SMART TECHNOLOGY FOR SMARTER CARS

Solid results in line with objectives

Sales[1] climb 9% at constant exchange rates to reach 9.9 billion euros over the first six months of 2018, with an as-projected upturn in the second quarter

EBITDA accelerates 11% to 1,341 million euros, or 13.6% of sales

Operating margin[2] widens 4% to 755 million euros, or 7.7% of sales, despite the rise in raw material prices

Net income amounts to 453 million euros, or 4.6% of sales

Order intake increases to 18.7 billion euros (including 100% of Valeo Siemens eAutomotive's order intake in an amount of 4.7 billion euros)

Jacques Aschenbroich, Valeo's Chairman and Chief Executive Officer, commented:

"Following growth of 15% in first-half 2017, we recorded growth at constant exchange rates of 9% over the first six months of 2018, in line with the medium-term growth plan presented in London in February 2017.

Over the period, the order intake reached 18.7 billion euros, including 4.7 billion euros for our joint venture Valeo Siemens eAutomotive. Our order intake once again confirms our excellent positioning on the fast-growing hybrid, electric and autonomous vehicle markets and justifies our sustained investment in R&D and production capacity.

Despite limited growth in the first three months of the year and a substantial rise in raw material prices, we maintained our margins[2] at the same level as in 2017.

In a more complex economic and geopolitical environment, our results demonstrate the solidity of our growth model. On this basis and in view of our current order book, we expect double-digit growth in sales in 2019."

(1) For the sake of consistency in our financial communications, the sales figures presented in this document have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).
(2) Operating margin excluding share in net earnings of equity-accounted companies, see Financial Glossary, page 19.

Order intake supported by technological innovation

In view of the very strong growth in order intake over the past five years (14% CAGR[(2)]), Valeo has decided to be more selective in 2018 to focus on optimizing the development and industrialization of its numerous ongoing projects, which are deeply transforming its product portfolio.

In first-half 2018, total order intake increased to 18.7 billion euros, of which:

- 14.0 billion euros[(1)] for Valeo;
- 4.7 billion euros for Valeo Siemens eAutomotive.

Innovative products[(3)] accounted for 48% of all order intake[(1)] (56% including Valeo Siemens eAutomotive).

Sales

For the sake of consistency in our financial communications, the sales figures presented below have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15). The impact of IFRS 15 is presented on pages 16, 17 and 18 of this document.

Second-quarter 2018

- Consolidated sales of 5,022 million euros:
  - ✓ up 10% at constant exchange rates;
  - ✓ up 5% like for like[(1)];
- Original equipment sales of 4,353 million euros:
  - ✓ up 10% at constant exchange rates;
  - ✓ up 5% like for like[(1)];
- Aftermarket sales expanded 13% at constant exchange rates and 8% like for like[(1)].

First-half 2018

- Consolidated sales of 9,939 million euros:
  - ✓ up 9% at constant exchange rates;
  - ✓ up 3% like for like[(1)];
- Original equipment sales of 8,628 million euros:
  - ✓ up 9% at constant exchange rates;
  - ✓ up 3% like for like[(1)];
- Aftermarket sales expanded 13% at constant exchange rates and 5% like for like[(1)].

Under IFRS 15, consolidated sales totaled 9,863 million euros in first-half 2018[(4)].

(1) See Financial Glossary, page 19.
(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.
(4) See pages 16, 17 and 18 of this document.

Earnings, cash and net debt

The financial data relating to earnings, cash and net debt are presented in accordance with IFRS (including new standards IFRS 15 and IFRS 9, with restatement of the comparative 2017 periods):

- R&D expenditure up 2% to 774 million euros, or 7.8% of sales;
- operating margin (excluding share in net earnings of equity-accounted companies) up 4% to 755 million euros, or 7.7% of sales;
- share in net earnings of equity-accounted companies representing a loss of 28 million euros, or a negative 0.3% of sales;
- net attributable income of 453 million euros, or 4.6% of sales;
- EBITDA(1) up 11% to 1,341 million euros, or 13.6% of sales;
- 141 million euro negative impact on free cash flow(1) generation from the change in working capital(2);
- strict control of investments (excluding capitalized R&D) in an amount of 641 million euros;
- free cash flow(1) generation of 36 million euros, or 3% of EBITDA(1);
- return on capital employed ROCE(1) of 26%;
- net debt of 2,291 million euros.

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.

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(1) See Financial Glossary, page 19.
(2) 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.

Paris, France, July 25, 2018 – Following the meeting of its Board of Directors today, Valeo releases its results for the first half of 2018(1):

For the sake of consistency in our financial communications, the sales figures presented below have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15). The impacts of the application of IFRS 15 on first-half 2018 sales are presented on pages 16, 17 and 18 of this document.

		H1 2018	H1 2017	Change
Sales	*(in €m)*	9,939	9,464	+5%/+9%**
Original equipment sales	*(in €m)*	8,628	8,235	+5%/+9%**

The first-half 2018 results below have been prepared in accordance with IFRS (including new standards IFRS 15 and IFRS 9, with restatement of the comparative 2017 periods).

		H1 2018	H2 2017*	Change
Valeo order intake(2)	*(in €bn)*	14.0	14.9	14% CAGR over the 2013-2018 period
Valeo Siemens eAutomotive order intake	*(in €bn)*	4.7	3.0	+57%
Sales	*(in €m)*	9,863	9,433	+5%/+9%**
Original equipment sales	*(in €m)*	8,375	8,027	+4%/+8%**
Gross margin	*(in €m)*	(1,998)	(1,938)	+3%
	(as a % of sales)	*20.3%*	*20.5%*	*-0.2 pts*
R&D expenditure	*(in €m)*	(774)	(761)	+2%
	(as a % of sales)	*-7.8%*	*-8.1%*	*+0.3 pts*
Selling and administrative expenses	*(in €m)*	(469)	(454)	+3%
	(as a % of sales)	*-4.8%*	*-4.8%*	*0 pts*
Operating margin excluding share in net earnings of equity-accounted companies	*(in €m)*	755	723	+4%
	(as a % of sales)	*7.7%*	*7.7%*	*0 pts*
Share in net earnings of equity-accounted companies	*(in €m)*	(28)	29	N/A
	(as a % of sales)	*-0.3%*	*0.3%*	*N/A*
Operating margin(3) including share in net earnings of equity-accounted companies	*(in €m)*	727	752	-3%
	(as a % of sales)	*7.4%*	*8.0%*	*-0.6 pts*
Net attributable income	*(in €m)*	453	504	-10%
	(as a % of sales)	*4.6%*	*5.3%*	*-0.7 pts*
Basic earnings per share	*(in €)*	1.91	2.12	-10%
Net income excluding non-recurring items	*(in €m)*	463	512	-10%
	(as a % of sales)	*4.7%*	*5.4%*	*-0.8 pts*
Basic earnings per share excluding non-recurring items	*(in €)*	1.95	2.16	-10%
ROCE(2)		26%	33%	-7 pts
ROA(2)		17%	22%	-5 pts
EBITDA(2)	*(in €m)*	1,341	1,213	+11%
	(as a % of sales)	*13.6%*	*12.9%*	*+0.7 pts*
Change in operating working capital***	*(in €m)*	(141)	(43)	N/A
Investments in property, plant and equipment and intangible assets	*(in €m)*	(995)	(834)	N/A
Free cash flow(2)	*(in €m)*	36	99	N/A
Cash conversion rate(4)		3%	8%	N/A
Net debt(2)	*(in €m)*	2,291	1,107	up €449m since Dec. 31, 2017

** 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.*
*** At constant exchange rates(2).*
**** 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.*

(1) At the date of this press release, the consolidated financial statements for the six months ended June 30, 2018 have been reviewed by the Statutory Auditors.
(2) See Financial Glossary, page 19.
(3) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 19.
(4) Conversion of EBITDA into free cash flow.

Order intake

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[(1)] 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.

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 (year-on-year change)	First-quarter 2018		Second-quarter 2018		First-half 2018	
	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.*

(1) See Financial Glossary, page 19.
(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.

Sales growth (before application of IFRS 15)(1)

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					Second-quarter				
		2018*	2017	CER change**	LFL change***	Reported change	2018*	2017	CER change**	LFL change***	Reported change
Original equipment	87%	4,275	4,174	+8%	+1%	+2%	4,353	4,061	+10%	+5%	+7%
Aftermarket	10%	523	487	+13%	+3%	+7%	518	476	+13%	+8%	+9%
Miscellaneous	3%	119	106	+18%	-2%	+12%	151	160	-3%	-3%	-6%
Total	**100%**	**4,917**	**4,767**	**+9%**	**+1%**	**+3%**	**5,022**	**4,697**	**+10%**	**+5%**	**+7%**

Sales (in millions of euros)	As a % of total H1 2018 sales	First-half				
		2018*	2017	CER change**	LFL change***	Reported change
Original equipment	87%	8,628	8,235	+9%	+3%	+5%
Aftermarket	10%	1,041	963	+13%	+5%	+8%
Miscellaneous	3%	270	266	+6%	-3%	+1%
Total	**100%**	**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 financial communications, sales are presented under 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 16, 17 and 18 of this document.
(2) See Financial Glossary, page 19.

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

Original equipment sales (by destination, in millions of euros)	First-quarter					Second-quarter				
	2018*	2017	LFL change**	Outperformance vs. LMC***	Outperformance vs. IHS****	2018*	2017	LFL change**	Outperformance vs. LMC***	Outperformance 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 pts*	*+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*	2017	LFL change**	Outperformance vs. LMC***	Outperformance 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.

(1) For the sake of consistency in our financial communications, sales are presented under 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 16, 17 and 18 of this document.
(2) See Financial Glossary, page 19.

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

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.

Balanced customer portfolio (before application of IFRS 15)[1]

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 under 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 16, 17 and 18 of this document.

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
CDA	913	938	+1%	+1%	-3%	928	899	+5%	+5%	+3%
Powertrain	1,310	1,105	+23% (e)	-1%	+19% (e)	1,323	1,058	+28% (e)	+7%	25% (e)
Thermal	1,240	1,312	+2%	+2%	-6%	1,308	1,282	+6%	+4%	+2%
Visibility	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
CDA	1,841	1,837	+3%	+3%	0%
Powertrain	2,633	2,163	+26% (e)	+3%	+22% (e)
Thermal	2,548	2,594	+4%	+3%	-2%
Visibility	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 under 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 16, 17 and 18 of this document.
(2) See Financial Glossary, page 19.

Operating margin excluding share in net earnings of equity-accounted companies[(1)] at 7.7% of sales, despite the rise in raw material prices

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

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).

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.

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

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% versus 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%.

(1) See Financial Glossary, page 19.

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.

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(1) See Financial Glossary, page 19.

EBITDA[1] by Business Group

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

(1) See Financial Glossary, page 19.

Free cash flow[1] generation

(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[2] stood at 3%.

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.

Net debt[1][3]

Net debt[1][3] 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][3]/EBITDA) came out at 0.90x EBITDA and the **gearing ratio** (net debt[1][3]/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 19.
(2) Conversion of EBITDA into free cash flow.
(3) Figures presented in accordance with IFRS 9.

Highlights

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.

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.

Upcoming events

Third-quarter 2018 sales: October 25, 2018

Impacts of the application of IFRS 15 and IFRS 9

On July 17, 2018, Valeo reported the impacts of the application of IFRS 15 and IFRS 9 on 2017 comparative information.

The impacts of the application of IFRS 15 – "Revenue from Contracts with Customers" on first-half 2018 sales are as follows:

- the external cost of components imposed by customers, which was previously accounted for in original equipment sales, is now presented as a deduction from "Raw materials consumed". This reclassification results in a 253 million euro reduction in sales for first-half 2018 (208 million euros for first-half 2017) and mainly concerns the Thermal Systems Business Group's front-end module operations;
- customer contributions to Research and Development (including prototypes), which were previously presented as a deduction from "Research and Development expenditure", are now presented in sales under "Miscellaneous". This reclassification to sales represents an amount of 177 million euros for first-half 2018 (177 million euros for first-half 2017).

Sales by type (in millions of euros)

Sales before IFRS 15 (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 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 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 19.

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 19.

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	+1 pt	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 19.

Financial Glossary

- 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.
- **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, (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.
- **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** corresponds to operating income before other income and expenses.
- **Net attributable income excluding non-recurring items** corresponds to 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.
- **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.
- **ROA**, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.
- **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.
- **Free cash flow** corresponds to 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** corresponds to free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities, relating to 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.
- **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.

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.

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 the Paris stock exchange and is a member of the CAC 40 index.

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