigation mainly comprised legal advisory costs relating to these investigations.

4.4.2.2. Restructuring plans

Restructuring costs for first-half 2018 chiefly included expenses relating to early retirement plans in Germany and additional costs in connection with a restructuring plan in South Korea.

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

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 1,130 million euros at June 30, 2018, versus 1,135 million euros at December 31, 2017.

The discount rates used at end-June 2018 in the countries representing the Group's most significant obligations were as follows:

Country	June 30, 2018	December 31, 2017
Eurozone	2.00	2.00
United Kingdom	2.30	2.30
United States	4.10	3.60
Japan	0.50	0.50
South Korea	3.25	3.25

At June 30, 2018, 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 United States in first-half 2018 led to a 26 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 loss of 2 million euros in first-half 2018 (recognized in other comprehensive income) and a corresponding increase in the provision.

Excluding this positive 24 million euro impact, changes in provisions for pensions and other employee benefits chiefly reflect:

- utilizations in an amount of 38 million euros and reversals of unutilized provisions in an amount of 1 million euros;
- a net expense of 50 million euros during the period, of which 12 million euros was recorded in other financial income and expenses (see Note 8.4.2);
- a negative 8 million euro impact resulting from changes in foreign exchange rates.

5.2. Free share and performance share plans

On March 22, 2018, the Board of Directors approved a free share and performance share plan involving up to 1,234,623 shares. The plan will see the allotment of 664,500 free shares not subject to performance criteria and 570,123 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 and based on the fair value of the equity instruments granted, Valeo has estimated the fair value of the plan at 29 million euros (versus 25 million euros for the plan awarded in 2017). It will be recognized in personnel expenses 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.

As in 2016 and 2017, a new standard plan was offered to employees during first-half 2018, 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 May 2, 2018. The subscription price of 43.58 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, 599,979 shares were subscribed at a price of 43.58 euros each, representing a 26 million euro capital increase on June 28, 2018 (see Note 10.1).

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:

	2018	2017
Date rights granted	May 2	June 3
Reference price *(in euros)*	54.47	64.52
Face value discount *(%)*	20	20
Subscription price *(in euros)*	43.58	51.62
Beneficiary's 5-year interest rate *(%)*	3.83	3.93
Risk-free interest rate *(%)*	0.37	0.26
Repo rate *(%)*	0.350	0.480

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2018 is 16 million euros, of which 8 million euros was recognized in personnel expenses over first-half 2018 (including social security charges).

Note 6 Intangible assets and property, plant and equipment

6.1. Goodwill

Changes in goodwill in first-half 2018 and full-year 2017 are analyzed below:

(in millions of euros)	June 30, 2018	December 31, 2017[(1)]
NET GOODWILL AT JANUARY 1	**2,566**	**1,944**
Acquisitions during the period	3	717
Disposals during the period	-	-
Impairment[(2)]	-	(14)
Translation adjustment	17	(81)
NET GOODWILL	**2,586**	**2,566**
Including accumulated impairment losses	-	-

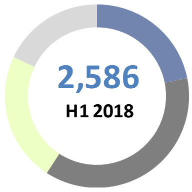
(1) The amount shown for Acquisitions during the period for 2017 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive (see Notes 2.1.3 and 1.2).

(2) Goodwill allocated to the Passive Hydraulic Actuator business was written down in full at December 31, 2017 and reclassified within assets held for sale (see Note 2.1.1).

Changes in goodwill during first-half 2018 mainly reflect the appreciation in the Japanese yen (13 million euros) and the US dollar (4 million euros) against the euro between the two periods.

The increase in goodwill in 2017 primarily reflects goodwill generated on the creation of Valeo-Kapec (see Note 2.1.2), and on the acquisition of controlling interests in FTE automotive (see Note 2.1.3), Ichikoh, gestigon and Valeo Malaysia CDA Sdn (formerly Precico). These impacts were marginally offset by the depreciation in the US dollar (45 million euros) and the Japanese yen (26 million euros) against the euro between the two periods.

Goodwill can be broken down by Business Group as follows:



(in millions of euros)		June 30, 2018	December 31, 2017[(1)]
22%	– Comfort & Driving Assistance Systems	564	557
37%	– Powertrain Systems	962	965
23%	– Thermal Systems	589	581
18%	– Visibility Systems	464	456
0%	– Other	7	7
	GOODWILL	**2,586**	**2,566**

(1) The amount shown for the Powertrain Systems Business Group differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive (see Notes 2.1.3 and 1.2).

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 2018.

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, 2017, 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 2017 were still considered appropriate at the 2018 interim reporting date.

The main impairment indicators used to identify CGUs to be tested were a projected negative operating margin in first-half 2018, a fall of more than 20% in first-half 2018 sales compared to first-half 2017, 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 2018.

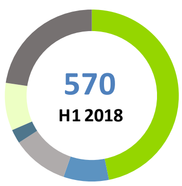
6.2.3. Goodwill

The impairment tests performed in the last quarter of 2017 did not lead to the recognition of any goodwill impairment at the end of the year.

At June 30, 2018, the Group considered that there had been no change in the assumptions used to determine the recoverable amount of goodwill at December 31, 2017 that would justify performing further impairment tests in the period.

Note 7 Other provisions and contingent liabilities

7.1. Other provisions



(in millions of euros)		June 30, 2018	December 31, 2017[(1)]
47%	Provisions for product warranties	267	281
8%	Provisions for restructuring costs	48	54
10%	Provisions for tax-related disputes	60	57
3%	Environmental provisions	15	16
9%	Provisions for onerous contracts	51	56
23%	Provisions for employee-related and other disputes	129	139
	PROVISIONS FOR OTHER CONTINGENCIES	**570**	**603**

(1) The amount shown for other provisions differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive (see Notes 2.1.3 and 1.2).

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, when deemed appropriate, are considered adequate to cover the estimated risks.

"Provisions for employee-related and other disputes", which totaled 129 million euros at June 30, 2018, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations and proceedings.

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 on April 19, 2017. The third class action in the United States, which was brought by direct customers, was settled on March 21, 2017 pending definitive approval by the competent court, which is expected in 2018.

Separately, two class actions remain 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.

7.3. Contingent liabilities

The Group has contingent liabilities relating to legal, arbitration or regulatory proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving Valeo or its subsidiaries were reviewed at the 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

(in millions of euros)	2018 carrying amount under IFRS 9			June 30, 2018	December 31, 2017
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
• Long-term investments	-	97	108	**205**	172
• Loans	160	-	-	**160**	78
• Deposits and guarantees	34	-	-	**34**	27
• Other non-current financial assets	5	-	-	**5**	5
• Hedging derivatives	-	6	-	**6**	3
• Trading derivatives	-	-	70	**70**	135
Assets relating to pensions and other employee benefits	-	6	-	**6**	5
Accounts and notes receivable (1)	3,213	-	-	**3,213**	2,916
Other current financial assets:				**-**	
• Hedging derivatives	-	5	-	**5**	14
• Trading derivatives	-	-	16	**16**	26
Cash and cash equivalents	-	-	2,557	**2,557**	2,436

(in millions of euros)	2018 carrying amount under IFRS 9			June 30, 2018	December 31, 2017
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	-	19	-	**19**	36
• Trading derivatives	-	-	56	**56**	125
Bonds (1)	3,726	-	-	**3,726**	3,379
EIB (European Investment Bank) loans	22	-	-	**22**	21
Other long-term debt	152	-	-	**152**	210
Liabilities associated with put options granted to holders of non-controlling interests	-	89	-	**89**	82
Accounts and notes payable (1)	4,608	-	-	**4,608**	4,397
Other current financial liabilities:					
• Hedging derivatives	-	11	-	**11**	5
• Trading derivatives	-	-	25	**25**	10
Short-term debt	1,007	-	-	**1,007**	664

(1) The amounts shown for Accounts and notes receivable, Bonds, and Accounts and notes payable differ from the amounts presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impacts of applying IFRS 9 and allocating the purchase price for FTE automotive (see Notes 1.1.1, 2.1.3 and 1.2.2).

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

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.

Since the maturity of the European Investment Bank (EIB) loan was less than one year at June 30, 2018, the Group considered that the fair value of the loan was equal to its carrying amount.

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

	June 30, 2018			December 31, 2017[1]		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,557	2,557	1	2,436	2,436	1
Derivative financial instruments[2]	97	97	2-3	178	178	2-3
LIABILITIES						
Bonds[1]	3,726	3,719	1	3,379	3,494	1
EIB (European Investment Bank) loan	22	22	2	21	21	2
Other long-term debt	152	152	2	210	210	2
Loans recognized at amortized cost	**3,900**	**3,893**		**3,610**	**3,725**	
Short-term debt	1,007	1,007	1-2	664	664	1-2
Derivative financial instruments[2]	111	111	2-3	176	176	2-3
Put options granted to holders of non-controlling interests	89	89	3	82	82	3

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2).

(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, 2018 and December 31, 2017, 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.

	June 30, 2018			December 31, 2017[1]		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,457	443	**3,900**	3,227	383	**3,610**
Put options granted to holders of non-controlling interests	16	73	**89**	17	65	**82**
Short-term debt	-	1,007	**1,007**	-	664	**664**
GROSS DEBT	3,473	1,523	4,996	3,244	1,112	4,356
Long-term loans and receivables	(160)	-	**(160)**	(78)	-	**(78)**
Cash and cash equivalents	-	(2,557)	**(2,557)**	-	(2,436)	**(2,436)**
Derivative instruments associated with interest rate and currency risks[2]	**1**	**11**	**12**	**15**	**(15)**	**-**
NET DEBT	3,314	1,023	2,291	3,181	(1,339)	1,842

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2).

(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.

8.2.2. Long-term debt

8.2.2.1. Analysis of long-term debt

(in millions of euros)	June 30, 2018	December 31, 2017[1]
Bonds	3,726	3,379
EIB (European Investment Bank) loans	22	21
Lease obligations	35	37
Other borrowings	104	132
Accrued interest	13	41
LONG-TERM DEBT	3,900	3,610

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2).

8.2.2.2. Change in and characteristics of long-term debt

(in millions of euros)	Bonds[1]	EIB (European Investment Bank) loans	Other loans and lease obligations	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2018	**3,379**	**21**	**169**	**41**	**3,610**
Increases/subscriptions	600	-	2	-	**602**
Redemptions/repayments	(273)	-	(37)	-	**(310)**
Value adjustments	7	-	1	-	**8**
Translation adjustment	13	1	4	-	**18**
Other movements	-	-	-	(28)	**(28)**
CARRYING AMOUNT AT JUNE 30, 2018	**3,726**	**22**	**139**	**13**	**3,900**

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1).

In May 2018, the Group redeemed the 273 million euro bond issued in 2011 under the Euro Medium Term Note financing program.

In addition, as part of the Euro Medium Term Note financing program, on June 18, 2018 Valeo issued 600 million euros' worth of seven-year bonds maturing in 2025 and paying a fixed coupon of 1.50%.

At June 30, 2018, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at June 30, 2018 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding (in millions)	Currency	Nominal interest rate	Other information
Bond (EMTN program)(1)	-	May 2011	May 2018	500	-	EUR	4.875%	-
European Investment Bank	22	November 2011	November 2018	103	25	USD	6-month USD Libor +1.90%	Euro/dollar cross currency swaps for a total of 25 million US dollars with the same maturity
Bond (EMTN program)(1)	351	November 2017	November 2019	350	350	EUR	3-month Euribor +0.25%	Variable rate floor: 0%
Convertible bond	461	June/ November 2016	June 2021	575	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)	597	September 2017	September 2022	600	600	EUR	0.375%	-
Bond (EMTN program)	497	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)(1)	632	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	596	June 2018	June 2025	600	600	EUR	1.50%	-
Bond (EMTN program)	592	March 2016	March 2026	600	600	EUR	1,625%	-
Other long-term debt(2)	152	-	-	-	152	-	-	-
TOTAL LONG-TERM DEBT	3,900							

(1) *The amount shown for the bond maturing in 2024 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impacts of applying IFRS 9 on debt renegotiation (see Notes 1.1.1 and 1.2).*

(2) *Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 74 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.*

8.2.2.3. Off-balance sheet commitments relating to Group financing

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios, as set out in the table below:

Financing agreements	Ratios	Thresholds	Ratio at June 30, 2018(1)
Credit lines EIB (European Investment Bank) loans	Consolidated net debt/consolidated EBITDA	<3.25	0.90

(1) *Calculated over 12 months.*

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

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 include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

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

8.2.2.4. Group credit ratings

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at June 30, 2018:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 29, 2018	BBB	Stable	A-2
Moody's	January 3, 2018	Baa2	Stable	P-2

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

(in millions of euros)	TOTAL	Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd.	Spheros Climatização do Brasil SA
LIABILITIES AT JANUARY 1, 2017	**79**	**56**	**23**
Fair value adjustments recognized against non-controlling interests	4	4	-
Fair value adjustments recognized in retained earnings	(1)	5	(6)
LIABILITIES AT DECEMBER 31, 2017	**82**	**65**	**17**
Fair value adjustments recognized against non-controlling interests	(3)	(4)	1
Fair value adjustments recognized in retained earnings	10	12	(2)
LIABILITIES AT JUNE 30, 2018	**89**	**73**	**16**

At June 30, 2018, 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 up to June 2025.

At June 30, 2018, 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.

8.2.4. Cash and cash equivalents

(in millions of euros)	June 30, 2018	December 31, 2017
Marketable securities	1,094	1,182
Cash	1,463	1,254
CASH AND CASH EQUIVALENTS	**2,557**	**2,436**

Cash and cash equivalents totaled 2,557 million euros at June 30, 2018, consisting of 1,094 million euros of marketable securities with a low price volatility risk, and 1,463 million euros in cash. Marketable securities consist in particular of money market mutual funds (FCP).

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

8.3. Long-term investments

This caption primarily includes investments in non-consolidated companies and mutual funds, which are measured at fair value.

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

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

Long-term investments totaled 205 million euros at end-June 2018 and can be analyzed as follows:

(in millions of euros)	June 30, 2018	December 31, 2017
LONG-TERM INVESTMENTS AT JANUARY 1	**172**	**44**
Acquisitions	4	79
Changes in scope of consolidation	-	51
Changes in fair value recognized in equity	19	5
Changes in fair value recognized in income	8	-
Translation adjustment	2	(7)
LONG-TERM INVESTMENTS	**205**	**172**

Changes in the scope of consolidation in 2017 relate to the takeover of Ichikoh, which holds securities listed on an active market. The fair value of these securities corresponds to their stock market value.

8.4. Financial income and expenses

8.4.1. Cost of net debt

The cost of net debt totaled 32 million euros at June 30, 2018, down on first-half 2017 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 2017 French research tax credit (2 million euros).

8.4.2. Other financial income and expenses

(in millions of euros)	First-half 2018	First-half 2017
Net interest cost on provisions for pensions and other employee benefits (1)	(12)	(12)
Currency gains (losses)	(12)	(13)
Gains (losses) on long-term investments held for trading	8	-
Other	(2)	-
OTHER FINANCIAL INCOME AND EXPENSES	**(18)**	**(25)**

(1) See Note 5.1.

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 2018. 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 2018, income tax expense amounts to 154 million euros, reflecting an effective tax rate of 22.4%. This rate primarily takes into account the impact of recognizing deferred tax assets in the Czech Republic and Germany in a total amount of 11 million euros and the expected impact of the Base Erosion Anti-Abuse Tax (BEAT), introduced in the latest US tax reform, in an amount of 8 million euros.

The 130 million euro tax expense for first-half 2017 reflected an effective tax rate of 20.3% and included deferred tax assets recognized in the United States, Canada and India in an amount of 18 million euros.

Note 10 Stockholders' equity

10.1. Change in the number of shares outstanding

The number of shares outstanding and the number of treasury shares held at June 30, 2018 can be analyzed as follows:

	June 30, 2018	December 31, 2017
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**237,924,000**	**237,902,266**
Number of treasury shares purchased/sold under the liquidity agreement or delivered following the exercise of stock options or free shares granted	820,821	739,753
Number of shares purchased under the share buyback program (3)	(1,837,417)	(1,228,009)
Number of shares issued under employee stock ownership plans: Shares4U(2)	599,979	509,990
NUMBER OF SHARES OUTSTANDING	**237,507,383**	**237,924,000**
Number of treasury shares held by the Group	2,745,717	1,729,121
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL (1)	**240,253,100**	**239,653,121**

(1) Each share has a par value of 1 euro at June 30, 2018 and December 31, 2017 and is fully paid up.

(2) As part of the Shares4U 2018 plan (see Note 5.3), a capital increase reserved for employees took place on June 28, 2018, issuing 599,979 new shares, each with a par value of 1 euro. This 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 May 2, 2018, at 43.58 euros. This gave rise to 26 million euros in additional paid-in capital.

(3) See Note 10.2.

10.2. Share buyback program

As in 2017, during the first half of the year Valeo requested the assistance of an investment services provider to meet certain objectives of its 2018 share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017.

Pursuant to the agreement signed on March 7, 2018, 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 100 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 23, 2017.

Under the program, Valeo bought back a total of 1,837,417 shares. They have been 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.

The main features of the 2017 and 2018 share buyback programs are as follows:

	2018 program	2017 program
Date agreement took effect	March 8, 2018	March 7, 2017
Expiration date	May 29, 2018	May 12, 2017
Maximum nominal amount of buyback *(in millions of euros)*	100	75
Treasury shares delivered *(in number of shares)*	1,837,417	1,228,009
Average share price *(in euros per share)*	54.42	61.07

10.3. Earnings per share

	First-half 2018	First-half 2017
Net income attributable to owners of the Company *(in millions of euros)*	453	504
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,426	237,551
BASIC EARNINGS PER SHARE *(in euros)*	**1.91**	**2.12**

	First-half 2018	First-half 2017
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,426	237,551
Dilutive effect from *(in thousands)* :		
■ Stock options	307	602
■ Free shares	2,024	2,188
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**239,757**	**240,341**
DILUTED EARNINGS PER SHARE *(in euros)*	**1.89**	**2.10**

Note 11 Breakdown of cash flows

11.1. Expenses (income) with no cash effect

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

(in millions of euros)	First-half 2018	First-half 2017
Depreciation, amortization and impairment of non-current assets	547	465
Net additions to (reversals from) provisions	(23)	(55)
Losses (gains) on sales of non-current assets	11	4
Expenses related to share-based payment	13	13
Losses (gains) on long-term investments	(8)	(1)
Losses (gains) on remeasurement of previously held interests	4	-
Other	8	-
TOTAL	**552**	**426**

11.2. Changes in working capital

(in millions of euros)	First-half 2018	First-half 2017
Inventories	(141)	(77)
Accounts and notes receivable [1]	(291)	(324)
Accounts and notes payable	213	272
Other receivables and payables [1]	68	122
TOTAL	**(151)**	**(7)**

(1) The amounts shown for Accounts and notes receivable and Other receivables and payables differ from the amount presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the application of IFRS 9 and IFRS 15 (see Notes 1.1.1 and 1.2).

Accounts and notes receivable falling due after June 30, 2018 for which substantially all risks and rewards have been transferred and which are no longer carried in assets represent an amount of 358 million euros at June 30, 2018 versus 312 million euros at December 31, 2017. A total of 149 million euros out of the 358 million euros relates to sale operations carried out on a recurring basis (93 million euros at December 31, 2017).

At June 30, 2018, amounts receivable in respect of the CICE tax credit and the research tax credit in France for 2015, 2016 and 2017 are no longer carried in the consolidated statement of financial position.

These derecognized receivables were transferred as follows:

- 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 2017 CICE tax credit receivable on December 22, 2017 for 17 million euros;
- the 2017 research tax credit receivable on June 27, 2018 for 63 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).

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

In first-half 2018, a net cash outflow of 20 million euros chiefly relates to additional expenses incurred in connection with acquisitions in 2017, including 8 million euros for Valeo-Kapec (see Note 2.1.2) and 6 million euros for FTE automotive.

In first-half 2017, the net cash outflow of 40 million euros related mainly to the impacts of acquiring gestigon and Valeo Penang (formerly Precico), which were partially offset by the net cash inflow from the acquisition of Ichikoh.

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

In first-half 2018, the net cash inflow of 2 million euros chiefly relates to the impact of the sale of the Passive Hydraulic Actuator business to the Italian group Raicam (see Note 2.1.1).

11.5. Sale (purchase) of treasury stock

In first-half 2018, a net cash outflow of 112 million euros chiefly relates to the impact of the share buyback program implemented during the period, giving rise to a cash outflow of 100 million euros (see Note 10.2).

11.6. Issuance and repayment of long-term debt

In first-half 2018, the Group issued 600 million euros' worth of seven-year bonds maturing in 2025 and paying a fixed coupon of 1.50%, and redeemed the 273 million euro bond issued in 2011 under the Euro Medium Term Note financing program (see Note 8.2.2).

11.7. Acquisitions of investments without gain of control

In 2017, the net cash outflow of 16 million euros chiefly related 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 in January 2017.

5

AUDITOR'S REVIEW REPORT ON THE HALF-YEARLY 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 relation to the specific verification of information given in the Groupe'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 in accordance with the requirements of article L. 451-1-2 III of the French monetary and financial code ("*Code monétaire et financier*"), we hereby report to you on:

- The review of the accompanying condensed half-yearly consolidated financial statements of Valeo, for the period from January 1 to June, 30, 2018,
- The verification of the information presented in the half-yearly 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 accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the matter set out in notes 1.1.1. and 1.2. to the condensed half-yearly consolidated financial statements regarding changes in accounting policies related to the application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" effective since January 1, 2018.

5.2 Specific verification

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

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

Courbevoie and Paris-La Défense, July 25, 2018

The Statutory Auditors

French original signed by

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

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, 2018 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 25, 2018

Jacques Aschenbroich

Chairman and Chief Executive Officer

APPENDIX

Sales by type (in millions of euros)

Sales *(in millions of euros)*	As a % of total H1 2018 sales	First-quarter				Second-quarter				First-half			
		2018*	2017	Reported change	LFL change**	2018*	2017	Reported change	LFL change**	2018*	2017	Reported change	LFL change**
Original equipment	87%	4,275	4,174	+2%	+1%	4,353	4,061	+7%	+5%	8,628	8,235	+5%	+3%
Aftermarket	10%	523	487	+7%	+3%	518	476	+9%	+8%	1,041	963	+8%	+5%
Miscellaneous	3%	119	106	+12%	-2%	151	160	-6%	-3%	270	266	+1%	-3%
TOTAL	**100%**	**4,917**	**4,767**	**+3%**	**+1%**	**5,022**	**4,697**	**+7%**	**+5%**	**9,939**	**9,464**	**+5%**	**+3%**

** 2018 data are presented in accordance with the same accounting principles as those used in the first-half 2017 consolidated financial statements published in July 2017, i.e., before the application of IFRS 15 (unaudited data).*
*** Like for like (constant Group structure and exchange rates)(1).*

Under IFRS 15	As a % of total H1 2018 sales	First-quarter				Second-quarter				First-half			
		2018	2017*	Reported change	LFL change**	2018	2017*	Reported change	LFL change**	2018	2017*	Reported change	LFL change**
Original equipment	85%	4,154	4,067	+2%	0%	4,221	3,960	+7%	+4%	8,375	8,027	+4%	+2%
Aftermarket	10%	523	487	+7%	+3%	518	476	+9%	+8%	1,041	963	+8%	+5%
Miscellaneous	5%	204	189	+8%	+1%	243	254	-4%	-2%	447	443	+1%	-1%
TOTAL	**100%**	**4,881**	**4,743**	**+3%**	**0%**	**4,982**	**4,690**	**+6%**	**+4%**	**9,863**	**9,433**	**+5%**	**+2%**

** 2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15.*
*** Like for like (constant Group structure and exchange rates)(1).*

Impact of IFRS 15	As a % of total H1 2018 sales	First-quarter				Second-quarter				First-half			
		2018	2017	Reported change	LFL change*	2018	2017	Reported change	LFL change*	2018	2017	Reported change	LFL change*
Original equipment	-2 pts	-121	-107	0 pts	-1 pt	-132	-101	0 pts	-1 pt	-253	-208	-1 pt	-1 pt
Aftermarket	0 pts	0	0	0 pts	0 pts	+0	+0	0 pts	0 pts	0	0	0 pts	0 pts
Miscellaneous	+2 pts	+85	+83	-4 pts	+3 pts	+92	+94	+2 pts	+1 pt	+177	+177	0 pts	+2 pts
TOTAL	**0 pts**	**(36)**	**-24**	**0 pts**	**-1 pt**	**-40**	**-7**	**-1 pt**	**-1 pt**	**-76**	**-31**	**0 pts**	**-1 pt**

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

(1) See Financial Glossary, page 61.

Original equipment sales by destination region (in millions of euros)

Before IFRS 15	First-quarter			Second-quarter			First-half		
	2018*	2017	LFL change**	2018*	2017	LFL change**	2018*	2017	LFL change**
Europe & Africa	2,081	2,001	+1%	2,071	1,919	+5%	4,152	3,920	+3%
Asia, Middle East & Oceania	1,296	1,189	+1%	1,366	1,192	+7%	2,662	2,381	+4%
▪ *of which China*	*551*	*564*	*-3%*	*587*	*548*	*+3%*	*1,138*	*1,112*	*0%*
▪ *excluding China*	*745*	*625*	*+4%*	*779*	*644*	*+11%*	*1,524*	*1,269*	*+7%*
North America	796	895	-2%	819	857	-1%	1,615	1,752	-1%
South America	102	89	+29%	97	93	+18%	199	182	+24%
TOTAL	**4,275**	**4,174**	**+1%**	**4,353**	**4,061**	**+5%**	**8,628**	**8,235**	**+3%**

** 2018 data are presented in accordance with the same accounting principles as those used in the first-half 2017 consolidated financial statements published in July 2017, i.e., before the application of IFRS 15 (unaudited data).*
*** Like for like (constant Group structure and exchange rates)(1).*

Under IFRS 15	First-quarter			Second-quarter			First-half		
	2018	2017*	LFL change**	2018	2017*	LFL change**	2018	2017*	LFL change**
Europe & Africa	2,072	1,990	+1%	2,060	1,910	+5%	4,132	3,900	+3%
Asia, Middle East & Oceania	1,263	1,167	0%	1,320	1,171	+5%	2,583	2,338	+2%
▪ *of which China*	*526*	*545*	*-4%*	*550*	*529*	*-1%*	*1,076*	*1,074*	*-2%*
▪ *excluding China*	*737*	*622*	*+3%*	*770*	*642*	*+10%*	*1,507*	*1,264*	*+6%*
North America	717	821	-4%	745	786	-2%	1,462	1,607	-3%
South America	102	89	+28%	96	93	+18%	198	182	+23%
TOTAL	**4,154**	**4,067**	**0%**	**4,221**	**3,960**	**+4%**	**8,375**	**8,027**	**+2%**

** 2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15.*
*** Like for like (constant Group structure and exchange rates)(1).*

Impact of IFRS 15	First-quarter			Second-quarter			First-half		
	2018	2017	LFL change*	2018	2017	LFL change*	2018	2017	LFL change*
Europe & Africa	-9	-11	0 pts	-11	-9	0 pts	-20	-20	0 pts
Asia, Middle East & Oceania	-33	-22	-1 pt	-46	-21	-2 pts	-79	-43	-2 pts
▪ *of which China*	*-25*	*-19*	*-1 pt*	*-37*	*-19*	*-4 pts*	*-62*	*-38*	*-2 pts*
▪ *excluding China*	*-8*	*-3*	*-1 pt*	*-9*	*-2*	*-1 pt*	*-17*	*-5*	*-1 pt*
North America	-79	-74	-2 pts	-74	-71	-1 pt	-153	-145	-2 pts
South America	0	0	-1 pt	-1	0	0 pts	-1	0	- 1 pt
TOTAL	**-121**	**-107**	**-1 pt**	**-132**	**-101**	**-1 pt**	**-253**	**-208**	**- 1 pt**

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

(1) See Financial Glossary, page 61.

Sales by Business Group (including intersegment sales) (in millions of euros)

Business Group sales before IFRS 15 *(in millions of euros)*	**First-quarter**				**Second-quarter**				**First-half**			
	2018*	**2017**	**Change in sales**	**Change in OE sales****	**2018***	**2017**	**Change in sales**	**Change in OE sales****	**2018***	**2017**	**Change in sales**	**Change in OE sales****
CDA	913	938	-3%	+1%	928	899	+3%	+5%	1,841	1,837	+0%	+3%
Powertrain	1,310	1,105	+19%	-1%	1,323	1,058	+25%	+7%	2,633	2,163	+22%	+3%
Thermal	1,240	1,312	-6%	+2%	1,308	1,282	+2%	+4%	2,548	2,594	-2%	+3%
Visibility	1,491	1,458	+2%	+1%	1,497	1,495	0%	+4%	2,988	2,953	+1%	+3%
Group	**4,917**	**4,767**	**+3%**	**+1%**	**5,022**	**4,697**	**+7%**	**+5%**	**9,939**	**9,464**	**+5%**	**+3%**

** 2018 data are presented in accordance with the same accounting principles as those used in the first-half 2017 consolidated financial statements published in July 2017, i.e., before the application of IFRS 15 (unaudited data).*
*** Like for like (constant Group structure and exchange rates)(1).*

Under IFRS 15	**First-quarter**				**Second-quarter**				**First-half**			
	2018	**2017***	**Change in sales**	**Change in OE sales****	**2018**	**2017***	**Change in sales**	**Change in OE sales****	**2018**	**2017***	**Change in sales**	**Change in OE sales****
CDA	938	962	-3%	+1%	961	927	+4%	+5%	1,899	1,889	+1%	+3%
Powertrain	1,326	1,117	+19%	-1%	1,338	1,071	+25%	+7%	2,664	2,188	+22%	+3%
Thermal	1,140	1,224	-7%	-1%	1,201	1,201	0%	+1%	2,341	2,425	-4%	0%
Visibility	1,514	1,485	+2%	+1%	1,516	1,529	-1%	+4%	3,030	3,014	+1%	+3%
Group	**4,881**	**4,743**	**+3%**	**0%**	**4,982**	**4,690**	**+6%**	**+4%**	**9,863**	**9,433**	**+5%**	**+2%**

** 2017 data differ from the amounts presented in the first-half 2017 consolidated financial statements published in July 2017 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15.*
*** Like for like (constant Group structure and exchange rates)(1).*

Impact of IFRS 15	**First-quarter**				**Second-quarter**				**First-half**			
	2018	**2017**	**Change in sales**	**Change in OE sales***	**2018**	**2017**	**Change in sales**	**Change in OE sales***	**2018**	**2017**	**Change in sales**	**Change in OE sales***
CDA	+25	+24	0 pts	0 pts	33	+28	+1pt	0 pts	58	+52	+1 pt	0 pts
Powertrain	+16	+12	0 pts	0 pts	16	+13	0 pts	0 pts	31	+25	0 pts	0 pts
Thermal	-100	-88	-1 pt	-3 pts	-107	-81	-2 pts	-3 pts	-207	-169	-2 pts	-3 pts
Visibility	+23	+27	0 pts	0 pts	19	+34	+1 pt	0 pts	42	+61	0 pts	0 pts
Group	**-36**	**-24**	**0 pts**	**-1 pt**	**-40**	**-7**	**-1 pt**	**-1 pt**	**-76**	**-31**	**0 pts**	**-1 pt**

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

(1) See Financial Glossary, page 61.

FINANCIAL GLOSSARY

Free cash flow	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.
Net cash flow	Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities relating to 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.
EBITDA	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.
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.
Purchase price allocation	As part of the accounting for business combinations and on first-time consolidation, purchase price allocation consists in measuring at fair value the assets acquired and liabilities assumed from the acquired subsidiary, joint venture or investment and recognizing them in the statement of financial position for these amounts. The allocation may result in the recognition of certain assets and liabilities that were not previously recognized. The acquirer may also recognize identifiable intangible assets acquired such as trademarks, patents or customer relationships. Accordingly, the newly consolidated company's net equity is remeasured. The difference between the price paid by the parent company for the shares in the acquiree and the parent company's share in the acquiree's remeasured net equity is called "goodwill". Goodwill is recognized within intangible assets in the statement of financial position.
Operating margin including share in net earnings of equity-accounted companies	Operating income before other income and expenses.
Like for like (or LFL)	The currency impact is calculated by multiplying sales for the current period by the exchange rate for the previous period. The Group structure impact is calculated by (i) eliminating, for the current period, sales of companies acquired during the period, and (ii) adding to the previous period full-year sales of companies acquired in the previous period, and (iii) eliminating, for the current period and for the comparable period, sales of companies sold during the current or comparable period.
Valeo order intake	Valeo's order intake corresponds to business awarded by automakers to Valeo during the period including joint ventures (except Valeo Siemens eAutomotive) accounted for based on Valeo's share in net equity, less any cancellations. The order intake recorded by Valeo Siemens eAutomotive is reported in full on a separate basis. This indicator is based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans.
Net attributable income excluding non-recurring items	Net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax shown in operating margin including share in net earnings of equity-accounted companies.
ROA	ROA, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.
ROCE	ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.

Safe Harbor Statement

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 the 2017 Registration Document registered with the AMF on March 29, 2018 (under number D.18-0208).

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.

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