

# 2006

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Interim report



## BOARD OF DIRECTORS

**Thierry Morin** <sup>(1) (4)</sup>

*Chairman and Chief Executive Officer*

**Véronique Morali** <sup>(4)</sup>

**Daniel Camus**

**Jérôme Contamine**

**Pierre-Alain De Smedt** <sup>(2)</sup>

**François Grappotte** <sup>(2) (3) (4)</sup>

**Philippe Guédon** <sup>(1) (3) (4)</sup>

**Yves-André Istel**

**Jean-Bernard Lafonta** <sup>(1) (2)</sup>

**Alain Minc** <sup>(1) (3) (4)</sup>

**Erich Spitz** <sup>(1)</sup>

*(1) Member of the Strategy Committee*

*(2) Member of the Audit Committee*

*(3) Member of the Remuneration Committee*

*(4) Member of the Nomination Committee*

## STATUTORY AUDITORS

**PricewaterhouseCoopers Audit**

Represented by Mr Serge Villepelet and

Mr Jean-Christophe Georghiou

**Salustro Reydel, member of KPMG International**

Represented by Mr Jean-Pierre Cruzet and

Mr Emmanuel Paret

## CONTENT

Consolidated key figures	1
Management report	2
Stock market data	6
Consolidated Financial statements	9
Auditors' report	26

## Consolidated key figures

(in euro million)*	1st half 2006	1st half 2005 <i>(restated)</i>	% change 2006/2005
<b>Net sales</b>	<b>5,257</b>	<b>4,944</b>	<b>+6.3%</b>
Other revenues	52	47	+10.6%
<b>Total operating revenues</b>	<b>5,309</b>	<b>4,991</b>	<b>+6.4%</b>
<b>Gross margin</b>	<b>835</b>	<b>804</b>	<b>+3.9%</b>
% of sales	15.9%	16.3%	
<b>Operating income</b>	<b>169</b>	<b>159</b>	<b>+6.3%</b>
% of total operating revenues	3.2%	3.2%	
<b>Net income attributable to equity holders of the Company</b>	<b>94</b>	<b>72</b>	<b>+30.6%</b>
% of total operating revenues	1.8%	1.4%	
<b>Basic earnings per share (in euro)</b>	<b>1.23</b>	<b>0.87</b>	<b>+41.4%</b>
<b>Net cash from operating activities</b>	<b>413</b>	<b>375</b>	<b>+10.1%</b>
<b>Capex and intangibles</b>	<b>329</b>	<b>289</b>	<b>+13.1%</b>
<b>Headcount at 30 June**</b>	<b>72,900</b>	<b>72,100</b>	<b>+1.1%</b>

\*\*Including non strategic activities

(in million of euros)*	30 June 2006	31 december 2005 <i>(Restated)</i>	% change
<b>Stockholders' equity inc. minority interest</b>	<b>1,755</b>	<b>1,727</b>	<b>+1.6%</b>
<b>Net debt</b>	<b>1,053</b>	<b>1,080</b>	<b>(2.5%)</b>
<b>Gearing</b>	<b>60%</b>	<b>63%</b>	<b>- 3 pts</b>

<u>Quarterly trends</u> (in million of euros)*	Q1-2006 <i>(restated)</i>	Q2-2006
<b>Total operating revenues</b>	<b>2,654</b>	<b>2,655</b>
<b>Gross margin</b>	<b>415</b>	<b>420</b>
% of sales	15.8%	16.0%
<b>Operating income</b>	<b>59</b>	<b>110</b>
% of total operating revenues	2.2%	4.1%

\* Unaudited

# MANAGEMENT REPORT

## 1. REVIEW OF OPERATIONS

Unless otherwise indicated, the comments given below refer to the data for the first half of 2005, adjusted as of June 30, 2006 for the contribution of Valeo Motors & Actuators, a non strategic activity as defined in note 2.1 of the summarised consolidated financial statements.

### 1.1. Valeo's activity and the world automotive environment

Total operating revenues rose by 6.4% from €4,991 million in the first half 2005 to €5,309 million in the first half 2006. Acquisitions (mainly Johnson Control Engine Electronics and the remainder of the capital in Zexel, consolidated as of 1 March 2005 and 1 April 2005, respectively) had a positive impact of 3.3% on the change in total operating revenues. Changes in exchange rates made a positive contribution of 2.1%. Like for like, total operating revenues were up 1.0%, in line with the development of the Group's automotive production benchmark<sup>1</sup>.

Net sales for the half year reached €5,257 million (€4,944 million for the first half 2005), made up of €4,367 million from the original equipment segment (83% of the total) and €890 million for the aftermarket (17%). The comparable figures for the first half 2005 were €4,090 million (83%) and €854 million (17%), respectively.

The half year sales generated in **Europe** were €3,633 million, or 69% of consolidated sales, up 4% on the published figures and up 1% on a like for like basis. At the same time, it is estimated that the production of light vehicles rose by 1.8%, fuelled by a 15.8% rise in Central Europe.

In **North America**, Valeo achieved sales of 709 million euros (13% of consolidated sales), up by 5% (and unchanged like for like) in a context of a 1.5% increase in light vehicle output

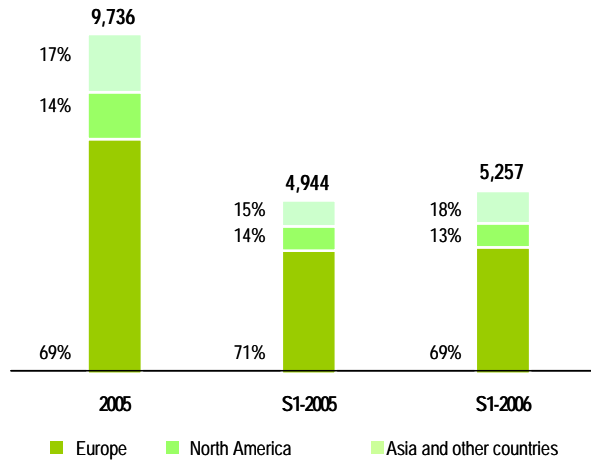
**Asia and the Middle East** registered half-yearly sales of €643 million, representing 12% of consolidated sales. In Asia, sales rose by 24% (stable excluding acquisitions and exchange rates; the vigorous growth in China more than compensated for the decline in Japan and Korea). For the first six months of the year, the Group estimates that vehicle production in Asia rose by a little over 10%.

The sales generated in **South America** totalled €237 million (5% of the total), up by 21% compared to the first half 2005. Like for like, the growth rate comes to 2%, while local automotive production grew by 6%.

<sup>1</sup> Change in the production of light vehicles in Europe, North America, South America and Asia, estimated by JD Power and weighted by each region's contribution to consolidated sales.

### Sales by region

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



### 1.2. Inflow of orders

The ratio of the inflow of orders to sales in the original equipment sector went from 1.0X for the second half 2005 to 1.2X at 30 June 2006, the same as the level for the first half 2005.

### 1.3. Commercial success and awards

During the six-month period, Valeo contributed, as a tier one supplier, to the launch of the Peugeot 207, which is assembled at the Poissy site in France, Madrid in Spain, and Trnava in Slovakia. Twenty product lines from three Group Domains are represented on this important vehicle from the PSA Peugeot Citroen Group. In the Driving Assistance Domain, Valeo delivers headlamps, directional headlamps and fog lamps as well as the ultrasonic park assist systems. The Powertrain Efficiency Domain is represented by the following product lines: alternators, starters, clutches and clutch facings, radiators, condensers, EGR valves (diesel), injectors and engine control units (petrol). And in the Comfort Enhancement Domain, Valeo delivers components such as the heating and air conditioning systems, control panels, steering column modules, door and tailgate latches and the built-in systems interface.

The Group's potential for technical innovation continued to benefit from the wide recognition among players on the market. In particular, the StARS micro-hybrid system won a 2006 PACE<sup>2</sup> Award in the European Products category. The principle of the StARS starter-generator is based on the system's ability to stop and restart the engine instantly and silently. By stopping the consumption of fuel when the vehicle is at a standstill, StARS technology helps to reduce noise and environmental pollution and improves comfort inside the vehicle. The Citroen

<sup>2</sup> The PACE awards recognise the best innovations by automotive suppliers in terms of technological advance and commercial performance. Prizes are awarded in partnership with Automotive News, Microsoft, SAP and the Transportation Research Centre.

C2 and C3 Stop & Start models are fitted with this micro-hybrid system, the only one currently available on the market. The PACE award is the fifth for Valeo since the awards were introduced in 1994. In 2005, Valeo received a PACE award for its lane departure warning system, LaneVue, which features on Nissan and PSA Peugeot Citroen models.

In its Powertrain Efficiency Domain, Valeo is also contributing to PSA Peugeot Citroen's hybrid/diesel project, one of six projects sponsored by the French Agency for Innovation, a governmental organisation created in August 2005 with an investment envelope of €1.7 billion, notably in the automotive field.

Recognition from its customers attests to the Group's operational performances. In particular, Valeo received two Superior Awards for Quality from Toyota Motor Europe. For the first time, Toyota Motor Europe awarded two of its prizes to the same supplier: Valeo Transmissions and Valeo Lighting Systems. This recognition goes hand in hand with Toyota's increased commercial penetration; Valeo's sales to the automaker increased by 43% over the first half.

Many of the Group's divisions were honoured for their operational excellence. In particular:

- the San Luis Potosi plant in Mexico, in the Climate Control branch, received an award from the Volkswagen Group in the Excellence in Development category,
- Valeo Thermal Systems in Japan was named Best Supplier of the Year 2005 by Fuji Heavy Industry,
- the Auto Union International Group awarded its silver prize for the Best Supplier to Valeo Service,
- the Heavy Duty division of Valeo Engine Cooling in Jamestown, United States, received Ford's Silver World Excellence Award for performance in terms of quality, cost and turnaround,
- the Engine Cooling and Lighting Systems product families were among Volvo Car's 22 Best Suppliers of the Year in 2005,
- PSA Peugeot Citroen awarded an EcoTech prize for the reduction of technical costs to Valeo's Electronics and Connective Systems branch, and its Quality prize to Valeo Climate Control for its complete air conditioning and AC control panels system,
- China's third biggest maker of heavy duty vehicles, CNHTC, gave its Strategic Partner Award and its Best Product Quality Award to NVCC, Valeo's Transmissions division in Nanjing.

## 1.4. Industrial rationalisation

Valeo continues to optimise its industrial facilities in order to serve its customers in the best way possible and to give it a competitive cost base.

Including non strategic activities, at 30 June 2006:

- The Group operated 134 industrial sites, the same number as at 31 December 2005. Forty-four percent of these sites are situated in competitive-cost countries.
- The Group employed a workforce of 72,900, compared to 72,100 at 30 June 2005. This variation of 800 employees reflects a like for like net reduction

of 100 employees (reduction by 2,000 in high-cost countries and increase of 1,900 in competitive-cost countries). The remainder is primarily the result of the acquisition of thermal-systems activities in Thailand during the second half 2005.

## 1.5. Strategic operations

Valeo's acquisitions and disposals strategy aims to strengthen the three Domains on a global basis and to boost the Group's potential for internal growth.

As part of this strategy, on 29 June Valeo announced the creation of a 50/50 joint venture with its Japanese partner Ichikoh, one of Japan's leaders in lighting systems, with a view to producing, initially, lighting systems for Japanese automakers based in China. A new site of 34,000 m<sup>2</sup>, situated in Foshan near Guangzhou, will start production in April 2007. Once up and running, it will employ 400 people. This is the thirteenth joint venture for the Group in China. Meanwhile, in order to consolidate its operational facilities for lighting systems in China, the Group increased its stake in Hubei Valeo Auto Lighting Systems Co., its other joint venture in the country's lighting sector, from 75% to 100%. Valeo's lighting systems units in China are backed up by the Wuhan R&D centre, which employs a team of 70 engineers.

The strategy of focusing on three Domains has led to the disposal of Logitec, a logistics business in Japan acquired in 2000 along with the thermal businesses of Zexel, and the sale of most of the holding in Parrot, which specialises in bluetooth technology, at the time of its IPO.

Lastly, the Group has classified its Motors & Actuators Product Family as non strategic activity. This Product Family contributed €99 million to the Group's sales in the first half 2006, compared to €105 million in the first half 2005.

## 2. FINANCIAL REVIEW

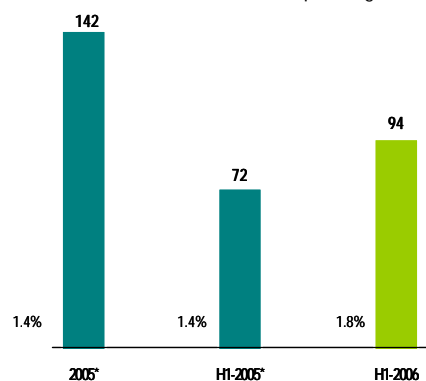
### 2.1. Statement of income

Net income attributable to equity holders of the Company totalled €94 million for the first half-year, a rise of 30.6% compared to the €72 million posted in the first half 2005. Non strategic activities had a negative impact of €11 million in the first half 2006 and €5 million in the first half 2005.

The basic earnings per share were €1.23 (including a loss of €0.15 imputable to non strategic activities) compared to €0.87 in the first half 2005 (including a loss of €0.07 imputable to non strategic activities).

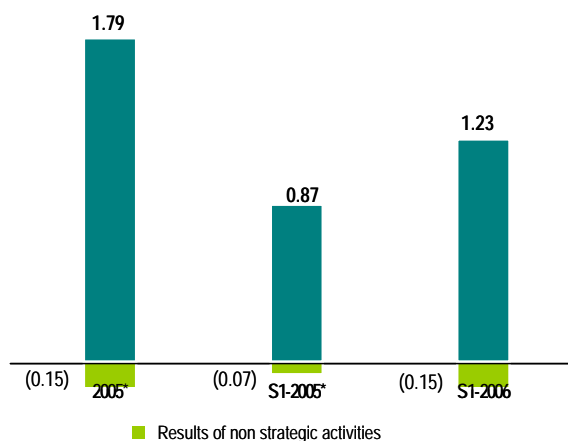
#### Net income attributable to equity holders of the Company

(in million of euros and as a % of total operating revenues)



\* The consolidated statements of income for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in note 2) from those published on July 31, 2005 and February 9, 2006 respectively

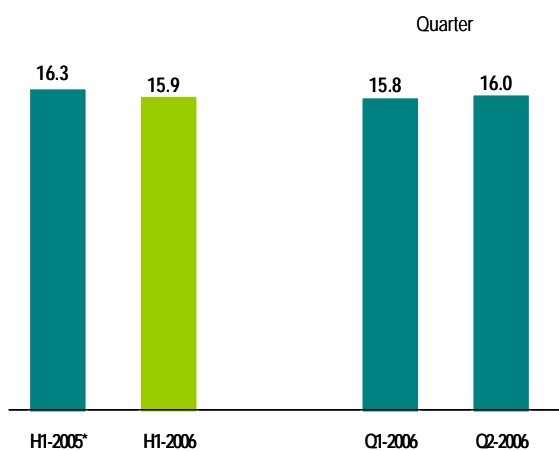
## Basic earnings per share (in euros)



### 2.1.1. Gross margin

The gross margin for the half year amounted to €835 million, compared to €804 million for the same period in 2005 (+3.9%). It amounted to 15.9% of sales, down 0.4 points from the first half 2005. Valeo estimates that the rise in prices of raw materials trimmed 0.6 percentage points off the gross margin in the first half.

## Gross margin (as a % of sales)



\* The consolidated statements of income for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in note 2) from those published on July 31, 2005 and February 9, 2006 respectively

### 2.1.2. Non-production operational expenses

Research and development costs for the half year rose by 5.8% compared to the first half 2005 to reach €345 million. They represented 6.5% of total operating revenues, unchanged compared to the 2005 comparable period.

Selling expenses totalled €101 million (+4.1%) and represent 1.9% of total operating revenues as in the first half 2005.

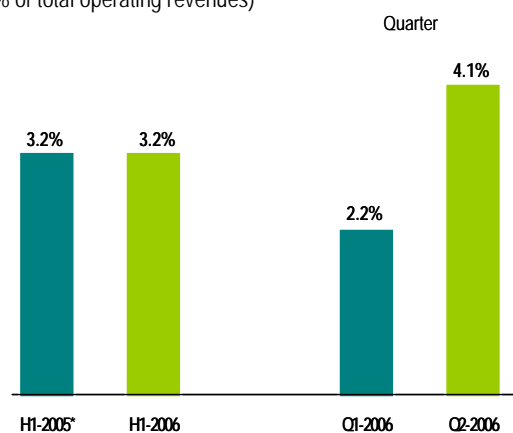
Administrative expenses rose just 2.1% to €240 million, representing 4.5% of total operating revenues down 0.2 percentage points compared to the first six months of 2005.

Taking into account other operating revenues<sup>3</sup> of €52 million (€47 million for the first half 2005), the consolidated **operating margin**<sup>4</sup> rose by 4.1% to reach €201 million (3.8% of total total operating revenues), compared to €193 million in 2005 (3.9% of total operating revenues).

**Other income and expenses** amounted to a net expense of €32 million (including €43 million for asset depreciation and restructuring costs and €12 million in capital gains on the disposal of Logitec). Other net expenses amounted to €34 million for the first half 2005 (including €29 million for asset depreciation and restructuring costs).

The **operating income** for the half year stood at €169 million, compared to €159 million (+6.3%). This represented 3.2% of total operating revenues, a stable ratio compared to the first half 2005.

## Operating income (as a % of total operating revenues)



\* The consolidated statements of income for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in note 2) from those published on July 31, 2005 and February 9, 2006 respectively

### 2.1.3. Other items in the statement of income

The **cost of the net debt** for the half year went from €23 million to €31 million as a result of acquisitions made in the first half 2005 (Johnson Controls Engine Electronics on 1 March and the remaining stake in Zexel on 1 April) and of the share buyback in the form of an "OPRA" (public tender offer to repurchase shares) and an "OPAS" (simplified public tender offer) which was finalised on 20 June 2005.

**Other financial income and expenses** resulted in a gain of €9 million, versus a loss of €26 million. This included capital gains of €20 million from the disposal of most of the Group's Parrot shares at the time of its IPO on 28 June 2006.

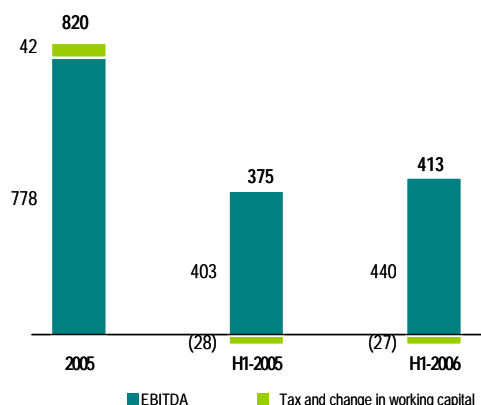
The Group's **pre-tax income** totalled €147 million, a growth of 33.6% compared to the first half 2005. The half-year **tax charge** amounted to €44 million (representing an effective rate of tax of 29.9%) compared to €35 million in 2005 (31.8%). Equity in net earnings of associated companies and minority interests stood at €2 million, unchanged from the first half 2005.

<sup>3</sup> Primarily from the sale of prototypes and contributions from clients to defray development expenses.

<sup>4</sup> Non GAAP measure defined as the operating income before other income and expenses.

## Net operating cash flow

(in million of euros and as a % of total operating revenues)



\* The consolidated statements of income for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in note 2) from those published on July 31, 2005 and February 9, 2006 respectively

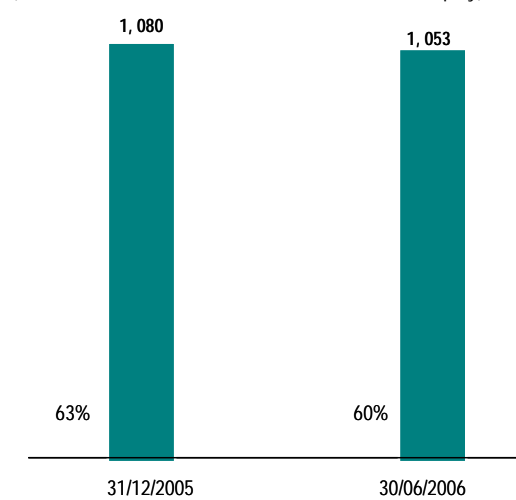
## 2.2. Cash flow and debt

Net debt fell from €1,070 million on 31 December 2005 to €1,053 million on 30 June 2006, mainly because of the following factors:

- the generation of free cash flow<sup>5</sup> of €76 million after gross investments in tangible and intangible assets of €329 million,
- the payment of dividends (€87 million),
- the effects of changes to the consolidation basis (essentially the acquisition of a 50% stake in Threestar and the disposal of Logitec) and the disposal of assets totalling €36 million.

## Net financial debt

(in million of euros and as a % of shareholders' equity)



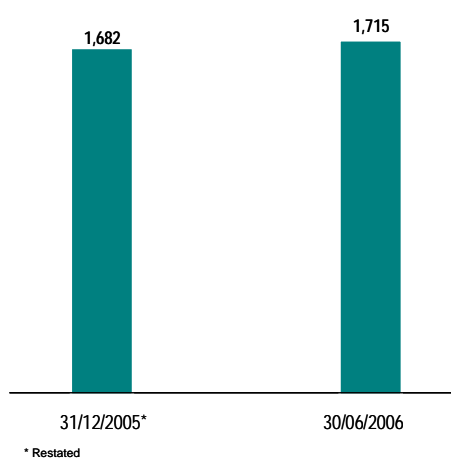
<sup>5</sup> Non GAAP measure: cash flow from operating activities less financial expenses plus grants less gross investments in tangible and intangible assets.

At 30 June 2006, stockholders' equity including minority interest amounted to €1,755 million, compared to €1,727 million at 31 December 2005 (restated figure — see Note 2 in the notes appended to the summary consolidated statements). This change principally reflects the payment of dividends for 2005 (€86 million) and the net income of the first half (€97 million).

Provisions totalled €1,386 million at 30 June 2006, compared to €1,541 million at 31 December 2005. These included €719 million for pensions and other employee benefits (€874 million at 31 December 2005). This reduction is due to a change in actuarial hypotheses following the reduction in interest rates during the half-year, the reclassification of provisions and the impact of the reclassification of non strategic activities.

## Stockholders' equity

(in million of euros)



## 3. OUTLOOK

For the second half, the Group anticipates stable levels of automotive production in Europe and a decline in North America of about 2%. The rise in prices of non-ferrous metals and plastic materials will continue to have an unfavourable effect on margins.

In this context, Valeo is maintaining its objectives for the year, announced at the beginning of the period, of an improvement in content per vehicle, increased return on capital employed, sustained cash generation and a higher order intake.

## 4. SIGNIFICANT EVENTS SINCE 30 JUNE 2006

## STOCK MARKET DATA

### 1. SHARE PRICE

During the first half 2006, the share price fluctuated within a range of 26.73 euros (June 28) to 35.40 euros (March 27), for an average price of 32.49 euros. It declined from 31.41 euros at December 31, 2005 to a closing price of 27.84 euros on June 30, representing a decrease of 11.4%. The share underperformed the CAC 40 index and the DJ STOXX Index for the automotive industry, by 15.8% and 14.4% respectively.

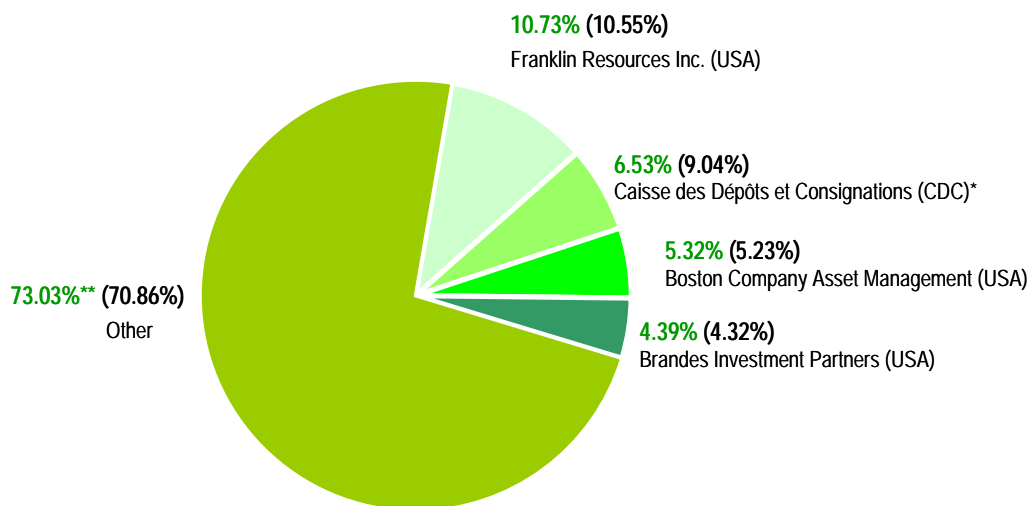
### 2. CHANGE IN SHAREHOLDER STRUCTURE

At June 30, the share capital of the company was composed of 77,551,319 shares.

At the end of the first half of 2006, the free float came to 73.03% (70.86% of voting rights). The main institutional shareholders were Franklin Templeton Resources (10.73% of the capital and 10.55% of voting rights), the Caisse des Dépôts et Consignations Group (6.53% and 9.04%), Boston Company Asset Management (5.32% and 5.23%) and Brandes Investment Partners (4.39% et 4.32%). Valeo held 901,228 of its own shares (1.16% of the capital without voting rights)

### 3. OWNERSHIP STRUCTURE AT JUNE 30, 2006

In % of equity (in % of voting rights)



\* Own account

\*\* including 901,228 treasury shares, representing 1.16% of the Company's capital

compared to 668,204 shares on March 31 (0.86%) and 807,704 shares (1.04%) on December 31, 2005.

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Provisional financial communication calendar

- Third-quarter 2006 results: October 19, 2006
- Full-year 2006 results : first-half of February 2007
- First-quarter 2007 results : April 2007
- First-half 2007 results : July 2007.

Number of shares: 77,551,319\*\*

Number of voting rights: 78,867,491

#### 4. STOCK MARKET DATA

	1st half 2006	2005	2004	2003	2002
Market capitalization at end of year (in billion euros)	2.16	2.43	2.58	2.61	2.46
Number of shares	77,551,319	77,510,357	83,709,024	82,133,728	82,133,728
Highest share price (in euros)	35.40	38.20	38.35	36.40	53.00
Lowest share price (in euros)	26.73	30.25	27.22	19.75	23.00
Average share price (in euros)	32.49	33.79	32.47	29.27	40.14
Share price at end of period (in euros)	27.84	31.41	30.80	31.75	29.90

#### 5. PER SHARE DATA

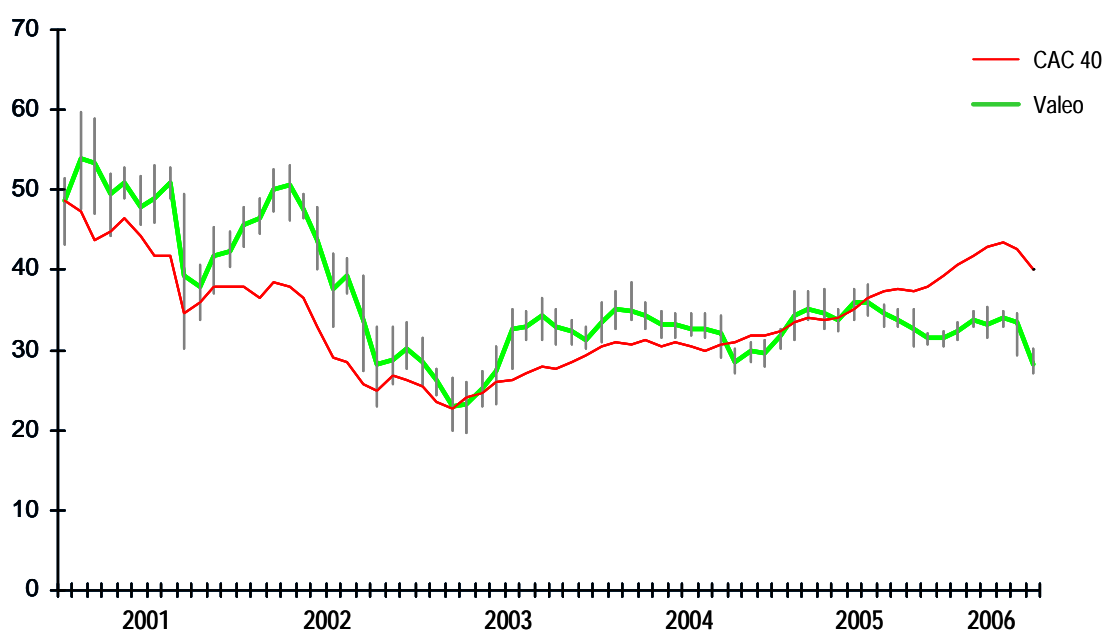
(in euros)	1st half 2006	2005	2004	2003	2002
Basic Earnings per share <i>(based on the average number of shares)</i>	1.23	1.79***	2.93*	2.20	1.63
Net dividend	-	1.10	1.10*	1.05	1.00
Gross dividend**	-	na**	na**	1.57	1.50

\* In IFRS

\*\* Amount eligible for the 50% allowance provided for in article 158-3-2 of the French General Tax Code

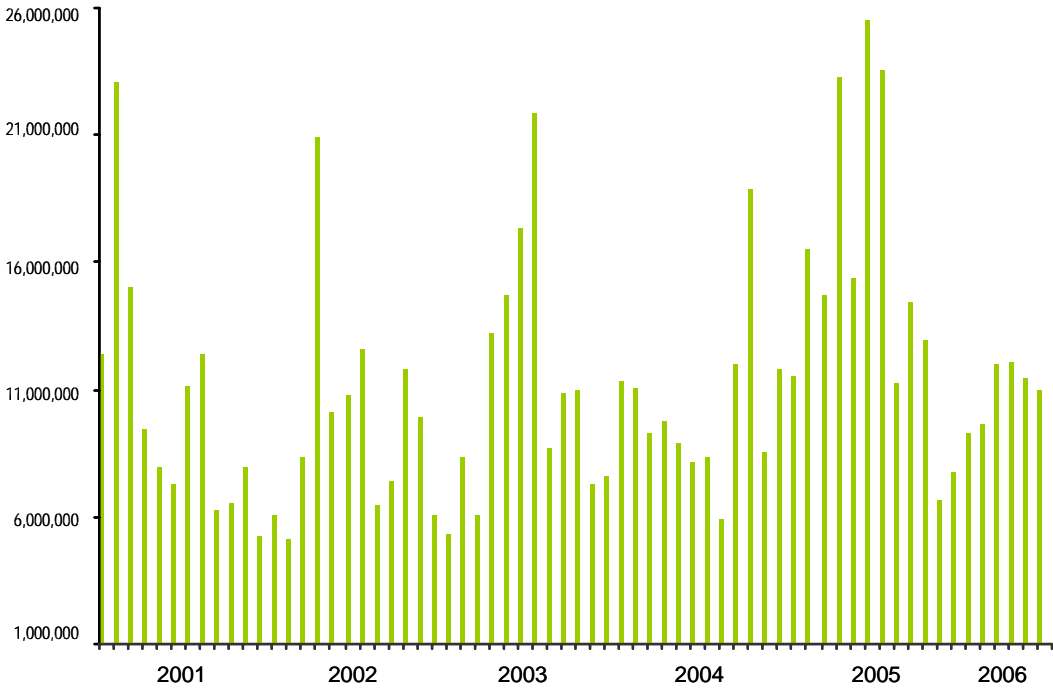
\*\*\* Restated (see note 2 of the Resumed consolidated financial statements)

#### 6. SHARE PRICE FROM JANUARY 1, 2001 THROUGH JUNE 30, 2006



7. MONTHLY TRADING VOLUMES

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CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED  
JUNE 30, 2006



## CONTENTS

CONSOLIDATED STATEMENTS OF INCOME .....	12
CONSOLIDATED BALANCE SHEETS .....	13
CONSOLIDATED STATEMENTS OF CASH FLOWS .....	14
STATEMENTS OF RECOGNIZED INCOME AND EXPENSES .....	16
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY .....	17
NOTES .....	18
1. Accounting policies .....	18
2. Restatement of 2005 financial data .....	18
2.1. Non strategic activities .....	19
2.2. Business combinations .....	20
2.3. Pensions and other employee benefits .....	20
2.4. Other adjustments .....	20
3. Changes in the scope of consolidation .....	20
3.1. Transactions carried out in first-half 2006 .....	20
3.2. Transactions carried out in 2005 .....	21
3.3. Impact of changes in scope of consolidation and exchange rates on sales .....	21
3.4. Impact of changes in scope of consolidation on the consolidated balance sheets .....	22
4. Notes to the statements of income and balance sheets .....	22
4.1. Other income and expenses .....	22
4.2. Cost of net debt .....	23
4.3. Other financial income and expenses .....	23
4.4. Provisions for pensions and other employee benefits .....	23
5. Additional disclosures .....	24
5.1. Segment reporting .....	24
5.2. Subsequent events .....	25
6. Valeo parent company accounts .....	25

## CONSOLIDATED STATEMENTS OF INCOME

(In millions of euros)	6 months ended June 30, 2006	6 months <sup>(1)</sup> ended June 30, 2005 (Restated)	12 months ended <sup>(1)</sup> Dec. 31, 2005 (Restated)
<b>NET SALES</b>	5 257	4 944	9 736
Other operating revenues	52	47	98
<b>TOTAL OPERATING REVENUES</b>	<b>5 309</b>	<b>4 991</b>	<b>9 834</b>
Cost of sales	(4 422)	(4 140)	(8 177)
<b>GROSS MARGIN<sup>(2)</sup></b>	<b>835</b>	<b>804</b>	<b>1 559</b>
% of net sales	15,9%	16,3%	16,0%
Research and development expenditure	(345)	(326)	(646)
Selling expenses	(101)	(97)	(191)
Administrative expenses	(240)	(235)	(452)
Other income and expenses	(32)	(34)	(50)
<b>OPERATING INCOME</b>	<b>169</b>	<b>159</b>	<b>318</b>
% of total operating revenues	3,2%	3,2%	3,2%
Cost of net debt	(31)	(23)	(52)
Other financial income and expenses	9	(26)	(52)
<b>INCOME BEFORE INCOME TAXES</b>	<b>147</b>	<b>110</b>	<b>214</b>
Income taxes	(44)	(35)	(60)
Equity in net earnings of associated companies	5	5	6
<b>INCOME FROM CORE ACTIVITIES</b>	<b>108</b>	<b>80</b>	<b>160</b>
% of total operating revenues	2,0%	1,6%	1,6%
Non-strategic activities <sup>(3)</sup>	(11)	(5)	(12)
<b>NET INCOME FOR THE PERIOD</b>	<b>97</b>	<b>75</b>	<b>148</b>
Minority interests	(3)	(3)	(6)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>94</b>	<b>72</b>	<b>142</b>
% of total operating revenues	1,8%	1,4%	1,4%
<b>Income from core activities attributable to equity holders of the company</b>			
• Basic earnings per share (in euros)	1,38	0,94	1,94
• Diluted earnings per share (in euros)	1,31	0,93	1,93
<b>Income from non strategic activities attributable to equity holders of the company</b>			
• Basic loss per share (in euros)	-0,15	-0,07	-0,15
• Diluted loss per share (in euros)	-0,13	-0,06	-0,14
<b>Net income attributable to equity holders of the company</b>			
• Basic earnings per share (in euros)	1,23	0,87	1,79
• Diluted earnings per share (in euros)	1,18	0,87	1,79

<sup>(1)</sup> The consolidated statements of income for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in Note 2) from those published on July 21, 2005 and February 9, 2006, respectively.

<sup>(2)</sup> Gross margin represents net sales (excluding other operating revenues) less cost of sales.

<sup>(3)</sup> See Note 2.1.

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

## CONSOLIDATED BALANCE SHEETS

(In millions of euros)	At June 30, 2006	At June 30, <sup>(1)</sup> 2005 (Restated)	At Dec. 31, <sup>(1)</sup> 2005 (Restated)
<b>ASSETS</b>			
Goodwill	1 431	1 467	1 483
Other intangible assets	526	505	518
Property, plant and equipment	1 949	2 078	2 041
Investments in associates	116	117	116
Non-current financial assets	30	16	28
Deferred tax assets	113	104	101
<b>Non-current assets</b>	<b>4 165</b>	<b>4 287</b>	<b>4 287</b>
Inventories	657	640	656
Accounts and notes receivable	2 053	2 231	1 906
Other current assets	302	298	243
Taxes recoverable	43	28	51
Other current financial assets	16	11	24
Non-strategic assets <sup>(2)</sup>	138	9	11
Cash and cash equivalents	938	952	949
<b>Current assets</b>	<b>4 147</b>	<b>4 169</b>	<b>3 840</b>
<b>TOTAL ASSETS</b>	<b>8 312</b>	<b>8 456</b>	<b>8 127</b>
<b>LIABILITIES AND EQUITY</b>			
Share capital	233	232	233
Additional paid-in capital	1 386	1 385	1 385
Retained earnings	96	(103)	64
<b>Stockholders' equity</b>	<b>1 715</b>	<b>1 514</b>	<b>1 682</b>
Minority interests	40	39	45
<b>Stockholders' equity including minority interests</b>	<b>1 755</b>	<b>1 553</b>	<b>1 727</b>
Provisions - long term portion	955	1 177	1 112
Long-term debt	1 268	1 589	1 303
Deferred tax liabilities	15	17	9
<b>Non-current liabilities</b>	<b>2 238</b>	<b>2 783</b>	<b>2 424</b>
Accounts and notes payable	2 109	2 055	1 926
Provisions - current portion	431	451	429
Taxes payable	78	74	82
Other liabilities	860	902	792
Current maturities of long-term debt	586	108	581
Other current financial liabilities	16	14	9
Liabilities of non-strategic activities <sup>(2)</sup>	86	-	-
Short-term debt	153	516	157
<b>Current liabilities</b>	<b>4 319</b>	<b>4 120</b>	<b>3 976</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8 312</b>	<b>8 456</b>	<b>8 127</b>

<sup>(1)</sup> The consolidated balance sheets at June 30, 2005 and December 31, 2005 have been restated (as described in Note 2) from those published on July 21, 2005 and February 9, 2006, respectively.

<sup>(2)</sup> See Note 2.1.

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of euros)	6 months ended June 30, 2006	6 months <sup>(1)</sup> ended June 30, 2005 (Restated)	12 months ended <sup>(1)</sup> Dec. 31, 2005 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the period	97	75	148
Net income from non strategic activities <sup>(2)</sup>	11	-	-
Equity in net earnings of associated companies	(5)	(5)	(6)
Net dividends received from associated companies	2	2	4
Other adjustments to reconcile net income to net cash provided by operating activities:			
• depreciation, amortization and provisions for impairment in value	312	306	639
• net charges to/(reversals from) provisions	1	(37)	(99)
• unrealized (gains)/losses on financial instruments	2	8	4
• expenses related to share-based payment	6	4	7
• losses (gain) on sale of non-current assets	(35)	7	6
• customer contributions	(23)	(15)	(35)
• other income and deductions with no cash effect	(3)	(1)	(4)
Cost of net debt	31	24	54
Income taxes (current and deferred)	44	35	60
<b>EBITDA <sup>(3)</sup></b>	<b>440</b>	<b>403</b>	<b>778</b>
Income taxes paid	(50)	(37)	(65)
Changes in working capital:			
• inventories	(28)	14	3
• accounts and notes receivable	(225)	(290)	53
• accounts and notes payable	255	179	30
• other receivables and payables	21	106	21
<b>Net cash provided by operating activities</b>	<b>413</b>	<b>375</b>	<b>820</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Outflows relating to acquisitions of:			
• intangible assets	(88)	(74)	(145)
• property, plant and equipment	(241)	(215)	(441)
• investments and other financial non-current assets	-	(1)	(4)
Inflows relating to disposals of:			
• intangible assets	-	-	-
• property, plant and equipment	2	9	41
• investments and other financial non-current assets	30	-	1
Impact of changes in scope of consolidation	6	(457)	(466)
<b>Net cash used in investing activities</b>	<b>(291)</b>	<b>(738)</b>	<b>(1 014)</b>
<b>Net cash provided/(used) before financing activities</b>	<b>122</b>	<b>(363)</b>	<b>(194)</b>

(In millions of euros)	6 months ended June 30, 2006	6 months <sup>(1)</sup> ended June 30, 2005 (Restated)	12 months ended <sup>(1)</sup> Dec. 31, 2005 (Restated)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid to parent company stockholders	(84)	(91)	(91)
Dividends paid to minority interests in consolidated subsidiaries	(3)	(3)	(5)
Net inflows relating to:			
• issuance of share capital	1	-	1
• sale/(purchase) of treasury shares	(2)	13	8
• issuance of long-term debt	2	595	826
• grants and contributions received	20	11	39
Net outflows related to capital reductions	-	(252)	(252)
Net interest paid	(28)	(9)	(33)
Repayment in long-term debt	(31)	(145)	(196)
<b>Net cash provided by/(used in) financing activities</b>	<b>(125)</b>	<b>119</b>	<b>297</b>
Effect of exchange rate changes on cash	(4)	19	28
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(7)</b>	<b>(225)</b>	<b>131</b>
<b>Net cash and cash equivalents at beginning of year</b>	<b>792</b>	<b>661</b>	<b>661</b>
<b>NET CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>785</b>	<b>436</b>	<b>792</b>
Of which:			
• Cash and cash equivalents	938	952	949
• Short-term debt	(153)	(516)	(157)

<sup>(1)</sup> The consolidated statements of cash flows for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in Note 2) from those published on July 21, 2005 and February 9, 2006, respectively.

<sup>(2)</sup> See Note 2.1.

<sup>(3)</sup> Earnings before interest, taxes, depreciation and amortization.

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

## STATEMENTS OF RECOGNIZED INCOME AND EXPENSES

(In millions of euros)	6 months ended June 30, 2006	6 months <sup>(1)</sup> ended June 30, 2005 (Restated)	12 months ended <sup>(1)</sup> Dec. 31, 2005 (Restated)
Exchange differences on translation of foreign operations	(55)	103	135
Actuarial gains (losses) on defined benefit plans	79	(98)	(50)
Cash flow hedges			
• Gains/(losses) taken to equity	8	2	23
• Transferred to profit and loss for the period	(20)	(8)	(8)
Net investment hedges			
• Gains/(losses) taken to equity	-	(2)	(3)
Remeasurement of available for sale financial assets	7	-	-
Income taxes on items recognized directly through equity	(1)	7	5
<b>Income and expense recognized directly through equity</b>	<b>18</b>	<b>4</b>	<b>102</b>
<b>Profit for the period</b>	<b>97</b>	<b>75</b>	<b>148</b>
<b>Total recognized income and expenses for the period</b>	<b>115</b>	<b>79</b>	<b>250</b>
Attributable to:			
• Equity holders of the company	114	73	240
• Minority interests	1	6	10
<b>Correction of errors<sup>(2)</sup></b>	<b>-</b>	<b>(8)</b>	<b>(8)</b>
Attributable to:			
• Equity holders of the company	-	(8)	(8)
• Minority interests	-	-	-

<sup>(1)</sup> The statements of recognized income and expenses for the periods ended June 30, 2005 and December 31, 2005 have been restated (as described in Note 2) from the financial statements published on July 21, 2005 and February 9, 2006, respectively.

<sup>(2)</sup> See Note 2.3.

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

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Number of shares	(In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders equity	Minority interests	Stockholders' equity including minority interests
<b>82 671 220</b>	<b>Stockholders' equity at January 1, 2005 (Restated) <sup>(1)</sup></b>	<b>251</b>	<b>1 617</b>	<b>9</b>	<b>(68)</b>	<b>1 809</b>	<b>57</b>	<b>1 866</b>
	Dividends	-	-	-	(91)	(91)	(2)	(93)
<b>385 100</b>	Treasury stock	-	-	-	13	13	-	13
<b>(6 250 000)</b>	Capital reduction	(19)	(233)	-	-	(252)	-	(252)
<b>33 825</b>	Share-based payments	-	-	-	4	4	-	4
	Income and expenses recognized directly through equity	-	-	100	(99)	1	3	4
	Net income for the period	-	-	-	72	72	3	75
	Other movements	-	-	-	(42)	(42)	(22)	(64)
<b>76 840 145</b>	<b>Stockholders' equity at June 30, 2005 (Restated) <sup>(1)</sup></b>	<b>232</b>	<b>1 384</b>	<b>109</b>	<b>(211)</b>	<b>1 514</b>	<b>39</b>	<b>1 553</b>
	Dividends	-	-	-	-	-	(3)	(3)
<b>(155 000)</b>	Treasury stock	-	-	-	(5)	(5)	-	(5)
	Capital reduction	-	-	-	-	-	-	-
<b>17 508</b>	Share-based payments	1	1	-	3	5	-	5
	Income and expenses recognized directly through equity	-	-	31	66	97	1	98
	Net income for the period	-	-	-	70	70	3	73
	Other movements	-	-	-	1	1	5	6
<b>76 702 653</b>	<b>Stockholders' equity at December 31, 2005 (Restated) <sup>(1)</sup></b>	<b>233</b>	<b>1 385</b>	<b>140</b>	<b>(76)</b>	<b>1 682</b>	<b>45</b>	<b>1 727</b>
	Dividends	-	-	-	(84)	(84)	(2)	(86)
<b>(93 524)</b>	Treasury stock	-	-	-	(2)	(2)	-	(2)
	Capital reduction	-	-	-	-	-	-	-
<b>40 962</b>	Share-based payments	-	1	-	6	7	-	7
	Income and expenses recognized directly through equity	-	-	(53)	73	20	(2)	18
	Net income for the period	-	-	-	94	94	3	97
	Other movements	-	-	-	(2)	(2)	(4)	(6)
<b>76 650 091</b>	<b>Stockholders' equity at June 30, 2006 (Restated)</b>	<b>233</b>	<b>1 386</b>	<b>87</b>	<b>9</b>	<b>1 715</b>	<b>40</b>	<b>1 755</b>

<sup>(1)</sup> Stockholders' equity at January 1, 2005, June 30, 2005, and December 31, 2005, has been restated (as described in Note 2) from that published on July 21, 2005 for the first two periods, and on February 9, 2006 for the latter period.

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

## NOTES

The condensed consolidated financial statements of the Valeo Group for the six months ended June 30, 2006 include the accounts of Valeo, its subsidiaries and the Group's share of associates and jointly controlled entities.

Valeo is an independent Group fully focused on the design, production and sale of components, systems and modules for the automobile sector. It is one of the world's top automotive suppliers.

Valeo is a French legal entity, listed on the Paris Stock Exchange, whose head office is located at 43, rue Bayen, 75017 Paris. Valeo's interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 24, 2006.

### 1. ACCOUNTING POLICIES

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The Valeo Group's consolidated financial statements for the year ended December 31, 2005 were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The condensed consolidated financial statements for the six months ended June 30, 2006 have been prepared in accordance with IAS 34 related to interim financial reporting. As permitted by IAS 34, this condensed set of financial statements includes only selected explanatory notes. These notes may be read in conjunction with the Group's 2005 Registration Document for information purposes<sup>1</sup>. The accounting principles are identical to those used to prepare the consolidated financial statements for 2005.

The following new standards and interpretations are applicable in 2006 and are likely to have an impact on the consolidated financial statements of the Valeo Group:

- the amendment to IAS 19, which permits actuarial gains and losses generated on defined-benefit pension plans to be recognized in reserves;
- the amendment to IAS 39 related to hedge accounting for forecast intragroup transactions;
- the amendment to IAS 39 on the fair value option;

- the amendment to IAS 21 related to net investment in a foreign operation;
- IFRIC 4 on determining whether an arrangement contains a lease.

The first two amendments above were adopted in 2005, ahead of the effective date of application. The other amendments do not have a material impact on the Valeo Group's consolidated financial statements.

Preparation of the financial statements required Valeo to make estimates and assumptions which could have an impact on the amounts at which assets, liabilities, income and expenses are stated. The estimates, and the assumptions underlying them, have been made on the basis of past experience and of other factors considered to be reasonable in the circumstances. They thus serve as the basis for the judgment made in determining the carrying amounts of assets and liabilities which could not be determined directly from other sources. The definitive amounts that will be stated in Valeo's future financial statements may be different from the amounts currently estimated. These estimates and assumptions are reviewed on a continuous basis.

### 2. RESTATEMENT OF 2005 FINANCIAL DATA

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IFRSs require that previously published comparative periods are restated to take account of the following:

- activities meeting IFRS 5 criteria;
- business combinations (recognition of the definitive fair value of assets acquired and liabilities and contingent liabilities incurred or assumed whenever this fair value was estimated on a provisional basis in the previous accounting period);
- changes in accounting policies (subject to the transitional provisions for first-time application of new standards); and
- corrections of prior period errors.

Consequently, certain previously published financial data have been modified. Such restatements are described later in this note.

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<sup>1</sup> This document may be viewed via the Group's website ([www.valeo.com](http://www.valeo.com)) or via the AMF's website ([www.amf-france.org](http://www.amf-france.org)). Copies may be requested from the Group at the above address.

The corresponding impacts (before tax) on stockholders' equity including minority interests as published on June 30, 2005 and December 31, 2005 are as follows:

Notes	As originally reported	Business combinations <sup>(2)</sup>	Pensions and other employee benefits	As restated
		2.2	2.3	
<b>Stockholders' equity at January 1, 2005</b>	<b>1 874</b>	-	(8)	<b>1 866</b>
Income and expenses recognized directly through equity	96	-	(92)	4
Net income for the period	76	-	(1)	75
Other movements	(359)	(33)	-	(392)
<b>Stockholders' equity at June 30, 2005</b>	<b>1 687<sup>(1)</sup></b>	<b>(33)</b>	<b>(101)</b>	<b>1 553</b>
Income and expenses recognized directly through equity	6	-	92	98
Net income for the period	71	1	1	73
Other movements	(15)	18	-	3
<b>Stockholders' equity at December 31, 2005</b>	<b>1 749</b>	<b>(14)</b>	<b>(8)</b>	<b>1 727</b>

(1) Compared to the figure published on July 21, 2005, this amount includes a 38 million euro reduction, of which 40 million euros related to actuarial gains and losses.

(2) Includes the remeasurement of provisions for the interest held previously in the Zexel Valeo Climate Control company (ZVCC).

The restatements related to business combinations and pensions benefits were identified in second-half 2005 or first-half 2006. They have been recorded retrospectively in first-half 2005 in accordance with IFRSs' principles. As a consequence, the related flows in second-half 2005 have been restated as it is shown in the reconciling table above.

## 2.1. Non-strategic activities

Valeo Group has classified under the caption "Non-strategic activities", the assets and liabilities meeting the IFRS 5 criteria. As at June 30, 2006, this treatment has been applied to its Motors & Actuators Products Family. IFRS 5 requires:

- the cumulative post-tax income or loss of the activity to be presented as a single amount in the statements of income, for the current period as well as prior comparative periods;

- all the assets and liabilities of the non-strategic activities on the balance sheet at June 30, 2006 to be presented on a single line caption of the balance sheet as at June 30, 2006. This requirement does not apply to the balance sheets at June 30, 2005 and December 31, 2005.

Other information presented, in particular cash flows and explanatory notes, must be restated so as to ensure consistency with the above treatment.

The contribution of this activity to Group sales for full-year and first-half 2005 was 200 million euros and 105 million euros, respectively, and 99 million euros for first-half 2006.

### ■ Components of net income/(loss) from non-strategic activities

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Pre-tax profit/(loss) of non-strategic activities	(3)	(5)	(12)
Loss on measurement to fair value of non-strategic activities	(8)	-	-
<b>Income from non strategic activities for the period</b>	<b>(11)</b>	<b>(5)</b>	<b>(12)</b>

### ■ Net cash provided by/(used in) non-strategic activities

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Cash flows from operating activities of non-strategic activities	5	13	19
Cash flows from investing activities of non-strategic activities	(3)	(4)	(10)
Cash flows from financing activities of non-strategic activities	(2)	(3)	(2)
<b>Net change in cash and cash equivalents</b>	<b>-</b>	<b>6</b>	<b>7</b>

## 2.2. Business combinations

The goodwill generated by transactions carried out in 2005 was determined on the basis of estimates of the fair values of assets acquired, and liabilities and contingent liabilities incurred or assumed.

These fair values were adjusted during the first half of 2006 in order to take account of their definitive amounts:

(In millions of euros)	Johnson Controls Inc.'s Engine Electronics business	Zexel Valeo Climate Control (ZVCC)
<b>Fair value of net assets acquired at December 31, 2005</b>	<b>166</b>	<b>28</b>
<b>Goodwill at December 31, 2005</b>	<b>155</b>	<b>56</b>
Adjustment to fair value of net assets acquired <sup>(1)</sup>	(26)	(16)
<b>Fair value of net assets acquired at June 30, 2006</b>	<b>140</b>	<b>12</b>
Translation adjustment	-	(2)
<b>Goodwill at June 30, 2006</b>	<b>181</b>	<b>70</b>

<sup>(1)</sup> This item reflects the remeasurement of provisions.

The corresponding impacts on the statements of income, balance sheets and statement of changes in stockholders' equity were recorded at the respective acquisition dates in accordance with IFRS 3.

## 2.3. Pensions and other employee benefits

Within the scope of the first-time application of IFRS, at January 1, 2004, Valeo elected for the early adoption of the amendment to IAS 19 endorsed by the European Union on November 8, 2005, which allows actuarial gains and losses on defined-benefit pension plans to be recognized in reserves. The first-time application of this amendment resulted in a 41 million euro reduction (before tax) in stockholders' equity at December 31, 2004, and a 98 million euro reduction at June 30, 2005, compared to the published interim consolidated financial statements for the six months ended June 2005.

In addition, benefit obligations that had not previously been identified were recognized in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This adjustment had an 8 million euro impact on stockholders' equity at January 1, 2005, but did not materially affect net income for the periods presented.

## 2.4. Other adjustments

In the consolidated financial statements for the year ended December 31, 2005, the impairment loss taken on receivables related to a non-payment risk was presented under "Other financial income and expenses". Since this change in presentation occurred during the second half of 2005, data for first-half 2005 have been restated, leading to a 5 million euro increase in operating income compared to the figure published in the interim consolidated financial statements for the six months ended June 30, 2005.

## 3. CHANGES IN THE SCOPE OF CONSOLIDATION

### 3.1. Transactions carried out in first-half 2006

#### 3.1.1. Acquisitions

##### ■ Threestar

On February 28, 2006, Valeo acquired 50% of Threestar, the leading Korean manufacturer of automobile radiators. Valeo Samsung Thermal Systems, created through this agreement, was proportionally consolidated from January 1, 2006, with the remaining 50% of the capital owned by the Samsung Climate Control Group. Valeo Samsung Thermal Systems contributed 3 million euros to Group sales in first-half 2006.

##### ■ Foshan Valeo Ichikoh Auto Lighting Systems Co. Ltd.

On April 8, 2006, Valeo created a China-based joint venture with Ichikoh, one of Japan's largest lighting system suppliers. This transaction did not impact Group sales in first-half 2006.

##### ■ Hubei Valeo Auto Lighting Systems Co. Ltd.

Valeo increased its interest in China-based joint venture Hubei Valeo Auto Lighting Systems Co. Ltd., from 75% to 100%. As this company was already fully consolidated, the transaction had no impact on Group sales.

#### 3.1.2. Disposals

##### ■ Zexel Logitec Company

On April 4, 2006, Valeo announced that it had signed an agreement with Vantec Corporation for the sale of Zexel Logitec Company and its subsidiaries. The sale was completed on June 30, 2006, and the company was deconsolidated as of that date. Zexel Logitec Company and its subsidiaries contributed 53 million euros and 23 million euros to Group sales for the full-year and first-half 2005, respectively, and 30 million euros for first-half 2006.

- **Parrot**

Within the scope of Parrot's flotation, Valeo decided to sell its 14.8% interest in the company. The net gain on the portion sold as at June 30, 2006 (i.e. 12.6%) of this unconsolidated investment was recorded under "Other financial income and expenses".

### 3.2. Transactions carried out in 2005

#### 3.2.1. Acquisitions

- **Johnson Controls Inc.'s Engine Electronics business**

Valeo acquired Johnson Controls Inc.'s Engine Electronics Division during first-half 2005. This activity, which was fully consolidated on March 1, 2005, contributed 365 million euros and 173 million euros to Group sales, respectively, for the full year and first half of 2005, and 189 million euros for first-half 2006.

- **Zexel Valeo Climate Control (ZVCC) and Valeo Zexel China Climate Control (VZCCC)**

During first-half 2005, Valeo increased its interest in Japan-based Zexel Valeo Climate Control (ZVCC) from 50% to 100% by purchasing all of the shares in the company held by Bosch Automotive Systems Corp. This company, which was previously proportionally consolidated, has been fully consolidated since April 1, 2005. The contribution of this further investment to Group sales totaled, respectively, 255 million euros and 86 million euros for the full-year and the first-half of 2005, and 167 million euros for first-half 2006.

As part of the same transaction, Valeo also purchased from Bosch Automotive Systems Corp the shares it did not already hold in Valeo Zexel China Climate Control (VZCCC), raising its interest in this company from 60% to 100%. As VZCCC was already fully consolidated, this latter transaction had no impact on Group sales.

- **Valeo Embragues Argentina**

The Group raised its stake in Valeo Embragues Argentina from 68% to 100%. As this company was already fully consolidated, the transaction did not affect Group sales.

- **Ichikoh**

Valeo raised its interest in Ichikoh from 22.7% to 28.2%. Ichikoh is accounted for by the equity method. This transaction did not impact consolidated Group sales. Valeo increased its interest in this company to 28.7% during first-half 2006.

- **Valeo Raytheon Systems Inc.**

The Group continued to invest in Raytheon Systems Inc., increasing its stake from 66.6% at December 31, 2004 to 73.1% at December 31, 2005. Valeo owns Raytheon Systems Inc jointly with the Raytheon group, and accounts for its interest by the proportional consolidation method because of the characteristics of the partnership agreement. This transaction did not impact Group sales. Valeo increased its interest in this company to 75.4% during first-half 2006.

- **Siam Zexel Co and Zexel Sales Thailand Co.**

During second-half 2005, Valeo raised its interest in the two Thailand-based companies – Siam Zexel Co. and Zexel Sales Thailand Co. – by respectively 35.9% and 14.3%, increasing its stake to 74.9% in each. The impact on Group sales was 13 million euros in 2005 and 26 million euros in first-half 2006.

- **Valeo Armco Engine Cooling Co.**

On November 8, 2005, Valeo acquired a 51% stake in the joint venture Valeo Armco Engine Cooling Co., with the balance held by the Armco group. This transaction did not impact Group sales in 2005, and contributed 1 million euros to Group sales in first-half 2006.

- **Shenzhen Valeo Hangsheng Automotive Switches & Detection Systems Company Ltd.**

Valeo acquired a 75% stake in Shenzhen Valeo Hangsheng Automotive Switches & Detection Systems Company Ltd., with the remaining 25% of the capital held by Chinese company Hangsheng Electronics. This transaction did not impact Group sales in 2005 or first-half 2006.

#### 3.2.2. Disposals

Il Tevere, an associate company that had been accounted for by the equity method, was sold in the second half of 2005. This transaction did not impact consolidated Group sales.

### 3.3. Impact of changes in scope of consolidation and exchange rates on sales

Group sales amounted to 5,257 million euros in the six months to June 30, 2006, an increase of 6.3% compared to first-half 2005.

Changes in Group structure accounted for 3.3% of this increase, while fluctuations in exchange rates had a positive impact of 2.1%. Based on a comparable structure and at constant exchange rates, consolidated sales rose 0.9% compared with the same period of the previous year.

### 3.4. Impact of changes in scope of consolidation on the consolidated balance sheets

In respect of the above transactions, the following table reconciles the value, at the date of acquisition, of the assets, liabilities and contingent liabilities acquired or assumed, to the corresponding cash flows:

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005 (Restated)	12 months ended Dec. 31, 2005 (Restated)
Other intangible assets	-	194	194
Property, plant and equipment	1	140	151
Investments in associates	1	11	8
Non-current financial assets	-	1	1
Deferred tax assets	-	3	6
Inventories	2	60	66
Accounts and notes receivable	(4)	174	185
Other current assets	(3)	19	43
Stockholders' equity	(12)	41	40
Long-term debt	-	(61)	(54)
Deferred tax liabilities	-	(1)	(1)
Accounts and notes payable	-	(151)	(164)
Other liabilities	2	(39)	(80)
Provisions	4	(210)	(205)
Deferred payment	(4)		
<b>Net assets</b>	<b>(13)</b>	<b>181</b>	<b>190</b>
Minority interests	4	22	17
<b>Net assets acquired</b>	<b>(9)</b>	<b>203</b>	<b>207</b>
Goodwill	3	254	259
<b>Total acquisition cost</b>	<b>(6)</b>	<b>457</b>	<b>466</b>
Of which:			
• Acquisition price paid in cash	(11)	457	466
• Cash and cash equivalents of subsidiaries acquired	5	-	-

## 4. NOTES TO THE STATEMENTS OF INCOME AND BALANCE SHEETS

### 4.1. Other income and expenses

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Litigations and claims	(1)	(5)	(16)
Restructuring and asset impairment	(43)	(29)	(34)
Other	12 <sup>(1)</sup>	-	-
<b>Other income and expenses</b>	<b>(32)</b>	<b>(34)</b>	<b>(50)</b>

<sup>(1)</sup> This amount mainly includes the net gain from the sale of Zexel Logitec Company (see Note 3.1.2).

## 4.2. Cost of net debt

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Interest expense	(43)	(32)	(74)
Interest income	12	9	22
<b>Cost of net debt</b>	<b>(31)</b>	<b>(23)</b>	<b>(52)</b>

## 4.3. Other financial income and expenses

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Interest expense on unwinding of discount on pension obligations	(25)	(26)	(55)
Expected returns on pension plan assets	10	9	17
Currency gains and losses - net	4	(4)	(7)
Charges to provisions for credit risk	(1)	(5)	(6)
Other	21 <sup>(1)</sup>	-	(1)
<b>Other financial income and expenses</b>	<b>9</b>	<b>(26)</b>	<b>(52)</b>

<sup>(1)</sup> This amount mainly includes the net gain from the sale of the Group's interest in Parrot (see Note 3.1.2).

## 4.4. Provisions for pensions and other employee benefits

As a result of changes in interest rates during first-half 2006, the applicable discount rates have been raised compared with those used at December 31, 2005.

This change in actuarial assumptions led to the recognition of the following actuarial gains and losses during the period:

- a 79 million euro pre-tax gain on pension obligations (and other post-employment benefits), taken to equity (compared to a 98 million euro deduction from equity in first-half 2005);

- a 1 million euro gain on other long-term employee benefits, taken to income under "Operating Income" (compared to a 1 million euro expense in first-half 2005).

Provisions for pensions and other employee benefits therefore stood at 719 million euros at June 30, 2006, compared to 874 million euros at December 31, 2005.

Assumptions regarding the expected return on plan assets have not been changed, as they are of a long-term nature.

These restatements did not have an impact on the Group's consolidated net income, because the corresponding expense for the full financial year is determined at the start of the year in accordance with IAS 19.

Discount rates have been adjusted for the following countries:

	At June 30, 2006 (%)	At June 30, 2005 (%)	At Dec. 31, 2005 (%)
France	4,8	4,0	4,3
Germany	4,6	3,9	4,1
United Kingdom	5,2	5,0	4,8
Italy	4,5	3,8	4,0
United States	6,3	5,2	5,6
Japan	2,2	1,6	1,8
South Korea	6,8	5,4	5,8

## 5. ADDITIONAL DISCLOSURES

### 5.1. Segment reporting

The Valeo Group comprises a single business segment ("Automotive equipment"). The Group's secondary reporting level – geographical segments – corresponds to production areas. Additional information is included in order to provide a more pertinent analysis of the Group's business.

Items related to "Non-strategic activities" are excluded from the data disclosed for first-half 2006. Only the corresponding sales for first-half 2005 and full-year 2005 have been restated (see Note 2.1).

#### 5.1.1. Reporting by geographical segment

	Net sales by market	Net sales by area of production	Total assets	Capital expenditures for the period	Number of <sup>(1)</sup> employees
(In millions of euros)					
<b>6 months ended June 30, 2006</b>					
Europe <sup>(2)</sup>	3 668	3 859	4 187 <sup>(3)</sup>	217	53 400
North America	709	673	541	44	6 800
South America	237	231	202	23	3 600
Asia	643	645	774 <sup>(4)</sup>	41	7 300
Eliminations	-	(151)	(163)	(1)	-
<b>Total</b>	<b>5 257</b>	<b>5 257</b>	<b>5 541</b>	<b>324</b>	<b>71 100</b>
<b>6 months ended June 30, 2005</b>					
Europe <sup>(2)</sup>	3 534	3 714	4 390 <sup>(3)</sup>	223	54 600
North America	677	636	602	29	7 700
South America	196	186	192	15	3 400
Asia	537	513	737	23	6 400
Eliminations	-	(105)	(132)	(2)	-
<b>Total</b>	<b>4 944</b>	<b>4 944</b>	<b>5 789</b>	<b>288</b>	<b>72 100</b>
<b>12 months ended December 31, 2005</b>					
Europe <sup>(2)</sup>	6 785	7 163	4 048 <sup>(3)</sup>	436	52 100
North America	1 364	1 296	575	67	7 800
South America	429	402	195	35	3 400
Asia	1 158	1 126	755 <sup>(4)</sup>	59	7 100
Eliminations	-	(251)	(147)	(5)	-
<b>Total</b>	<b>9 736</b>	<b>9 736</b>	<b>5 426</b>	<b>592</b>	<b>70 400</b>

(1) The headcount for first-half 2006 does not include those corresponding to non-strategic activities (unlike those of first-half and full-year 2005).

(2) Including Africa.

(3) Of which 9 million euros of non-strategic assets at June 30, 2006, June 30, 2005 and December 31, 2005.

(4) Of which 2 million euros of non-strategic assets at June 30, 2006 and December 31, 2005.

The headcount for "Non-strategic activities" stood at approximately 1,800 at June 30, 2006 and December 31, 2005, and 1,700 at June 30, 2005.

Total segment assets reconcile to total Group assets as follows:

(In millions of euros)	At June 30, 2006	At June 30, 2005	At Dec. 31, 2005
Total segment assets	5 541	5 789	5 426
Assets of non-strategic activities	127	-	-
Financial assets	1 100	1 096	1 117
Deferred tax assets	113	104	101
Goodwill	1 431	1 467	1 483
<b>Total</b>	<b>8 312</b>	<b>8 456</b>	<b>8 127</b>

Goodwill balances cannot be broken down by geographical area as they are allocated to groups of Cash-Generating Units (CGUs) which belong to several such areas.

### 5.1.2. Research and development expenditure by domain of innovation

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Driving Assistance	92	86	166
Propulsion Efficiency	116	106	211
Comfort Enhancement	125	114	233
Other	12	20	36
<b>Total</b>	<b>345</b>	<b>326</b>	<b>646</b>

### 5.1.3. Sales by Products Family

(In millions of euros)	6 months ended June 30, 2006	6 months ended June 30, 2005	12 months ended Dec. 31, 2005
Transmissions	396	374	742
Climate Control	839	761	1 510
Engine Cooling	806	751	1 475
Lighting Systems	632	594	1 151
Electrical Systems	569	529	1 041
Wiper Systems	536	545	1 056
Security Systems	379	349	676
Switches & Detection Systems	440	441	833
Electronics & Connective Systems	317	333	606
Compressors	238	165	398
Engine Management Systems	190	174	366
Other and eliminations	(85)	(72)	(118)
<b>Total</b>	<b>5 257</b>	<b>4 944</b>	<b>9 736</b>

### 5.2. Subsequent events

On July 13, 2006, Valeo redeemed at maturity a 500 million euro bond issued on July 13, 2001.

To the best of Valeo's knowledge, no other event has occurred since June 30, 2006 that is likely to have a material impact on the business, financial position, results or assets and liabilities of the Group.

## 6. VALEO PARENT COMPANY ACCOUNTS

The operating loss for the six months ended June 30, 2006 is 3 million euros, versus an 8 million euro loss for the same period in 2005.

Net financial income amounted to 30 million euros for the six months ended June 30, 2006, versus 37 million euros for the six months ended June 30, 2005.

Net income amounted to 46 million euros for the six months ended June 30, 2006, compared to 38 million euros for the six months ended June 30, 2005.

At June 30, 2006, stockholders' equity fell by 38 million euros to 3,202 million euros, from 3,240 million euros at December 31, 2005. This decrease reflects net income for the six months ended June 30, 2006, and the 84 million euro dividend payout.

# STATUTORY AUDITORS' REVIEW REPORT ON THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2006

*This is a free translation into English of the Statutory Auditors' review report issued in the French language and is provided solely for the convenience of English speaking readers.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

## STATUTORY AUDITORS' REVIEW REPORT ON THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2006

To the shareholders,

In our capacity as Statutory Auditors of the Company and as required by article L. 232-7 of the French Commercial Code (*Code de commerce*), we have performed a review of the accompanying condensed interim consolidated financial statements of Valeo and its subsidiaries for the six months ended June 30, 2006, and of the information contained in the management report.

These condensed interim consolidated financial statements are the responsibility of the Board of Directors. Our responsibility, based on our review, is to report our conclusions on these financial statements.

We conducted our review in accordance with the professional standards applicable in France. A review of condensed interim consolidated financial statements consists of making inquiries, principally of the persons responsible for financial and accounting matters, and of applying analytical and any other appropriate procedures. A review does not involve all of the procedures required for an audit in accordance with professional standards applicable in France and thus provides less assurance than an audit that all material matters have been identified. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements have not been properly prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting, adopted for use in the European Union.

In accordance with the professional standards applicable in France, we have also reviewed the information given in the management report accompanying the condensed interim consolidated financial statements that were the subject of our review.

We have no comments to make as to its fair presentation and its conformity with the condensed interim consolidated financial statements.

Paris and Neuilly-sur-Seine, July 24, 2006

The Statutory Auditors

SALUSTRO REYDEL  
MEMBER OF KPMG INTERNATIONAL

PRICEWATERHOUSECOOPERS AUDIT

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