VALEO SCALA®

2019 HALF-YEAR FINANCIAL REPORT

SMART TECHNOLOGY FOR SMARTER CARS

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 the first half of 2019, the Group generated sales of 9.8 billion euros and invested 12.9% of its original equipment sales in Research and Development. Valeo has 188 plants, 20 research centers, 39 development centers and 15 distribution platforms, and at June 30, 2019 employed 114,350 people in 33 countries worldwide.

Valeo is listed on the Paris Stock Exchange.

Board of Directors at June 30, 2019

- **Jacques Aschenbroich**
  Chairman and Chief Executive Officer
- **Georges Pauget**
  Lead Director
- **Éric Chauvirey**
  Director representing employees
- **Bruno Bézard**
- **BPI,** represented by Stéphanie Frachet
- **C. Maury Devine**
- **Mari-Noëlle Jégo-Laveissière**
- **Gilles Michel**
- **Thierry Moulonguet**
- **Olivier Piou**
- **Patrick Sayer**
- **Ulrike Steinhorst**
- **Véronique Weill**

Committees at June 30, 2019

Audit & Risks Committee

- **Thierry Moulonguet**
  Chairman
- **BPI,** represented by Stéphanie Frachet
- **Mari-Noëlle Jégo-Laveissière**
- **Olivier Piou**
- **Véronique Weill**

Governance, Appointments & Corporate Social Responsibility Committee

- **Georges Pauget**
  Chairman
- **BPI,** represented by Stéphanie Frachet
- **C. Maury Devine**
- **Gilles Michel**
- **Patrick Sayer**
- **Ulrike Steinhorst**
- **Véronique Weill**

Compensation Committee

- **Georges Pauget**
  Chairman
- **BPI,** represented by Stéphanie Frachet
- **Éric Chauvirey**
- **C. Maury Devine**
- **Gilles Michel**
- **Patrick Sayer**
- **Ulrike Steinhorst**
- **Véronique Weill**

Strategy Committee

- **Ulrike Steinhorst**
  Chair
- **Thierry Moulonguet**
- **Georges Pauget**
- **Olivier Piou**
- **Patrick Sayer**

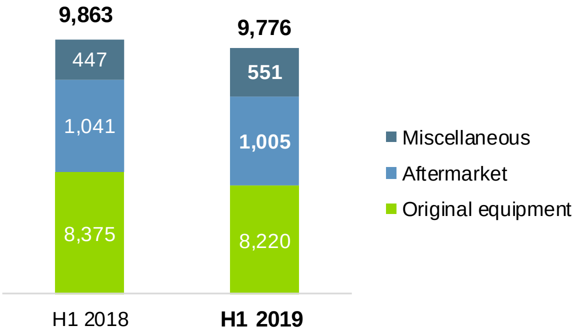
2. KEY FIGURES

2.1. Business review and results

SALES

Breakdown by type

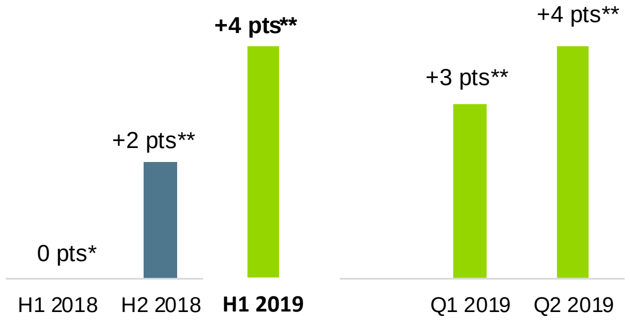
In millions of euros



OUTPERFORMANCE

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

In percentage points

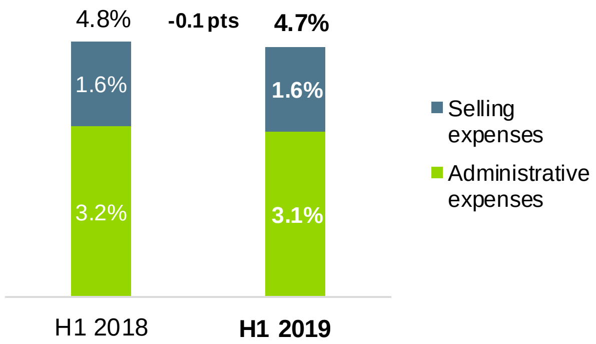


* *IHS estimates.*

** *IHS estimates/China Passenger Car Association (CPCA) estimates for data relating to China.*

ADMINISTRATIVE AND SELLING EXPENSES

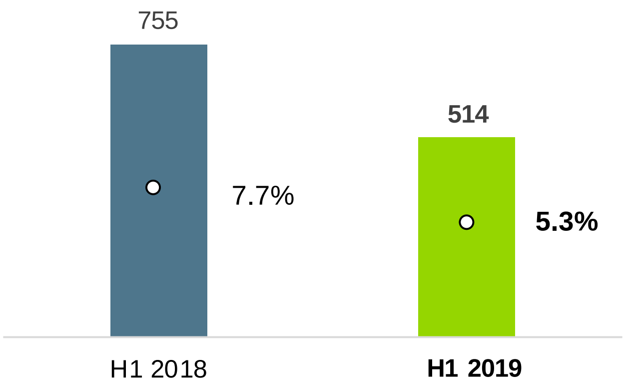
As a % of sales



OPERATING MARGIN

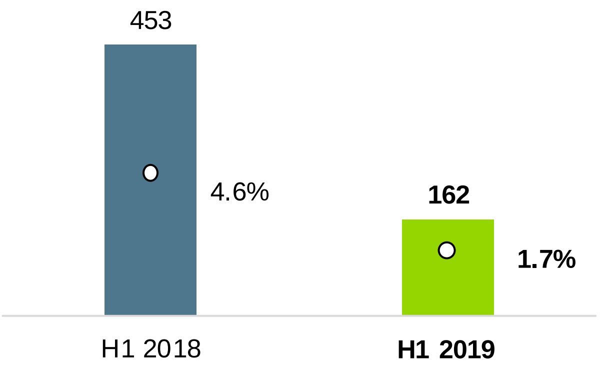
Excluding share in net earnings of equity-accounted companies

In millions of euros and as a % of sales



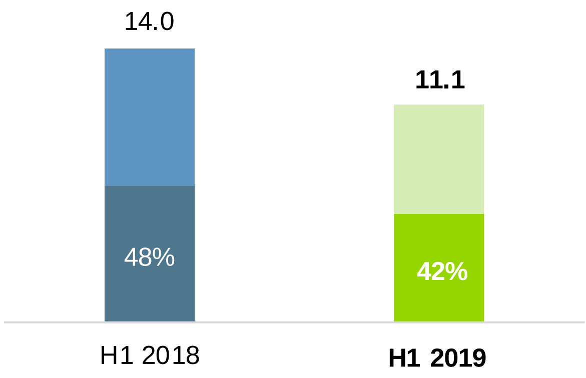
NET ATTRIBUTABLE INCOME

In millions of euros and as a % of sales



ORDER INTAKE(2)

In billions of euros and weighting of innovative products and systems(3)

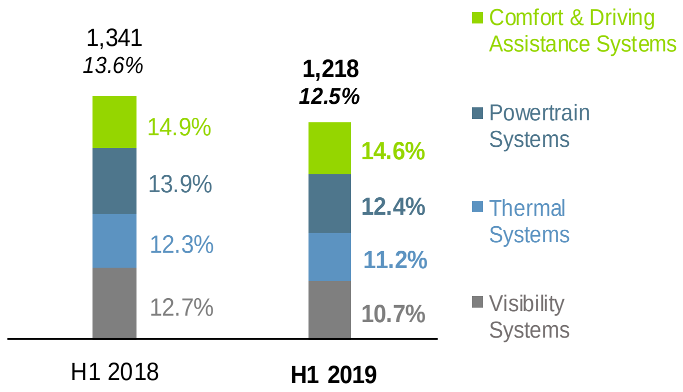


(1) See Financial Glossary, page 55.
(2) Valeo Group order intake, excluding Valeo Siemens eAutomotive. See Financial Glossary, page 55.
(3) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive.

2.2. Cash flow and financial position

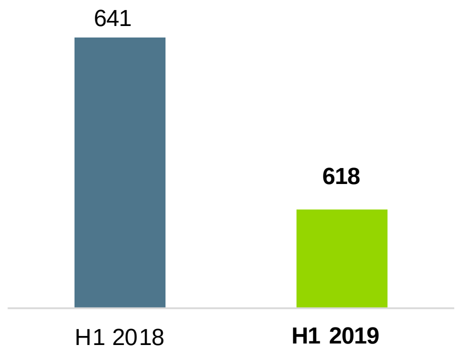
TOTAL EBITDA(1) AND EBITDA BY BUSINESS GROUP

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



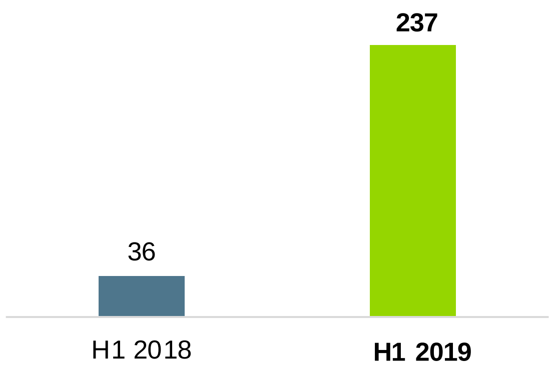
INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

In millions of euros



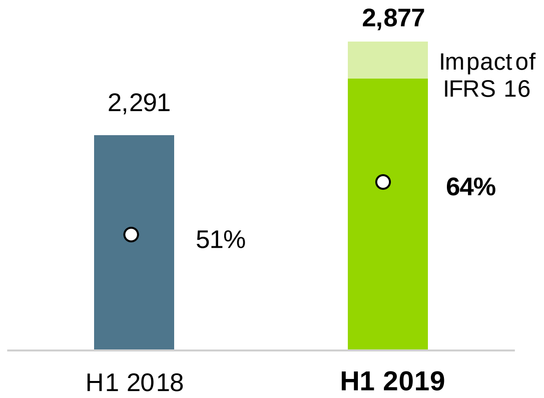
FREE CASH FLOW(1)

In millions of euros



NET DEBT(1)

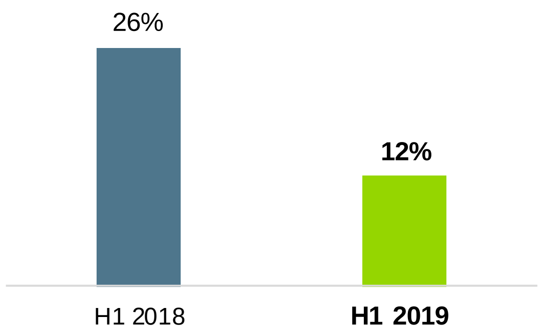
In millions of euros and as a % of consolidated stockholders' equity attributable to owners of the Company



2.3. Other profitability indicators

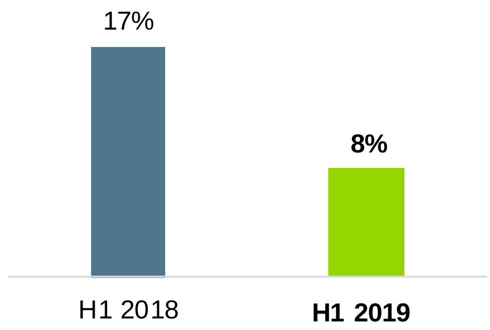
ROCE(1)

(return on capital employed)



ROA(1)

(return on assets)



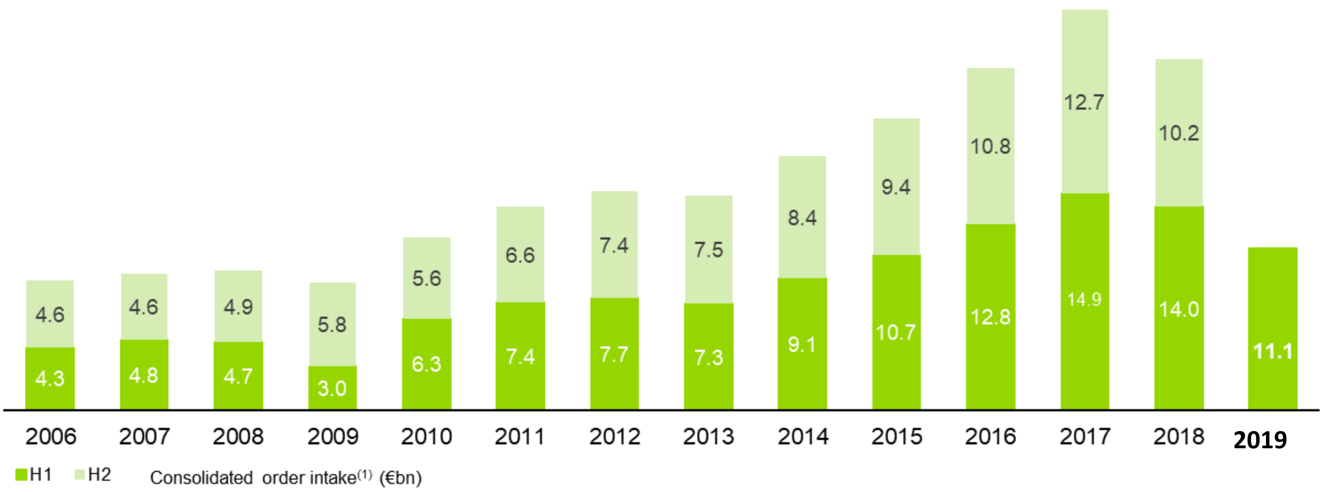
(1) See Financial Glossary, page 55.

3. INTERIM MANAGEMENT REPORT

3.1. Business review

3.1.1. Order intake

CHANGE IN ORDER INTAKE



Order intake[(1)] for first-half 2019 came out at 11.1 billion euros, of which 42% was for innovative products[(2)], or 1.3 times original equipment sales.

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

- 33% in Asia;
- 17% in China, of which 24% of orders were booked with local Chinese automakers;
- 47% in Europe (and Africa);
- 17% in North America.

(1) See Financial Glossary, page 55.

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

3.1.2. Change in global automotive production

In first-half 2019, automotive production fell 7% compared with first-half 2018, according to IHS/CPCA[1] estimates.

Automotive production was weighed down by the fall in activity in China, down 16%, and the decrease in production in Europe and North America of 5% and 3% respectively.

Automotive production (year-on-year change)	**Second-quarter** IHS + CPCA*	**First-half** IHS + CPCA*
Europe & Africa	-6%	-5%
Asia, Middle East & Oceania	-11%	-10%
of which China	*-19%*	*-16%*
of which Japan	*+6%*	*+3%*
of which South Korea	*+3%*	*+1%*
of which India	*-12%*	*-7%*
North America	-2%	-3%
South America	-2%	-3%
TOTAL	**-8%**	**-7%**

** Based on IHS automotive production estimates released on July 16, 2019/CPCA[1] estimates for data relating to China.*

3.1.3. Change in sales

In the first half of 2019, **sales** retreated by 2% like for like[2].

Changes in exchange rates had a positive 1.7% impact during the period, primarily reflecting the appreciation of the US dollar and Japanese yen against the euro.

Changes in Group structure had a negative 0.3% impact, following the sale of the Passive Hydraulic Actuator business finalized on March 31, 2018.

Sales *(in millions of euros)*	**As a % of total H1 2019 sales**	**Second-quarter**				**First-half**			
		2019	**2018**	**LFL* change**	**Change**	**2019**	**2018**	**LFL* change**	**Change**
Original equipment	84%	4,099	4,221	-4%	-3%	8,220	8,375	-3%	-2%
Aftermarket	10%	504	518	-4%	-3%	1,005	1,041	-4%	-4%
Miscellaneous	6%	332	243	+35%	+37%	551	447	+21%	+23%
TOTAL	**100%**	**4,935**	**4,982**	**-2%**	**-1%**	**9,776**	**9,863**	**-2%**	**-1%**

** Like for like (constant Group structure and exchange rates)[2].*

Like-for-like **original equipment sales** fell by 3% over the first six months of 2019, representing a 4 percentage point outperformance versus global automotive production. Outperformance accelerated over the first half (from 3 percentage points in the first quarter to 4 percentage points in the second quarter), backed by the start of production on numerous high-tech innovations.

Aftermarket sales declined by 4% like for like, held back by the slowdown in business in China, Europe and Turkey, as well as the closure of its operations in Iran.

Miscellaneous sales (6% of total sales) rose 21% like for like, mainly driven by tooling revenues.

(1) CPCA: China Passenger Car Association.
(2) See Financial Glossary, page 55.

3.1.4. Change in original equipment sales by region

Original equipment sales *(by destination, in millions of euros)*	Second-quarter				First-half			
	2019	**2018**	**LFL* change**	**Outperf. vs. IHS/CPCA****	**2019**	**2018**	**LFL* change**	**Outperf. vs. IHS/CPCA****
Europe & Africa	1,996	2,060	-3%	+3 pts	4,025	4,132	-2%	+3 pts
Asia, Middle East & Oceania	1,193	1,320	-12%	-1 pt	2,381	2,583	-11%	-1 pt
of which China	*411*	*550*	*-19%*	*0 pts*	*861*	*1,076*	*-19%*	*-3 pts*
of which Japan	*306*	*320*	*-9%*	*-15 pts*	*637*	*654*	*-8%*	*-11 pts*
of which South Korea	*365*	*321*	*-3%*	*-6 pts*	*651*	*595*	*+1%*	*-1 pt*
of which India	*42*	*53*	*-22%*	*-10 pts*	*89*	*105*	*-15%*	*-8 pts*
North America	812	745	+6%	+8 pts	1,624	1,462	+6%	+9 pts
South America	98	96	+8%	+10 pts	190	198	+3%	+6 pts
TOTAL	**4,099**	**4,221**	**-4%**	**+4 pts**	**8,220**	**8,375**	**-3%**	**+4 pts**

** Like for like (constant Group structure and exchange rates)(1).*
*** Based on IHS automotive production estimates released on July 16, 2019/CPCA(2) estimates for data relating to China.*

Like-for-like(1) original equipment sales fell by 3% over the first six months of 2019, outperforming global automotive production (IHS and CPCA estimates) by 4 percentage points.

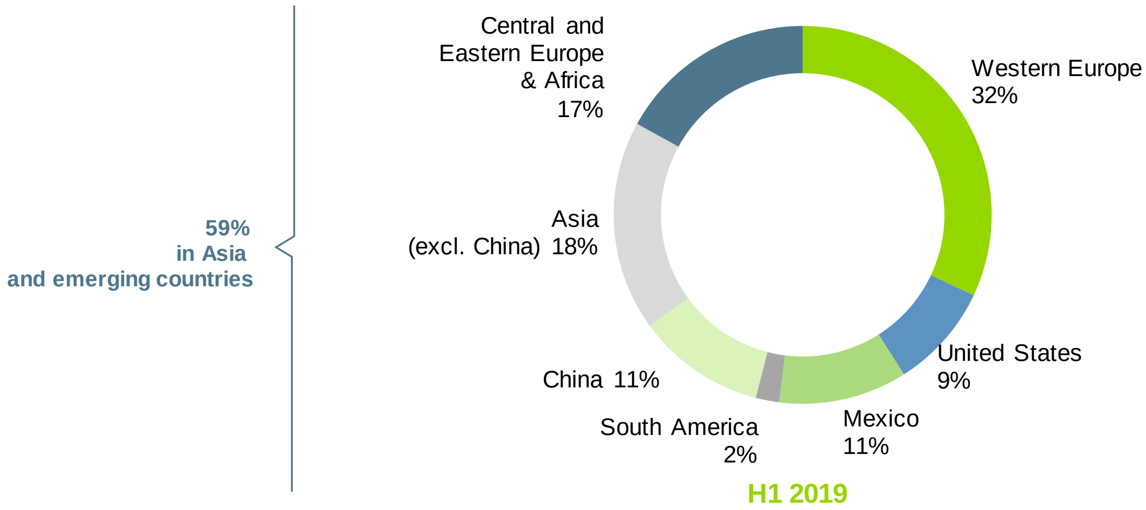
- in Europe (including Africa) like-for-like original equipment sales were down 2%, outperforming automotive production (IHS estimates) by 3 percentage points. In Europe, outperformance accelerated (3 percentage points in first-half 2019 versus 1 percentage point in the second half of 2018), benefiting from the start of production on numerous projects, particularly in Powertrain Systems, cameras and other ADAS-related sensors, and LED lighting systems;
- in China, like-for-like original equipment sales fell 19%, outperforming automotive production (CPCA estimates) by 3 percentage points. Performance was in line with the market in the second quarter;
- in Japan, like-for-like original equipment sales were down 8%, underperforming automotive production (IHS estimates) by 11 percentage points, as a result of the Group's exposure to Nissan and Subaru;
- in North America, like-for-like original equipment sales rose 6%, outpacing automotive production (IHS estimates) by 9 percentage points, a sharp acceleration of 3 percentage points compared with second-half 2018, reflecting a robust performance across all businesses, in particular Lighting, Thermal Solutions and Vision (cameras);
- in South America, like-for-like original equipment sales rose by 3%, outpacing automotive production (IHS estimates) by 6 percentage points.

(1) See Financial Glossary, page 55.
(2) CPCA: China Passenger Car Association.

3.1.5. Balanced geographic alignment of Valeo's businesses

ORIGINAL EQUIPMENT SALES BY PRODUCTION REGION

As a % of original equipment sales



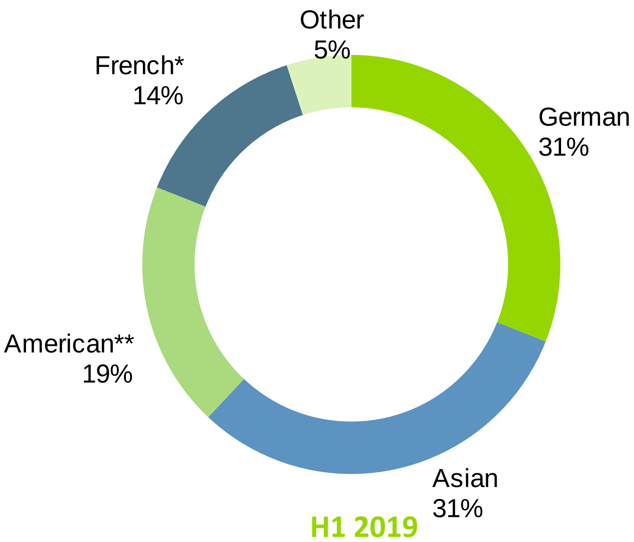
Year-on-year changes in the share of original equipment sales in the four main production regions in first-half 2019 were as follows:

- a rise of 3 percentage points for North America, accounting for 20% of original equipment sales;
- stable for Europe, accounting for 49% of original equipment sales;
- stable for South America, accounting for 2% of original equipment sales;
- a decrease of 3 percentage points for Asia, accounting for 29% of original equipment sales.

3.1.6. Balanced customer portfolio

CUSTOMER PORTFOLIO

As a % of original equipment sales



* *Including Opel.*
** *Excluding Opel.*

Year-on-year changes in the share of original equipment sales among the Group's customers in first-half 2019 were as follows:

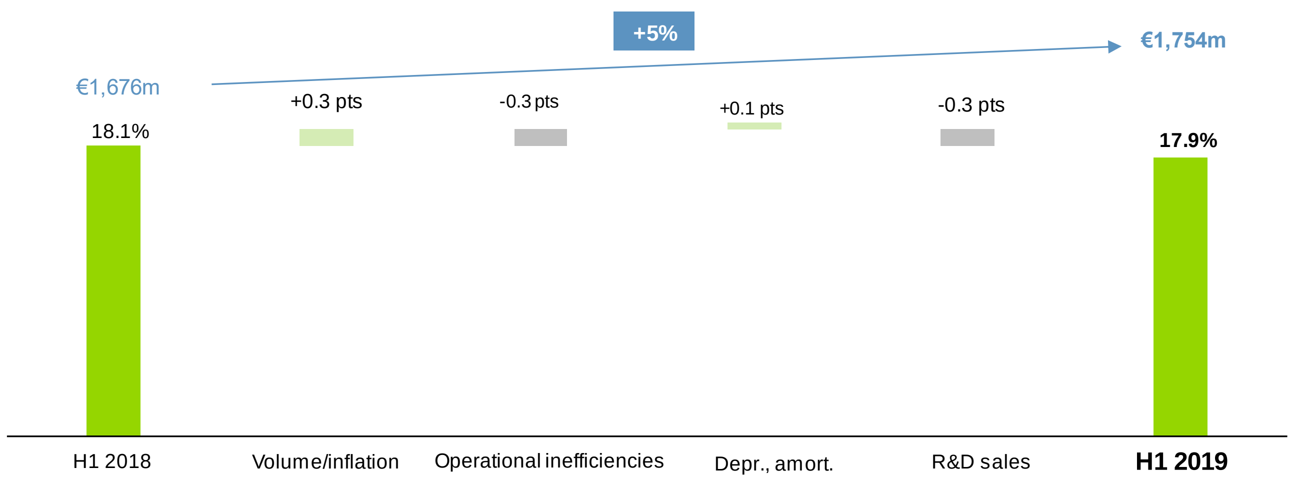
- a rise of 2 percentage points for US customers, accounting for 19% of original equipment sales;
- a rise of 1 percentage point for German customers, accounting for 31% of original equipment sales;
- a fall of 1 percentage point for Asian customers, accounting for 31% of original equipment sales;
- a fall of 1 percentage point for French customers, accounting for 14% of original equipment sales.

3.2. Results

(in millions of euros and as a % of sales)	First-half 2019	Second-half 2018	Change	First-half 2018
Sales	9,776	9,261	+6%	9,863
Gross margin	1,754	1,676	+5%	1,998
	17.9%	*18.1%*	*-0.2 pts*	*20.3%*
Operating margin excluding share in net earnings of equity-accounted companies	514	448	+15%	755
	5.3%	*4.8%*	*+0.5 pts*	*7.7%*
Share in net earnings (losses) of equity-accounted companies	(107)	(83)	-29%	(28)
	1.1%	*0.9%*	*-0.2 pts*	*0.3%*
Operating margin including share in net earnings of equity-accounted companies*	407	365	+12%	727
	4.2%	*3.9%*	*+0.3 pts*	*7.4%*
NET ATTRIBUTABLE INCOME*	**162**	**93**	**+74%**	**453**
	1.7%	***1.0%***	***+0.7 pts***	***4.6%***

** See Financial Glossary, page 55.*

ANALYSIS OF GROSS MARGIN
As a % of sales



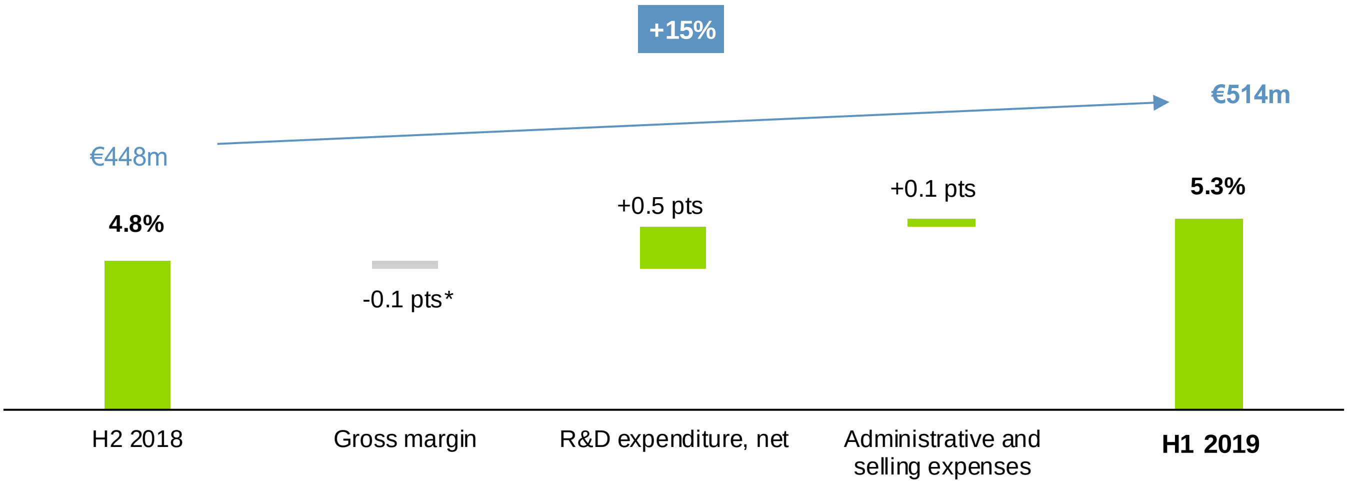
Gross margin totaled 1,754 million euros, or 17.9% of sales, down 0.2 percentage points compared with second-half 2018, primarily reflecting:

- continued growth (positive 0.3 percentage point impact), including price and volume effects and inflation;
- an improvement in fixed costs (positive 0.1 percentage point impact);
- operational inefficiencies (negative 0.3 percentage point impact);
- a decline in R&D sales (negative 0.3 percentage point impact).

In a particularly unstable economic and geopolitical environment, Valeo pressed ahead with its plan to reduce costs and capital expenditure, which resulted in a 0.1 percentage point decline in **administrative and selling expenses** to 4.7% of sales and a 0.5 percentage point reduction in **Research and Development expenditure** as a percentage of sales compared with second-half 2018, to 785 million euros. This category of expenditure mainly related to powertrain electrification and autonomous and connected vehicles.

ANALYSIS OF OPERATING MARGIN

Excluding 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 came out at 514 million euros, or 5.3% of sales, up 0.5 percentage points compared with second-half 2018.

The share in net earnings of equity-accounted companies represented a loss of 107 million euros in the first half. This item was affected by lower profitability at Chinese subsidiaries and the share of the loss recorded by Valeo Siemens eAutomotive, which is currently bearing the costs required to develop its order book. Valeo Siemens eAutomotive also suffered the effects of a slowdown in its sales in China.

Operating margin including share in net earnings of equity-accounted companies[1] amounted to 407 million euros, or 4.2% of sales.

Operating income totaled 377 million euros, or 3.9% of sales. Operating income includes other income and expenses representing a net expense of 30 million euros.

After taking into account the cost of net debt of 37 million euros and an effective tax rate of 29.3%, **net attributable income** came to 162 million euros, or 1.7% of sales, up 0.7 percentage points compared with second half 2018.

Return on capital employed (ROCE[1]) and **return on assets** (ROA[1]) stood at 12% and 8%, respectively.

(1) See Financial Glossary, page 55.

3.3. Segment reporting

3.3.1. Change in sales by Business Group

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

Sales by Business Group* *(in millions of euros)*	**Second-quarter**					**First-half**				
	2019	**2018**	**Change in OE sales****	**Change in sales**	**Outperf. vs. IHS/CPCA*****	**2019**	**2018**	**Change in OE sales****	**Change in sales**	**Outperf. vs. IHS/CPCA*****
Comfort & Driving Assistance Systems	974	961	-2%	+1%	+6 pts	1,938	1,899	-1%	+2%	+6 pts
Powertrain Systems	1,299	1,338	-5%	-3%	+3 pts	2,565	2,664	-4%	-4%	+3 pts
Thermal Systems	1,187	1,201	-5%	-1%	+3 pts	2,330	2,341	-4%	-1%	+3 pts
Visibility Systems	1,512	1,516	-4%	0%	+4 pts	3,014	3,030	-4%	-1%	+3 pts

** Including intersegment sales.*
*** Like for like (constant Group structure and exchange rates)[1].*
**** Based on IHS automotive production estimates released on July 16, 2019/CPCA[2] estimates for data relating to China.*

The **Comfort & Driving Assistance Systems Business Group** outperformed global automotive production (IHS/CPCA estimates) by 6 percentage points, the highest rate out of Valeo's four Business Groups. The Business Group's growth was driven by solid sales of sensors and cameras in the driving assistance segment.

In the **Powertrain Systems, Thermal Systems** and **Visibility Systems Business Groups**, like-for-like original equipment sales outperformed global automotive production by 3 percentage points.

(1) See Financial Glossary, page 55.
(2) CPCA: China Passenger Car Association.

3.3.2. EBITDA[(1)] by Business Group

EBITDA* *(in millions of euros and as a % of sales by Business Group)*	First-half 2019	Second-half 2018	Change	First-half 2018
Comfort & Driving Assistance Systems	282	245	+15%	283
	14.6%	*13.1%*	*+1.5 pts*	*14.9%*
Powertrain Systems	319	305	+5%	369
	12.4%	*12.3%*	*+0.1 pts*	*13.9%*
Thermal Systems	262	207	+27%	288
	11.2%	*9.3%*	*+1.9 pts*	*12.3%*
Visibility Systems	324	257	+26%	385
	10.7%	*9.3%*	*+1.4 pts*	*12.7%*
GROUP	**1,218**	**1,069**	**+14%**	**1,341**
	12.5%	***11.5%***	***+1 pt***	***13.6%***

* *See Financial Glossary, page 55.*

In first-half 2019, EBITDA totaled 1,218 million euros, or 12.5% of sales, up 1 percentage point compared with second-half 2018, after taking into account the positive 0.4 percentage point impact of IFRS 16.

All Business Groups reported growth in profitability compared with second-half 2018.

3.4. Cash flow and financial position

3.4.1. Free cash flow[(1)] generation

(in millions of euros)	First-half 2019	Second-half 2018	First-half 2018
EBITDA	**1,218**	**1,069**	**1,341**
Change in operating working capital*	262	228	(141)
Restructuring costs	(10)	(13)	(18)
Income tax	(152)	(129)	(138)
Provisions for pensions	(1)	(34)	(1)
Payments relating to the principal portion of lease liabilities**	(46)	N/A	N/A
Other operating items	(36)	34	(12)
Investments in property, plant and equipment and intangible assets	(998)	(1,030)	(995)
FREE CASH FLOW**	**237**	**125**	**36**
Cash conversion rate***	**19%**	**12%**	**3%**
Net financial expenses	(56)	(5)	(53)
Other financial items	(447)	(169)	(532)
NET CASH FLOW	**(266)**	**(49)**	**(549)**

** Change in working capital excluding the change in non-recurring sales of accounts and notes receivable in a negative amount of 6 million euros in first-half 2019 and a positive amount of 10 million euros in first-half 2018.*
*** Following the application of IFRS 16, the Group's definition of free cash flow has been adjusted to take into account payments relating to the principal portion of lease liabilities. The resulting impact on free cash flow is marginal, at around 5 million euros.*
**** Conversion of EBITDA into free cash flow.*

The Group generated 237 million euros in **free cash flow**[(1)] in first-half 2019, chiefly reflecting:
- a positive 262 million euro impact on free cash flow generation of the change in working capital, resulting primarily from slower activity in China, as well as a decrease in tooling inventories;
- more controlled investments in property, plant and equipment, which amounted to 598 million euros, versus 661 million euros in second-half 2018.

Accordingly, the cash conversion rate[(2)] was 19%.

Net cash flow[(1)] amounted to a negative 266 million euros, reflecting:
- 56 million euros in net financial expenses paid;
- other financial items totaling 447 million euros, mainly including a 330 million euro outflow relating to the dividend payment.

(1) See Financial Glossary, page 55.
(2) Conversion of EBITDA into free cash flow.

3.4.2. Net debt[1][2]

Net debt stood at 2,877 million euros at June 30, 2019, up 629 million euros compared with end December 2018, after taking into account the dividend payment as well as lease liabilities recognized following the application of IFRS 16 (442 million euros at June 30, 2019).

Including the impact of IFRS 16, the **leverage ratio** (net debt/EBITDA) came out at 1.26x EBITDA and the **gearing ratio** (net debt/stockholders' equity excluding non-controlling interests) stood at 64% of equity.

The average maturity of gross long-term debt stood at 4.1 years at June 30, 2019, versus 4.6 years at December 31, 2018.

(1) See Financial Glossary, page 55.

(2) Figures presented in accordance with IFRS 16.

3.5. Outlook

Thanks to the roll-out of a program to reduce costs and capital expenditure, the favorable trend in raw material prices and the start of production on new contracts, Valeo confirms its guidance despite a stronger than anticipated decline in the automotive market, which is expected to contract by around 4% in 2019 (versus a previously forecast decrease of between 1% and 0%):

- a stronger market outperformance than in second-half 2018, increasing gradually during the year, driven by production start-up for projects in the camera, electrical and transmission systems, and lighting segments;
- continued roll-out of the program, announced in February, to reduce costs by more than 100 million euros and capital expenditure by more than 100 million euros, the main impact of which is expected to be felt in the second half;
- EBITDA growth[1] (in value terms);
- operating margin excluding share in net earnings of equity-accounted companies (as a % of sales) of between 5.8% and 6.5%, depending on the trends in automotive production and in the price of raw materials and electronic components.

In addition, Valeo has set itself the objective of continued free cash flow[1] generation in the second half.

Lastly, the “share in net earnings of equity-accounted companies” line is expected to have a similar impact (in millions of euros) on Valeo’s statement of income for the second half as it did in the first half, due to the Valeo Siemens eAutomotive joint venture and to the weak performance of Chinese subsidiaries.

(1) See Financial Glossary, page 55.

3.6. Medium-term strategic plan

The Group will publish its new medium-term objectives at the Investor Day to be held on December 10, 2019.

3.7. Highlights

3.7.1. Transactions involving the Company's shares

In April 2019, Valeo was informed that Bpifrance's stake in the Group's share capital had crossed the threshold of 5%, following its acquisition of shares on the open market. In this context, in June 2019 Valeo's Board of Directors supported the appointment of Stéphanie Frachet as Bpifrance's representative on the Board.

On May 2, 2019, Valeo announced the launch of a share subscription offering reserved for employees. 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. Around 94,000 Group employees are eligible for the offering, which has been rolled out in 21 countries. The capital increase took place on June 27, 2019.

3.7.2. Debt management and ratings

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

- On February 26, 2019, Standard & Poor's maintained its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo and revised its outlook from stable to negative;
- On March 22, 2019, Moody's downgraded its long-term and short-term corporate credit ratings for Valeo from Baa2/P-2 to Baa3/P-3, with a stable outlook.

3.7.3. Opening of a new plant

On May 3, 2019, Valeo inaugurated a new industrial complex in Tangier, Morocco housing two buildings: the first, which has been in operation since 2017, produces lighting and wiper systems, and the second, which has been in operation since May 2019, is dedicated to the production of thermal systems and comfort and driving assistance systems.

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 42% of all order intake in first-half 2019[1].

Valeo protects its innovations through an active patent filing policy: in 2018, Valeo took first place in France's INPI industrial property institute rankings. It filed 1,355 patents, up from 1,110 in 2017, consolidating its position as the most innovative company in France.

(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, the Group 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:

- In January 2019, **Mov'InBlue** and **Drivy** entered into a technological partnership to speed up the development of self-service car-sharing offers. Mov'InBlue is a smart digital mobility solution created by Valeo and Capgemini, which specializes in digital mobility services for corporate fleets and car rental companies. When integrated with the Drivy platform, the Mov'InBlue solution makes it possible to share vehicles from any fleet with Drivy's community of 2.5 million users, enabling fleet managers to optimize vehicle use and providing them with an additional source of revenue.
- In January 2019, at the CES 2019 in Las Vegas, Valeo signed a partnership agreement with **Mobileye** to develop and promote a new autonomous vehicle safety standard based on Responsibility-Sensitive Safety, Mobileye's mathematical safety model, with the goal of widespread industry adoption.
- In January 2019, Valeo joined Autonomous Delivery open platform **Meituan**, China's leading on-demand food delivery platform. Under a strategic cooperation agreement, both parties will work together to develop last-mile autonomous delivery vehicles.
- In January 2019, Valeo and **Cree, Inc.** announced that they had jointly developed the first complete high definition (HD) LED array solution for automotive lighting systems. Valeo demonstrated this innovation – Valeo PictureBeam Monolithic – at CES 2019. Powered by breakthrough Cree® LED technology, Valeo PictureBeam Monolithic is the first complete HD lighting system that can project light signals (information or images) onto the road, and offers high performance low beam and high beam functions.

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 and 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 2019, Valeo attended three major trade shows:

- In January 2019, Valeo took part in the **Consumer Electronics Show** (CES) in **Las Vegas** (United States) for the sixth year in a row.
  - At the event, Valeo notably demonstrated Valeo Drive4U®, the first autonomous car that performs all operations using only sensors that are already series produced (ultrasonic, cameras, lasers, radars and LiDARs) and artificial intelligence.
  - Thanks to these devices, Valeo has set a target of less than one major incident for every billion kilometers driven. To achieve this result, the Group presented two major innovations: Valeo Drive4U® Remote to operate autonomous vehicles remotely when assistance is required, and Valeo Voyage XR, which is able to simulate the virtual presence of a person – based in a fixed location – on board the autonomous vehicle during the journey.
  - Also with a view to increasing safety, the Group will be showcasing Valeo XtraVue Trailer and Valeo PictureBeam Monolithic. The first of these two innovations causes a trailer or caravan to appear invisible in the rearview mirror of the vehicle towing it, making all maneuvers easier and safer for the driver. The second is a solution that generates a high definition beam of light on the road without ever dazzling other road users and projects information and images onto the road.
  - Lastly, since usage patterns are changing, with digital tools giving access to new ways of getting around, Valeo is developing technologies to promote their widespread take-up. Examples include the Valeo Clean Road app, which generates customized routes to avoid peak pollution areas, and Valeo Oxy'Zen, which can be used to activate air purification systems inside the vehicle cabin.
- In April 2019, Valeo attended the **2019 Shanghai auto show**, where it unveiled its latest technologies for developing electric, autonomous and connected vehicles. In particular, the Group unveiled its low-voltage (48V), all-electric urban prototype, as well as its reversible charger, a major innovation enabling vehicles to become links in the power grid. Valeo also presented its all-weather, all-season thermal and comfort solutions for electric vehicles, designed to optimize travel

range. These driving systems will be based on different types of sensors, which will enable the vehicle to map out its environment.

3.7.5. Awards

In first-half 2019, the Group enjoyed widespread recognition for innovation capability and product and service quality.

- In February 2019, Valeo was certified as a **“Global Top Employer”** for the fifth year running. It is among 14 companies worldwide to be recognized for their best practices in human resources. Valeo was also named a “Top Employer” in Europe, Asia-Pacific and North America, with certification in 13, five, and three countries, respectively.
- In April 2019, for the third year running, Valeo took first place in France’s INPI **industrial property institute rankings**, with 1,355 patents published in 2018, versus 1,110 in 2017, consolidating its position as the most innovative company in France. Valeo also ranked as France’s leading patent filer with the European Patent Office (EPO), with 784 patents published in 2018 (18th worldwide). These two rankings underline Valeo’s commitment to protecting the cornerstone of its strategy: innovation.
- In June 2019, **rating agency ISS ESG** awarded Valeo pole position in its ESG performance ranking of global companies (auto components industry, 64 companies assessed). Valeo also achieved Prime status for its excellent performance. The Group scored particularly well in the three areas identified by ISS ESG as key performance indicators for automotive suppliers: the portfolio of products that help to reduce CO_2 emissions, global management of social and environmental risks, and quality of the Group’s governance.

3.8. Stock market data

3.8.1. Share performance

During the first half of 2019, the share's average closing price was 27.24 euros, with a high of 33.80 euros on April 29, 2019 and a low of 23.06 euros on June 3, 2019. Over the first six months of the year, the Valeo share rose 12.1% from 25.51 euros on December 31, 2018 to a closing price of 28.60 euros on June 28, 2019.

The Valeo share (up 12.1%) underperformed the CAC 40 index (up 17.1%) by 5 percentage points. The share outperformed the DJSTOXX Auto index (up 11%) by 1.1 percentage points.

3.8.2. Changes in ownership structure

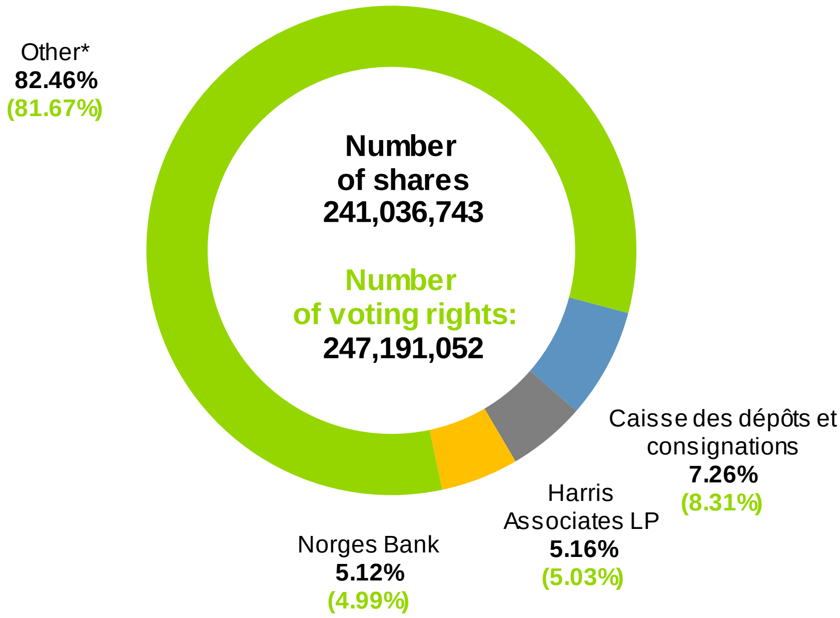
At June 30, 2019, the Company's share capital comprised 241,036,743 shares, up 783,643 shares since December 31, 2018 following the implementation of an employee share ownership plan in May 2019. In accordance with Article 223-11 *et seq.* of the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF), the number of voting rights declared was 247,191,052. Excluding treasury shares, the number of voting rights came out at 244,974,980.

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, 2019, other than:

- the Caisse des Dépôts et Consignations Group, which held 17,509,592 shares, i.e., 7.26% of the Company's share capital and 8.31% of the voting rights;
- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 12,429,136 shares, i.e., 5.16% of the Company's share capital and 5.03% of the voting rights;
- Norges Bank Investment Management, which held 12,337,905 shares, i.e., 5.12% of the Company's share capital and 4.99% of the voting rights.

At June 30, 2019, Valeo held 2,216,072 treasury shares (i.e., 0.92% of the share capital without voting rights) versus 2,965,613 shares at December 31, 2018 (1.23% of the share capital without voting rights).

OWNERSHIP STRUCTURE AT JUNE 30, 2019



% of share capital
(% of voting rights)
** Including 2,216,072 treasury shares (0.92% of share capital)*

3.8.3. Stock market data

	First-half 2019	2018
Market capitalization at period-end *(in billions of euros)*	6.89	6.13
Number of shares	241,036,743	240,253,100
Highest share price *(in euros)*	33.80	66.48
Lowest share price *(in euros)*	23.06	23.20
Average share price *(in euros)*	27.24	45.72
Share price at period-end *(in euros)*	28.60	25.51

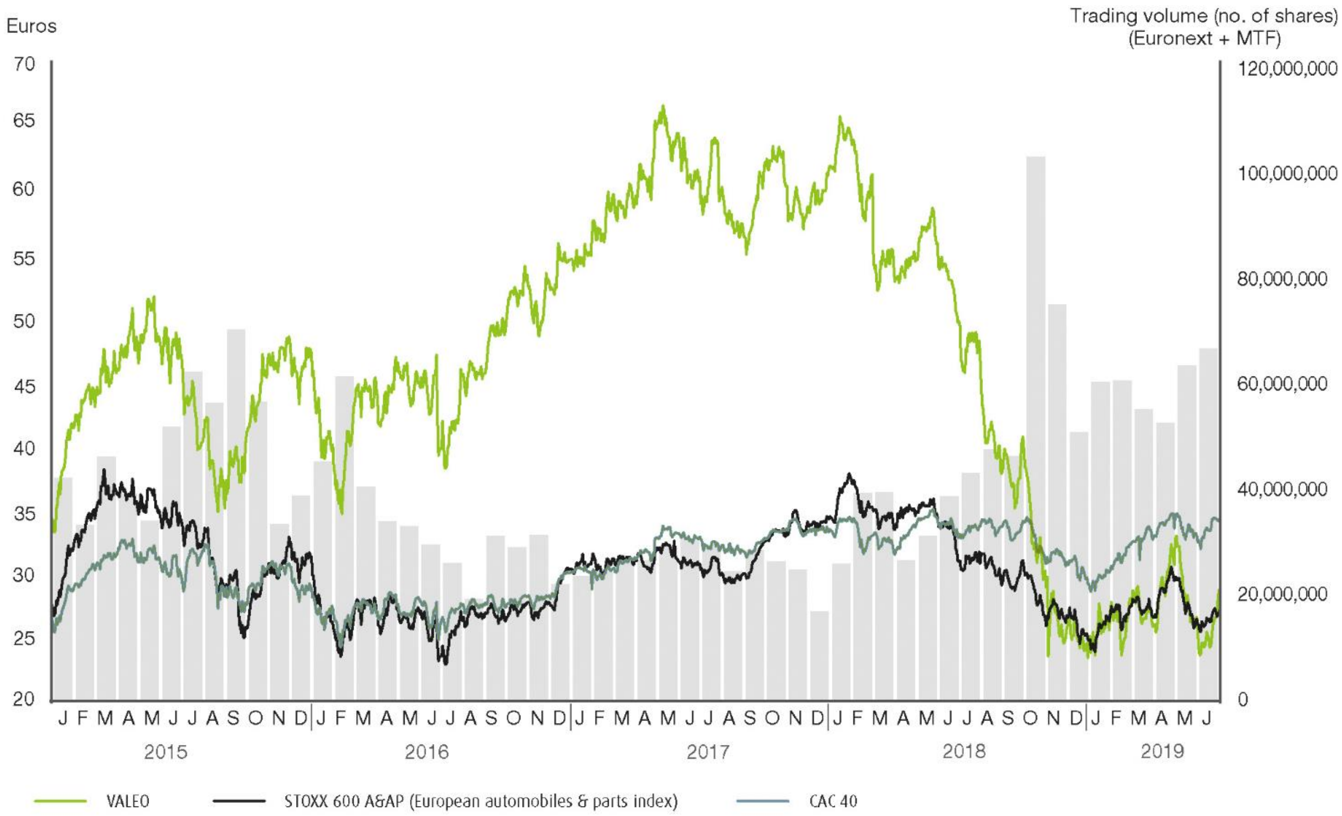
3.8.4. Data per share

(in euros)	First-half 2019	First-half 2018
Basic earnings per share	0.68	1.91
Basic earnings (excluding non-recurring items)	0.80	1.95

(in euros)	2018	2017
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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Individual shareholders
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For questions about registered shares, please contact:
Société Générale
Tel.: +33 (0)2 51 85 67 89

Provisional financial publications calendar

- Third-quarter 2019 sales: October 24, 2019
- Full-year 2019 results: second half of February 2020
- First-quarter 2020 sales: second half of April 2020
- First-half 2020 results: second half of July 2020

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 2018 Registration Document.

3.9.2. Related party transactions

There were no significant changes in related party transactions during the first half of 2019.

4. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

4.1. Consolidated statement of income

(in millions of euros)	*Notes*	**First-half 2019[1]**	**First-half 2018**
SALES	*4.1*	**9,776**	**9,863**
Cost of sales	*4.2*	(8,022)	(7,865)
Research and Development expenditure	*4.3.1*	(785)	(774)
Selling expenses		(155)	(158)
Administrative expenses		(300)	(311)
OPERATING MARGIN		**514**	**755**
as a % of sales		*5.3%*	*7.7%*
Share in net earnings (losses) of equity-accounted companies	*4.3.2*	(107)	(28)
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.3*	**407**	**727**
as a % of sales		*4.2%*	*7.4%*
Other income and expenses	*4.4.2*	(30)	(18)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.4.1*	**377**	**709**
Cost of net debt	*8.4.1*	(37)	(32)
Other financial income and expenses	*8.4.2*	(4)	(18)
INCOME BEFORE INCOME TAXES		**336**	**659**
Income taxes	*9*	(130)	(154)
NET INCOME FOR THE PERIOD		**206**	**505**
Attributable to:			
■ Owners of the Company		162	453
■ Non-controlling interests		44	52
Earnings per share:			
■ Basic earnings per share *(in euros)*	*10.3*	0.68	1.91
■ Diluted earnings per share *(in euros)*	*10.3*	0.68	1.89

(1) The consolidated statement of income for first-half 2019 reflects the impacts of applying IFRS 16 – “Leases” as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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 2019[(1)]	First-half 2018
NET INCOME FOR THE PERIOD	**206**	**505**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	1	3
o/w income taxes	*-*	*-*
Translation adjustment	22	31
Cash flow hedges:		
■ Gains (losses) taken to equity	23	(5)
■ (Gains) losses transferred to income for the period	(1)	(4)
o/w income taxes	*-*	*1*
Remeasurement of long-term investments	-	20
o/w income taxes	*-*	*1*
OTHER COMPREHENSIVE INCOME THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**45**	**45**
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	(61)	18
o/w income taxes	*3*	*(6)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**(61)**	**18**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**(16)**	**63**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**190**	**568**
Attributable to:		
■ Owners of the Company	151	511
■ Non-controlling interests	39	57

(1) The consolidated statement of comprehensive income for first-half 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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, 2019[1]	December 31, 2018
ASSETS			
Goodwill	*6.1*	2,557	2,550
Other intangible assets		2,586	2,419
Property, plant and equipment		5,223	4,621
Investments in equity-accounted companies		149	187
Other non-current financial assets		631	590
Assets relating to pensions and other employee benefits	*5.1*	13	4
Deferred tax assets		478	486
NON-CURRENT ASSETS		**11,637**	**10,857**
Inventories, net		1,829	1,906
Accounts and notes receivable, net		2,947	2,781
Other current assets		544	522
Taxes receivable		38	34
Other current financial assets		49	15
Cash and cash equivalents	*8.2.4*	2,411	2,357
CURRENT ASSETS		**7,818**	**7,615**
TOTAL ASSETS		**19,455**	**18,472**
EQUITY AND LIABILITIES			
Share capital		241	240
Additional paid-in capital		1,531	1,513
Translation adjustment		44	17
Retained earnings		2,659	2,801
STOCKHOLDERS' EQUITY		**4,475**	**4,571**
Non-controlling interests		789	807
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**5,264**	**5,378**
Provisions for pensions and other employee benefits – long-term portion	*5.1*	1,154	1,051
Other provisions – long-term portion	*7.1*	381	357
Long-term portion of long-term debt	*8.2.2.1*	4,410	3,466
Other financial liabilities – long-term portion		27	16
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.2.3*	23	17
Subsidies and grants – long-term portion		89	56
Deferred tax liabilities		79	89
NON-CURRENT LIABILITIES		**6,163**	**5,052**
Accounts and notes payable		4,690	4,475
Provisions for pensions and other employee benefits – current portion	*5.1*	87	104
Other provisions – current portion	*7.1*	201	273
Subsidies and grants – current portion		20	39
Taxes payable		110	125
Other current liabilities		1,680	1,569
Current portion of long-term debt	*8.2.2.1*	495	434
Other financial liabilities – current portion		17	42
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.2.3*	60	72
Short-term debt	*8.2.1*	661	900
Liabilities held for sale		7	9
CURRENT LIABILITIES		**8,028**	**8,042**
TOTAL EQUITY AND LIABILITIES		**19,455**	**18,472**

(1) The consolidated statement of financial position at June 30, 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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 2019 (1)	First-half 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		206	505
Share in net (earnings) losses of equity-accounted companies		107	28
Net dividends received from equity-accounted companies		25	39
Expenses (income) with no cash effect	*11.1*	666	552
Cost of net debt		37	32
Income taxes (current and deferred)		130	154
GROSS OPERATING CASH FLOWS		**1,171**	**1,310**
Income taxes paid		(152)	(138)
Changes in working capital	*11.2*	268	(151)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**1,287**	**1,021**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(427)	(378)
Acquisitions of property, plant and equipment		(593)	(634)
Investment subsidies and grants received		17	12
Disposals of property, plant and equipment and intangible assets		5	5
Net change in non-current financial assets		(115)	(100)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(8)	(20)
Disposals of investments with loss of control, net of cash transferred	*11.4*	(5)	2
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(1,126)**	**(1,113)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(297)	(296)
Dividends paid to non-controlling interests in consolidated subsidiaries		(33)	(18)
Capital increase		19	26
Sale (purchase) of treasury stock	*11.5*	17	(112)
Issuance of long-term debt	*11.6*	616	602
Loan issue costs and premiums	*11.6*	(2)	(4)
Interest paid		(63)	(57)
Interest received		7	4
Repayments of long-term debt	*11.6*	(66)	(310)
Short-term investments		(26)	-
Acquisitions of investments without gain of control	*11.7*	(29)	-
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**143**	**(165)**
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		**-**	**6**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(11)**	**29**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**293**	**(222)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**1,457**	**1,772**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,750**	**1,550**
Of which:			
■ Cash and cash equivalents		2,411	2,557
■ Short-term debt		(661)	(1,007)

(1) The consolidated statement of cash flows for first-half 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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

4.5. Consolidated statement of changes in stockholders' equity

Number of shares	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Total stockholders' equity including non-controlling interests: Stockholders' equity	Non-controlling interests	Total
237,924,000	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017**	240	1,487	(36)	2,696	4,387	719	5,106
	Dividends paid(1)	-	-	-	(296)	(296)	(25)	**(321)**
(1,016,596)	Treasury shares(2)	-	-	-	(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, 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	(8)	2,776	4,521	754	5,275
	Dividends paid	-	-	-	-	-	(3)	**(3)**
(219,896)	Treasury shares	-	-	-	(8)	(8)	-	**(8)**
	Capital increase(3)	-	-	-	-	-	-	**-**
	Share-based payment	-	-	-	(10)	(10)	-	**(10)**
	Put options granted(4)	-	-	-	5	5	(5)	**-**
	Others movements	-	-	-	(15)	(15)	15	**-**
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(28)**	**(28)**	**7**	**(21)**
	Net income for the period	-	-	-	93	93	44	**137**
	Other comprehensive income (loss), net of tax	-	-	25	(40)	(15)	2	**(13)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**25**	**53**	**78**	**46**	**124**
237,287,487	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2018**	240	1,513	17	2,801	4,571	807	5,378
	Dividends paid(1)	-	-	-	(297)	(297)	(33)	**(330)**
749,541	Treasury shares	-	-	-	17	17	-	**17**
783,643	Capital increase(3)	1	18	-	-	19	-	**19**
	Share-based payment	-	-	-	13	13	-	**13**
	Put options granted(4)	-	-	-	8	8	(2)	**6**
	Other movements(5)	-	-	-	(7)	(7)	(22)	**(29)**
	TRANSACTIONS WITH OWNERS	**1**	**18**	**-**	**(266)**	**(247)**	**(57)**	**(304)**
	Net income for the period	-	-	-	162	162	44	**206**
	Other comprehensive income (loss), net of tax	-	-	27	(38)	(11)	(5)	**(16)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**27**	**124**	**151**	**39**	**190**
238,820,671	**STOCKHOLDERS' EQUITY AT JUNE 30, 2019**	241	1,531	44	2,659	4,475	789	5,264

(1) A cash dividend of 1.25 euros per share was paid in June 2019, representing a total payout of 297 million euros. The per-share amount was unchanged from June 2018.

(2) Changes in stockholders' equity attributable to treasury stock for first-half 2018 included the impact of the share buyback program entered into with an investment services provider on March 7, 2018 in an amount of 100 million euros (see Note 10.2).

(3) The terms and conditions of the June 27, 2019 capital increase reserved for employees are detailed in Note 5.3.

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

(5) Other movements reflect the impacts of acquiring an additional interest in Ichikoh (see Note 2.1).

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, 2019 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 24, 2019.

Note 1 Accounting policies

1.1. Accounting standards applied

The condensed interim consolidated financial statements for the six months ended June 30, 2019 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, 2019.

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, 2018;
- include new accounting and financial information about significant events and transactions that occurred during the period.

These notes therefore discuss significant events and transactions that occurred in the first six months of 2019 and should be read in conjunction with the information set out in the consolidated financial statements for the year ended December 31, 2018 included in the Group's 2018 Registration Document[1].

The accounting principles used to prepare the condensed interim consolidated financial statements for the six months ended June 30, 2019 are the same as those used to prepare the 2018 annual consolidated financial statements, except as regards:

- the changes in accounting policy relating primarily to the modified retrospective application of IFRS 16 – "Leases" as from January 1, 2019. A description of the nature and effects of the application are provided in Note 1.1.1;
- the specific accounting treatments described in Notes 5.1 and 9.

(1) The 2018 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, 2019

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 from January 1, 2019
Presentation and accounting policies applied within the Group	On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 replaces IAS 17 and the related IFRIC and SIC interpretations. IFRS 16 introduces major changes in the principles for measuring, recognizing and presenting leases in the financial statements of lessees. It requires lessees to recognize most leases using a single accounting model, i.e., the same model as that used to recognize finance leases under IAS 17.

The lessee recognizes:

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

At the lease commencement date, the lease liability is measured at the present value of the minimum lease payments outstanding at that date, plus payments under any options that the lessee is reasonably certain to exercise. This amount is then measured at amortized cost using the effective interest rate. The carrying amount of the lease liability is subsequently increased by the interest due on the lease liability and reduced by the lease payments made.

At the same date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises (i) the initial lease liability, (ii) any prepaid lease payments made, less any lease incentives received, (iii) any initial direct costs incurred by the lessee in establishing the lease, and (iv) an estimate of costs to be incurred by the lessee in dismantling or rehabilitating the underlying asset as required by the terms and conditions of the lease. It is subsequently reduced by depreciation and any impairment losses.
The right-of-use asset is depreciated on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee or when the lease includes a purchase option that the lessee is reasonably certain to exercise, the right-of-use asset is depreciated over the useful life of the underlying asset under the same conditions as those applied to assets owned by the lessee. In all other cases, the right-of-use asset is depreciated over the reasonably certain useful life of the underlying asset.

Payments for the interest portion of the lease liability and payments for the principal portion are recorded under cash flows from financing activities in the consolidated statement of cash flows. Payments for the principal portion of the lease liability is added back to calculate free cash flow.

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

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

The main measures included in IFRS 16 to simplify application and adopted by the Group are:

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

Lease payments on leases excluded from the scope of IFRS 16 and any variable payments not included in the initial measurement of the lease liability are recognized in operating expenses.

Standards, amendments and interpretations	**IFRS 16 – "Leases"** Effective as from January 1, 2019

Impacts and method of application at the transition date

Valeo mainly has lease contracts for land and buildings (production facilities, warehouses and offices) which were previously accounted for as operating leases under IAS 17 and for which a right-of-use asset is now recognized under IFRS 16.

Method used to apply IFRS 16 at the transition date

Valeo has applied IFRS 16 using the modified retrospective approach. Accordingly, the financial statements published before the date of the first-time application of IFRS 16 have not been restated.

Within the scope of its transition to IFRS 16, the Group elected the following main options to simplify application:

- exclusion of leases with a residual term of 12 months or less at the transition date, along with leases of low-value assets;
- application of IFRS 16 only to contracts previously identified as leases;
- use of the initial lease term to determine the discount rate at the transition date;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of first-time application.

Any leases excluded from the scope of IFRS 16 are recognized directly in operating expenses.

The discount rates applied at the transition date are based on the Group's incremental borrowing rate, plus a spread to reflect the economic conditions in each country. The discount rates were determined taking into account the initial terms of the leases.

The Group's weighted average incremental borrowing rate stood at 3.44% at January 1, 2019.

Impacts of the application of IFRS 16 – "Leases" on the Group's consolidated financial statements at January 1, 2019

(in millions of euros)	December 31, 2018	IFRS 16	January 1, 2019
Property, plant and equipment	4,621	440	5,061
TOTAL ASSETS	**4,621**	**440**	**5,061**
Long-term portion of long-term debt	3,466	370	3,836
NON-CURRENT LIABILITIES	**3,466**	**370**	**3,836**
Current portion of long-term debt	434	70	504
CURRENT LIABILITIES	**434**	**70**	**504**
TOTAL EQUITY AND LIABILITIES	**3,900**	**440**	**4,340**

Future minimum lease payments on IAS 17 operating leases at December 31, 2018 and the lease liability recognized under IFRS 16 at January 1, 2019 can be reconciled as follows:

(in millions of euros)	Adoption of IFRS 16
COMMITMENTS GIVEN UNDER OPERATING LEASES AT DECEMBER 31, 2018	**474**
Discounting effect	(69)
Effects relating to optional periods and purchase options [1]	51
Other effects, primarily relating to exemptions	(16)
IMPACT ON FINANCIAL LIABILITIES AT JANUARY 1, 2019	**440**
Lease liability under IAS 17 finance leases at December 31, 2018 [2]	32
LEASE LIABILITY AT JANUARY 1, 2019	**472**

(1) Commitments given under IAS 17 operating leases only included minimum payments on the non-cancelable period of the leases.

(2) See 2018 Registration Document, Chapter 5, section 5.4.6, Note 8.1.2.1 "Long-term debt", page 338.

Standards, amendments and interpretations	**IFRS 16 – “Leases”** Effective as from January 1, 2019

Financial impacts at June 30, 2019

At June 30, 2019, the main impacts of the application of IFRS 16 – “Leases” are as follows:

- Consolidated statement of financial position:

(in millions of euros)	June 30, 2019
Property, plant and equipment	437
TOTAL ASSETS	**437**
Long-term portion of long-term debt	360
NON-CURRENT LIABILITIES	**360**
Current portion of long-term debt	82
CURRENT LIABILITIES	**82**
TOTAL EQUITY AND LIABILITIES	**442**

The rights to use the leased assets recorded within property, plant and equipment break down as follows:

	Right-of-use assets					
(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Total
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	**-**	**13**	**40**	**27**	**5**	**85**
Accumulated depreciation and impairment	-	(4)	(30)	(27)	(1)	(62)
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**-**	**9**	**10**	**-**	**4**	**23**
Adoption of IFRS 16	8	377	9	-	46	440
NET CARRYING AMOUNT AT JANUARY 1, 2019	**8**	**386**	**19**	**-**	**50**	**463**
New contracts/Renewals/Modifications	-	3	-	-	7	**10**
Impairment	-	-	-	-	-	**-**
Depreciation	(1)	(29)	(2)	-	(11)	**(43)**
Translation adjustment	-	4	1	-	2	**7**
NET CARRYING AMOUNT AT JUNE 30, 2019	**7**	**364**	**18**	**-**	**48**	**437**

- Consolidated statement of cash flows:

In first-half 2019, the net cash outflow in respect of lease liabilities, classified in “net cash flows from (used in) financing activities”, amounted to 52 million euros, of which 6 million euros corresponded to the interest portion and 46 million euros corresponded to the principal portion of lease liabilities.

- Key segment performance indicators:

Depreciation of right-of-use assets in first-half 2019 and the net carrying amount of right-of-use assets at end-June 2019 by segment were as follows:

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
EBITDA	11	6	9	11	6	**43**
Segment assets	97	49	104	145	42	**437**

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, 2019

Annual Improvements to IFRSs 2015-2017 cycle	Various provisions

Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features
IFRIC 23	Uncertainty over Income Tax Treatments

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

1.1.2. 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)
Revised Conceptual Framework for Financial Reporting	Amendments to references to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IFRS 3	Definition of a Business	January 1, 2020
Amendments to IAS 1 and IAS 8	Definition of Material	January 1, 2020

(1) Subject to adoption by the European Union.

1.2. Basis of preparation

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

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

The Group exercises its judgment based on its experience and 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, 2019 chiefly concern:

- the conditions for capitalizing Research and Development expenditure;
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6.2);
- 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 change that impacted the Group's structure and consolidated financial statements during the period was the acquisition of an additional 6.1% interest in Ichikoh, which increased Valeo's shareholding in the company from 55.08% to 61.19%. This transaction between owners did not affect the control of Ichikoh, which continues to be fully consolidated in the Group's financial statements, mainly within the Visibility Systems Business Group.

Based on a 29 million euro transaction price, the acquisition resulted in (i) a 22 million euro reduction in reserves attributable to non-controlling interests and (ii) a 7 million euro reduction in reserves attributable to the Group.

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, Connected Cars and Interior Controls. 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 four Product Groups: Electrification and Powertrain Systems, Transmission Systems, Combustion Engine Systems and Active Hydraulic Actuator Systems. This Business Group is at the heart of the vehicle electrification revolution. Combining the expertise of the Business Group's four Product Groups, Valeo manufactures comprehensive, integrated electric powertrain solutions as well as a range of products for cleaner thermal engines;
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Commercial Vehicles. 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 almost exclusively sells 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 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 2019

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	1,925	2,503	2,301	2,968	79	**9,776**
■ intersegment (Group)	13	62	29	46	(150)	**-**
EBITDA[1]	**282**	**319**	**262**	**324**	**31**	**1,218**
Research and Development expenditure	(294)	(155)	(137)	(189)	(10)	**(785)**
Investments in property, plant and equipment and intangible assets	289	205	259	256	10	**1,019**
Segment assets[1]	2,863	3,501	2,766	3,064	150	**12,344**

(1) The data for first-half 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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 intangible assets	277	207	215	272	17	**988**
Segment assets	2,504	3,396	2,405	2,740	95	**11,140**

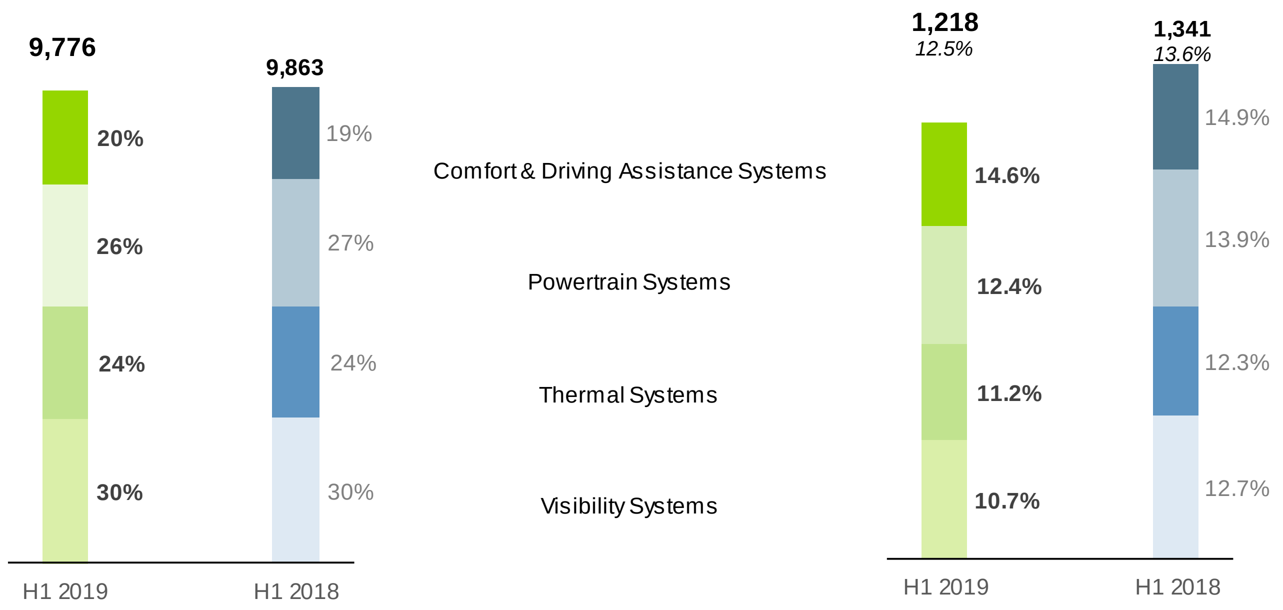
Segment data

BREAKDOWN OF SALES BY BUSINESS GROUP (INCLUDING INTERSEGMENT SALES)

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

EBITDA BY BUSINESS GROUP

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



3.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	First-half 2019	First-half 2018
Operating margin	**514**	**755**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses (1)(2)	686	552
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(7)	(5)
Dividends paid by equity-accounted companies	25	39
EBITDA(2)	**1,218**	**1,341**
as a % of sales	*12.5%*	*13.6%*

(1) Impairment losses recorded in operating margin only.

(2) The data for first-half 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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, 2019	June 30, 2018
Segment assets(1)	**12,344**	**11,140**
Accounts and notes receivable	2,947	3,213
Other current assets	544	561
Taxes receivable	38	45
Financial assets	3,104	3,064
Deferred tax assets	478	446
TOTAL GROUP ASSETS(1)	**19,455**	**18,469**

(1) The data for first-half 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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 2019

(in millions of euros)	External sales by market	Sales by production area	Non-current assets(1)
France	700	1,518	905
Other European countries and Africa	4,159	3,534	2,924
North America	1,881	1,947	1,285
South America	241	201	115
Asia	2,795	2,941	2,731
Eliminations	-	(365)	(2)
TOTAL	**9,776**	**9,776**	**7,958**

(1) The data for first-half 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).

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	3,179	2,296
Eliminations	-	(386)	(2)
TOTAL	**9,863**	**9,863**	**6,706**

Note 4 Operating data

4.1. Sales

Group sales fell 0.9% to 9,776 million euros in first-half 2019, from 9,863 million euros in first-half 2018.

The decrease reflects a negative 0.3% impact relating to changes in the scope of consolidation and a favorable 1.7% currency effect, mainly relating to the US dollar. Like for like (constant Group structure and exchange rates), consolidated sales declined 2.3% between first-half 2018 and first-half 2019.

4.1.1. Sales by type

Sales can be analyzed by type as follows:

(in millions of euros)	First-half 2019	First-half 2018
Original equipment	8,220	8,375
Aftermarket	1,005	1,041
Other	551	447
SALES	**9,776**	**9,863**

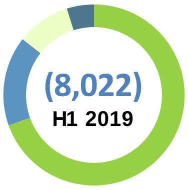
4.1.2. Original equipment sales by customer portfolio

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

(in millions of euros)	First-half 2019	%	First-half 2018	%
German automakers	2,531	31%	2,491	30%
Asian automakers	2,575	31%	2,676	32%
US automakers	1,524	18%	1,448	17%
French automakers	1,133	14%	1,237	15%
Other	457	6%	523	6%
ORIGINAL EQUIPMENT SALES	**8,220**	**100%**	**8,375**	**100%**

4.2. Cost of sales

Cost of sales can be analyzed as follows:



(in millions of euros)	First-half 2019[3]	First-half 2018
57.1% [1] – Raw materials consumed	(5,579)	(5,507)
13.1% [1] – Labor	(1,285)	(1,279)
7.9% [1] – Direct production costs and production overheads [3]	(769)	(757)
4.0% [1] – Depreciation and amortization[2][3]	(389)	(322)
COST OF SALES	**(8,022)**	**(7,865)**

(1) *As a % of sales.*

(2) *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.*

(3) *The data for first-half 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1).*

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

In first-half 2019, operating margin including share in net earnings of equity-accounted companies came out at 407 million euros, representing 4.2% of sales, down 3.2 points compared with first-half 2018.

Share in net earnings of equity-accounted companies represented a loss of 107 million euros in first-half 2019, compared with a loss of 28 million euros in first-half 2018. 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 2019	First-half 2018
Gross Research and Development expenditure	(1,058)	(1,039)
Subsidies and grants, and tax credits	59	60
Capitalized development expenditure	400	347
Amortization and impairment of capitalized development expenditure	(186)	(142)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(785)**	**(774)**

The Group continued its Research and Development efforts in first-half 2019 in response to the order intake recorded 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 2019	First-half 2018
Share in net earnings of associates	4	5
Share in net earnings (losses) of joint ventures	(111)	(33)
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**(107)**	**(28)**

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 considers it appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

In first-half 2019, the 111 million euro loss in respect of the Group's share in net earnings of joint ventures was mainly attributable to Valeo Siemens eAutomotive's development activities.

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 377 million euros in first-half 2019, versus 709 million euros in first-half 2018.

4.4.2. Other income and expenses

Other income and expenses can be analyzed as follows:

(in millions of euros)	*Notes*	First-half 2019	First-half 2018
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:			
▪ Acquisition fees		-	(2)
▪ Sale of the Passive Hydraulic Actuator business		(1)	(5)
Claims and litigation	*4.4.2.1*	(8)	(3)
Restructuring plans	*4.4.2.2*	(12)	(8)
Impairment of fixed assets	*4.4.2.3*	(9)	-
OTHER INCOME AND EXPENSES		**(30)**	**(18)**

4.4.2.1. Claims and litigation

In first-half 2019, this item includes the impacts of various disputes and the related legal advisory costs.

4.4.2.2. Restructuring plans

Restructuring costs for first-half 2019 primarily included the impacts of a Group cost reduction plan launched in first-half 2019 in light of the downturn in the automotive market, which will be continued in the second half of the year, and expenses relating to early retirement plans in Germany.

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.

4.4.2.3. Impairment of fixed assets

An impairment loss of 9 million euros was recognized in first-half 2019 following the impairment test carried out on the Air Charging Systems Product Line cash-generating unit (CGU) (see Note 6.2.2).

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 1,228 million euros at June 30, 2019, versus 1,151 million euros at December 31, 2018.

The discount rates used at end-June 2019 in the countries representing the Group's most significant obligations were as follows:

Country	June 30, 2019	December 31, 2018
Eurozone	1.30	1.90
United Kingdom	2.50	2.50
United States	3.45	4.05
Japan	0.45	0.45
South Korea	2.50	3.25

At June 30, 2019, the Group reviewed its discount rates and the market value of the assets relating to its most significant plans:

- changes in the discount rates used by the Group in first-half 2019 led to a 116 million euro increase in its obligations, of which 77 million euros for the eurozone, 30 million euros for the United States and 8 million euros for South Korea. This adjustment was included in actuarial gains (losses) on defined benefit plans in the statement of other comprehensive income;
- the actual return on the Group's main plan assets in the United States, United Kingdom, Japan and South Korea gave rise to an actuarial gain of 52 million euros in first-half 2019 (recognized in other comprehensive income) and a corresponding reduction in the provision.

Excluding this negative 64 million euro impact, changes in provisions for pensions and other employee benefits chiefly reflect:

- utilizations in an amount of 34 million euros and reversals of unutilized provisions in an amount of 4 million euros;
- a net expense of 48 million euros during the period, of which 11 million euros was recorded in other financial income and expenses (see Note 8.4.2);
- a negative 3 million euro impact resulting from changes in foreign exchange rates.

5.2. Free share and performance share plans

On May 23, 2019, the Board of Directors approved a free share and performance share plan involving up to 1,699,281 shares. The plan will see the allotment of 919,785 free shares not subject to performance criteria and 779,496 shares subject to performance criteria, with a three-year vesting period for all employees.

In accordance with IFRS 2 and based on the fair value of the equity instruments at the authorization date, Valeo has estimated the fair value of the plan at 25 million euros (versus 29 million euros for the plan awarded in 2018). 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 eligible employees the opportunity to become shareholders through an employee share issue carried out specifically for this purpose.

As has been the case since 2016, a new standard plan was offered to employees during first-half 2019, 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, 2019. The subscription price of 23.72 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'Epargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are allotted free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan (see Note 5.2). The free shares allotted are existing Valeo shares repurchased on the market.

In all, 783,643 shares were subscribed at a price of 23.72 euros each, representing a 19 million euro capital increase on June 27, 2019 (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:

	2019	**2018**
Date rights granted	May 2	May 2
Reference price *(in euros)*	29.64	54.47
Face value discount *(%)*	20	20
Subscription price *(in euros)*	23.72	43.58
Beneficiary's 5-year interest rate *(%)*	3.84	3.83
Risk-free interest rate *(%)*	(0.03)	0.37
Repo rate *(%)*	0.440	0.350

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2019 is 10 million euros, of which 5 million euros was recognized in personnel expenses for first-half 2019 (including social security charges).

Note 6 Intangible assets and property, plant and equipment

6.1. Goodwill

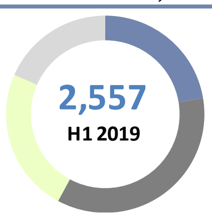
Changes in goodwill in first-half 2019 and full-year 2018 are analyzed below:

(in millions of euros)	**June 30, 2019**	**December 31, 2018**
NET GOODWILL AT JANUARY 1	**2,550**	**2,512**
Acquisitions during the period	-	3
Translation adjustment	7	35
NET GOODWILL	**2,557**	**2,550**
Including accumulated impairment losses	-	-

The increase in goodwill in first-half 2019 mainly reflects the appreciation in the Japanese yen against the euro between the two periods.

The increase in goodwill in 2018 mainly reflected the appreciation in the Japanese yen (20 million euros) and the US dollar (16 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, 2019**	**December 31, 2018**
22%	– Comfort & Driving Assistance Systems	571	566
35%	– Powertrain Systems	905	912
24%	– Thermal Systems	603	597
18%	– Visibility Systems	471	468
1%	– Other	7	7
	GOODWILL	**2,557**	**2,550**

6.2. Impairment of fixed 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 26 CGUs at end-June 2019.

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 the medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill at December 31, 2018, the Group based itself on projected data for the automotive market, as well as its order intake and its development prospects on emerging markets. The assumptions applied at the end of 2018 were still generally considered appropriate at the 2019 interim reporting date, with the exception of those used for the Air Charging Systems Product Line CGU (see Note 6.2.2).

The main impairment indicators used to identify the CGUs to be tested were a projected negative operating margin in first-half 2019, a fall of more than 20% in first-half 2019 sales compared to first-half 2018, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans. The tests were performed using the same assumptions and the same method as those used to determine impairment for the year ended December 31, 2018, i.e., a discount rate (WACC) of 9.5%.

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

Based on an analysis of these impairment indicators, no CGUs were tested for impairment at June 30, 2019, with the exception of the Air Charging Systems Product Line CGU. The outlook for this CGU was revised compared with that used at December 31, 2018, in particular in order to reflect the Group's decision to withdraw from this business with the aim of focusing its resources on high-growth potential products, in particular 48V solutions and electric vehicles. Following the impairment test carried out on this basis, the Group recognized a 9 million euro impairment loss within other income and expenses in first-half 2019 (see Note 4.4.2.3). A 1-point increase in the discount rate would result in the recognition of an additional impairment loss of approximately 1 million euros.

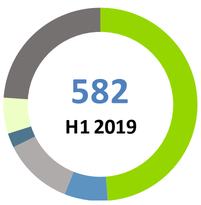
6.2.3. Goodwill

The impairment tests performed in the last quarter of 2018 did not lead to the recognition of any goodwill impairment at the end of the year.

At June 30, 2019, the Group considered that there had been no change in the assumptions used to determine the recoverable amount of goodwill at December 31, 2018 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, 2019	December 31, 2018
49%	Provisions for product warranties	284	309
7%	Provisions for restructuring costs	42	42
12%	Provisions for tax-related disputes	68	73
2%	Environmental provisions	14	15
6%	Provisions for onerous contracts	35	45
24%	Provisions for employee-related and other disputes	139	146
	PROVISIONS FOR OTHER CONTINGENCIES	**582**	**630**

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 advice of the Group's legal counsel, where appropriate, the provisions deemed necessary were set aside to cover the estimated risks.

"Provisions for employee-related and other disputes", which totaled 139 million euros at June 30, 2019, 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.

Separately, two class actions are 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.

Actions for damages can or may be brought further to the aforementioned antitrust investigations. The Group sets aside provisions when the payment of compensation becomes likely and can be quantified.

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.

In its decision of November 20, 2018, the Nancy Administrative Court of Appeal ordered the French Ministry of Labor to list the Reims site as a facility which may give rise to rights to benefits under the French early retirement scheme for asbestos workers (*Allocation de Cessation Anticipée d'Activité des Travailleurs de l'Amiante* – ACAATA). At the date these interim financial statements were authorized for issue, the Reims site had not yet been added to the list. The impacts of the decision cannot be quantified at the date of this document.

Note 8 Financing and financial instruments

8.1. Fair value of financial instruments

(in millions of euros)	2019 carrying amount under IFRS 9 Amortized cost	Fair value through equity	Fair value through income	June 30, 2019 Carrying amount	December 31, 2018 Carrying amount
ASSETS					
Non-current financial assets:					
▪ Long-term investments	-	64	144	**208**	217
▪ Long-term loans and receivables	323	-	-	**323**	295
▪ Deposits and guarantees	38	-	-	**38**	32
▪ Other non-current financial assets	3	-	-	**3**	5
▪ Hedging derivatives	-	44	-	**44**	25
▪ Trading derivatives	-	-	15	**15**	16
Assets relating to pensions and other employee benefits	-	13	-	**13**	4
Accounts and notes receivable	2,947	-	-	**2,947**	2,781
Other current financial assets:					
▪ Hedging derivatives	-	13	-	**13**	6
▪ Trading derivatives	-	-	7	**7**	7
▪ Short-term investments not included in cash and cash equivalents (1)	26	-	-	**26**	-
▪ Interest accrued on long-term loans	-	-	3	**3**	2
Cash and cash equivalents	-	-	2,411	**2,411**	2,357
LIABILITIES					
Non-current financial liabilities:					
▪ Hedging derivatives	-	9	-	**9**	9
▪ Trading derivatives	-	-	18	**18**	7
Bonds	4,307	-	-	**4,307**	3,745
Other long-term debt	598	-	-	**598**	155
Liabilities associated with put options granted to holders of non-controlling interests	-	83	-	**83**	89
Accounts and notes payable	4,690	-	-	**4,690**	4,475
Other current financial liabilities:					
▪ Hedging derivatives	-	7	-	**7**	10
▪ Trading derivatives	-	-	10	**10**	32
Short-term debt	661	-	-	**661**	900

(1) This item comprises a short-term structured deposit in China that is not included in cash and cash equivalents.

The main terms and conditions of borrowings (in particular bonds) 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 method corresponds to Level 1 in the fair value hierarchy.

For the *Schuldschein* loan, the fair value of the fixed portion is measured by discounting future cash flows at the market interest rate at the reporting date. This method corresponds to Level 2 in the fair value hierarchy.

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, 2019			December 31, 2018		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,411	2,411	1	2,357	2,357	1
Derivative financial instruments [(1)]	79	79	2-3	54	54	2-3
LIABILITIES						
Bonds	4,307	4,300	1-2	3,745	3,598	1
Other long-term debt	598	598	2	155	155	2
Loans recognized at amortized cost	**4,905**	**4,898**		**3,900**	**3,753**	
Short-term debt	661	661	1-2	900	900	1-2
Derivative financial instruments [(1)]	44	44	2-3	58	58	2-3
Put options granted to holders of non-controlling interests	83	83	3	89	89	3

(1) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks. 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, 2019 and December 31, 2018, 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, short-term investments not included in cash and cash equivalents and the fair value of derivative instruments hedging foreign currency and interest rate risks associated with these items.

	June 30, 2019			December 31, 2018		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	4,410	495	**4,905**	3,466	434	**3,900**
Put options granted to holders of non-controlling interests	23	60	**83**	17	72	**89**
Short-term debt	-	661	**661**	-	900	**900**
GROSS DEBT	4,433	1,216	5,649	3,483	1,406	4,889
Long-term loans and receivables	(323)	(3)	**(326)**	(295)	(2)	**(297)**
Short-term investments not included in cash and cash equivalents	-	(26)	**(26)**	-	-	**-**
Cash and cash equivalents	-	(2,411)	**(2,411)**	-	(2,357)	**(2,357)**
Derivative instruments associated with interest rate and foreign currency risks (1)	**(11)**	**2**	**(9)**	**5**	**8**	**13**
NET DEBT	4,099	(1,222)	2,877	3,193	(945)	2,248

(1) At end-June 2019, the fair value of derivative instruments associated with an item of net debt comprises the fair value of derivatives hedging financial currency risk and the fair value of derivatives hedging interest rate risk. At end-December 2018, it solely comprised 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, 2019	December 31, 2018
Bonds	4,307	3,745
Lease obligations (1)	442	32
Other borrowings	135	84
Accrued interest	21	39
LONG-TERM DEBT	4,905	3,900

(1) The modified retrospective application of IFRS 16 – "Leases" had a 440 million euro impact on long-term debt. Lease liabilities totaled 472 million euros at January 1, 2019 (see Note 1.1.1).

8.2.2.2. Change in and characteristics of long-term debt

(in millions of euros)	Bonds	Other loans and lease obligations	Accrued interest	Total
CARRYING AMOUNT AT DECEMBER 31, 2018	**3,745**	**116**	**39**	**3,900**
Adoption of IFRS 16	-	440	-	**440**
CARRYING AMOUNT AT JANUARY 1, 2019	**3,745**	**556**	**39**	**4,340**
Subscriptions	548	68	-	**616**
New contracts/Renewals/Modifications	-	11	-	**11**
Redemptions/repayments	-	(66)	-	**(66)**
Value adjustments	12	1	(18)	**(5)**
Translation adjustment	2	7	-	**9**
Other movements	-	-	-	**-**
CARRYING AMOUNT AT JUNE 30, 2019	**4,307**	**577**	**21**	**4,905**

In April 2019, the Group issued a 548 million euro *Schuldschein* loan (a German private placement), which breaks down as follows:

- a 115 million euro tranche maturing in 2023 and paying a fixed coupon of 0.95%;
- a 221 million euro tranche maturing in 2023 and paying a variable coupon of 6-month Euribor (with a floor of 0%) +0.95%;
- a 90 million euro tranche maturing in 2025 and paying a fixed coupon of 1.29%;
- a 122 million euro tranche maturing in 2025 and paying a variable coupon of 6-month Euribor (with a floor of 0%) +1.15%;

The two variable-rate tranches are hedged by floored interest rate swaps, which exchange the variable coupon with a 0% floor for a fixed rate. The swaps have been classified as cash flow hedges.

At June 30, 2019, the key terms and conditions of long-term debt were as follows:

Type	Outstanding at June 30, 2019 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Bond (EMTN program)	350	November 2017	November 2019	350	350	EUR	3-month Euribor +0.25%	Variable rate floor: 0%
Convertible bond	483	June/November 2016	June 2021	575	575	USD	0%	Euro/dollar cross currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	598	September 2017	September 2022	600	600	EUR	0.3752%	-
Bond (EMTN program)	497	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	643	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	596	June 2018	June 2025	600	600	EUR	1.5%	-
Bond (EMTN program)	593	March 2016	March 2026	600	600	EUR	1.625%	-
Schuldschein (German private placement)	115	April 2019	April 2023	115	115	EUR	0.95%	-
Schuldschein (German private placement)	220	April 2019	April 2023	221	221	EUR	6-month Euribor +0.95%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of -0.041%
Schuldschein (German private placement)	90	April 2019	April 2025	90	90	EUR	1.291%	-
Schuldschein (German private placement)	122	April 2019	April 2025	122	122	EUR	6-month Euribor +1.15%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of 0.145%
Lease obligations	442	-	-	-	442	-	-	
Other long-term debt(1)	156	-	-	-	156	-	-	
TOTAL LONG-TERM DEBT	**4,905**							

(1) Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 84 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

The Group's bank credit lines 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, 2019(1)
Credit lines	Consolidated net debt/consolidated EBITDA	< 3.25	1.26

(1) Calculated over 12 months.

The definition of the ratios will be adjusted in the second half of 2019 to reflect the application of IFRS 16 – "Leases".

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).

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 these 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, 2019:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	February 26, 2019	BBB	Negative	A-2
Moody's	March 22, 2019	Baa3	Stable	P-3

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, 2018	**82**	**65**	**17**
Fair value adjustments recognized against non-controlling interests	2	(1)	3
Fair value adjustments recognized in retained earnings	5	8	(3)
LIABILITIES AT DECEMBER 31, 2018	**89**	**72**	**17**
Fair value adjustments recognized against non-controlling interests	2	2	-
Fair value adjustments recognized in retained earnings	(8)	(14)	6
LIABILITIES AT JUNE 30, 2019	**83**	**60**	**23**

At June 30, 2019, 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, 2019, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. Marco Polo has been granted a put option which it may exercise at any time following an agreed period of one year.

8.2.4. Cash and cash equivalents

(in millions of euros)	June 30, 2019	December 31, 2018
Marketable securities	339	738
Cash	2,072	1,619
CASH AND CASH EQUIVALENTS	**2,411**	**2,357**

Cash and cash equivalents totaled 2,411 million euros at June 30, 2019, consisting of 339 million euros of marketable securities with a low price volatility risk, and 2,072 million euros in cash. Marketable securities chiefly comprise money market mutual funds (FCP).

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

8.3. Long-term investments

Long-term investments totaled 208 million euros at end-June 2019 and can be analyzed as follows:

(in millions of euros)	June 30, 2019	December 31, 2018
LONG-TERM INVESTMENTS AT JANUARY 1	**217**	**172**
Acquisitions	-	43
Changes in fair value recognized in equity	-	(21)
Changes in fair value recognized in income	10	22
Dividends paid by Company mutual funds	(21)	-
Translation adjustment	2	1
LONG-TERM INVESTMENTS	**208**	**217**

They mainly comprise investments in the following funds:

(in millions of euros)	June 30, 2019	December 31, 2018
Hubei Cathay China	51	47
Sino-French Innovation Fund (Cathay)	32	47
Sino-French Innovation Fund II (Cathay)	25	25
Other long-term investments [1]	100	98
LONG-TERM INVESTMENTS	**208**	**217**

(1) Other investments for less than 25 million euros in investment funds and in listed companies over which Valeo exercises neither control nor significant influence.

8.4. Financial income and expenses

8.4.1. Cost of net debt

The cost of net debt totaled 37 million euros at end-June 2019, up on first-half 2018 primarily due to a 7 million euro increase in interest expenses on leases following the application of IFRS 16 as from January 1, 2019 without restating the comparative period (see Note 1.1.1). The cost of net debt also includes 1 million euros in finance costs relating to undrawn credit lines, as well as 2 million euros in expenses arising on discounting arrangements for accounts and notes receivable and amounts receivable under the 2018 French research tax credit.

8.4.2. Other financial income and expenses

(in millions of euros)	First-half 2019	First-half 2018
Net interest cost on provisions for pensions and other employee benefits [1]	(11)	(12)
Currency gains (losses)	(3)	(12)
Gains (losses) on long-term investments held for trading	10	8
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	-
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Other	1	(2)
OTHER FINANCIAL INCOME AND EXPENSES	**(4)**	**(18)**

(1) See Note 5.1.

Note 9 Income taxes

In accordance with IAS 34 – "Interim Financial Reporting", the Group's income tax expense was calculated based on an estimated average tax rate for 2019. 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 2019, the income tax expense amounted to 130 million euros, reflecting an effective tax rate of 29.3%.

The 154 million euro tax expense for first-half 2018 reflected an effective tax rate of 22.4% and primarily took 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.

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, 2019 can be analyzed as follows:

	June 30, 2019	December 31, 2018
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**237,287,487**	**237,924,000**
Number of treasury shares purchased/sold under the liquidity agreement(4) or delivered following the exercise of stock options or free shares granted	749,541	600,925
Number of shares purchased under the share buyback program (3)	-	(1,837,417)
Number of shares issued under employee stock ownership plans: Shares4U(2)	783,643	599,979
NUMBER OF SHARES OUTSTANDING	**238,820,671**	**237,287,487**
Number of treasury shares held by the Group	2,216,072	2,965,613
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL (1)	**241,036,743**	**240,253,100**

(1) At June 30, 2019 and December 31, 2018, each share had a par value of 1 euro and was fully paid up.

(2) As part of the Shares4U 2019 plan (see Note 5.3), a 19 million euro capital increase reserved for employees took place on June 27, 2019, issuing 783,643 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, 2019, at 23.72 euros. This gave rise to 18 million euros in additional paid-in capital.

(3) See Note 10.2.

*(4) The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Company savings plans and the liquidity agreement. The liquidity agreement, which is consistent with the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI), was signed with an investment services provider on March 21, 2019, replacing the previous liquidity agreement signed on April 22, 2004. At June 30, 2019, 10,000 shares and 4,101,306 euros had been allocated to the liquidity agreement, compared with 591,500 shares and 997,523 euros at December 31, 2018.*

10.2. Share buyback program

In 2018, 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, which 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 in 2018. 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 2018 share buyback programs are as follows:

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

10.3. Earnings per share

	First-half 2019	First-half 2018
Net income attributable to owners of the Company *(in millions of euros)*	162	453
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,679	237,426
BASIC EARNINGS PER SHARE *(in euros)*	**0.68**	**1.91**

	First-half 2019	First-half 2018
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,679	237,426
Dilutive effect from *(in thousands)* :		
■ Stock options	68	307
■ Free shares	1,189	2,024
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**238,936**	**239,757**
DILUTED EARNINGS PER SHARE *(in euros)*	**0.68**	**1.89**

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 2019	First-half 2018
Depreciation, amortization and impairment of fixed assets	689	547
Net additions to (reversals from) provisions	(34)	(23)
Losses (gains) on sales of fixed assets	7	11
Expenses related to share-based payment	13	13
Losses (gains) on long-term investments	(10)	(8)
Losses (gains) on remeasurement of previously held interests	-	4
Other	1	8
TOTAL	**666**	**552**

11.2. Changes in working capital

(in millions of euros)	First-half 2019	First-half 2018
Inventories	89	(141)
Accounts and notes receivable	(164)	(291)
Accounts and notes payable	204	213
Other receivables and payables	139	68
TOTAL	**268**	**(151)**

Accounts and notes receivable falling due after June 30, 2019 for which substantially all risks and rewards have been transferred and which are no longer carried in assets represented an amount of 357 million euros at June 30, 2019 versus 368 million euros at December 31, 2018. A total of 148 million euros out of the 357 million euros relates to recurring sales of receivables (165 million euros at December 31, 2018).

At June 30, 2019, amounts receivable in respect of the CICE tax credit and the French research tax credit for 2016, 2017 and 2018 are no longer carried in the consolidated statement of financial position.

These derecognized receivables were transferred as follows:

- 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 2018 CICE tax credit receivable on December 19, 2018 for 16 million euros;
- the 2018 research tax credit receivable on June 25, 2019 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, the Group recorded a net cash outflow of 20 million euros, chiefly relating to additional expenses incurred in connection with acquisitions in 2017, including 8 million euros for Valeo-Kapec and 6 million euros for FTE automotive.

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

In first-half 2019, the Group recorded a net cash outflow of 5 million euros, chiefly relating to the additional impacts of disposals carried out in prior years (sale of the Passive Hydraulic Actuator business to the Italian group Raicam and sale of the Lighting business in Argentina).

11.5. Sale (purchase) of treasury stock

In first-half 2018, the Group recorded a net cash outflow of 112 million euros, chiefly relating 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 2019, the Group issued a 548 million euro *Schuldschein* loan, a German private placement (see Note 8.2.2.2). Repayments made on long-term borrowings primarily concern the principal portion of lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 46 million euros (see Notes 1.1.1 and 8.2.2.2).

11.7. Acquisitions of investments without gain of control

In first-half 2019, the Group recorded a net cash outflow of 29 million euros, chiefly relating to the impacts of increasing its shareholding in Ichikoh during the period (see Note 2.1).

5. AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

Mazars
61, rue Henri Regnault
92400 Courbevoie
S.A. à directoire et conseil de surveillance
au capital de € 8.320.000
784 824 153 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie régionale de Versailles

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S.A.S à capital variable
438 476 913 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie régionale de Versailles

To the Shareholders,

In compliance with the assignment entrusted to us by your General Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2 III of the French monetary and financial code ("Code monétaire et financier"), we hereby report to you on:

- The review of the accompanying condensed half-yearly consolidated financial statements of Valeo, for the period from January 1 to June, 30, 2019;
- 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 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 and 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 note 1.1.1. to the condensed half-yearly consolidated financial statements regarding changes in accounting policies related to the application of IFRS 16 "Leases" effective since January 1, 2019.

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 24, 2019.

The Statutory Auditors

MAZARS

Thierry Collin   Jean-Marc Deslandes

ERNST & YOUNG et Autres

Jean-François Ginies

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

"I hereby declare that to the best of my knowledge, the condensed interim consolidated financial statements for the six-month period ended June 30, 2019 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 management report 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 24, 2019

Jacques Aschenbroich

Chairman and Chief Executive Officer

7. FINANCIAL GLOSSARY

Cash conversion rate	Corresponds to the conversion of EBITDA into free cash flow
Free cash flow	Net cash from operating activities after taking into account acquisitions and disposals of property, plant and equipment and intangible assets, and payments relating to the principal portion of lease liabilities, excluding the change in non-recurring sales of receivables.
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	Corresponds to business awarded by automakers during the period (including joint ventures accounted for based on Valeo's share in net equity) less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Unaudited indicator.
Net attributable income excluding non-recurring items	Net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax shown in operating margin including share in net earnings of equity-accounted companies.
ROA	ROA, or return on assets, corresponds to operating income 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.

8. 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 2018 Registration Document registered with the AMF on March 29, 2019 (under number D.19-0224).

The Company assumes no responsibility for any analyses issued by analysts and any other information prepared by third parties which may be used in this document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any forward-looking statements to reflect events or circumstances which occur subsequent to the date of this document.

Valeo

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