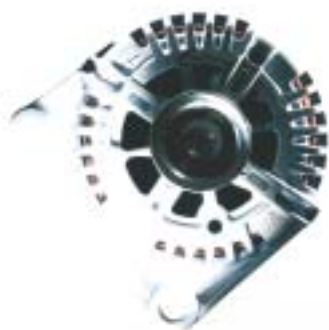


# Interim report 2004



**Valeo**

## BOARD OF DIRECTORS

**Thierry Morin**<sup>(1) (4)</sup>  
Chairman and Chief Executive Officer

**Noël Goutard**<sup>(1) (3) (4)</sup>  
Honorary Chairman

**Véronique Morali**<sup>(4)</sup>

**Carlo De Benedetti**

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

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

**Yves-André Istel**<sup>(2)</sup>

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

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

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

*(1) Member of the Strategic Committee*

*(2) Member of the Audit Committee*

*(3) Member of the Compensation Committee*

*(4) Member of the Nomination Committee*

## STATUTORY AUDITORS

**PricewaterhouseCoopers Audit**  
Represented by Mr Serge Villepelet  
and Mr Jean Christophe Georghiou

**RSM Salustro Reydel**  
Represented by Mr Jean-Pierre Crouzet  
and Mr Emmanuel Paret

## CONTENTS

<b>Key consolidated figures</b>	<b>1</b>
<b>Management Report</b>	<b>2</b>
<b>Stock market data</b>	<b>8</b>
<b>Financial statements</b>	<b>11</b>

## KEY CONSOLIDATED FIGURES

(Millions of euro)	6 months ended June 30, 2004	6 months ended June 30, 2003	% change 2004/2003
<b>Net sales and revenues</b>	<b>4,928</b>	<b>4,846</b>	<b>+ 1.7%</b>
<b>Gross margin</b>	<b>883</b>	<b>863</b>	<b>+ 2.3%</b>
% sales	17.9%	17.8%	
<b>Operating income</b>	<b>251</b>	<b>241</b>	<b>+ 4.1%</b>
% sales	5.1%	5.0%	
<b>Net income</b>	<b>120</b>	<b>102</b>	<b>+ 17.6</b>
<b>Earnings per share (euro)</b>	<b>1.46</b>	<b>1.24</b>	<b>+ 17.7</b>
<b>Net operating cash flow</b>	<b>465</b>	<b>382</b>	<b>+ 21.7</b>
<b>Capital expenditure</b>	<b>212</b>	<b>215</b>	<b>- 1.4%</b>
<b>Number of employees at June 30</b>	<b>68,800</b>	<b>69,300</b>	<b>- 0.7%</b>
	At June 30, 2004	Dec. 31, 2003	% change 2004/2003
<b>Stockholders' equity including minority interests</b>	<b>2,105</b>	<b>2,112</b>	<b>- 0.3%</b>
<b>Net indebtedness*</b>	<b>390</b>	<b>568</b>	<b>- 31.3%</b>
<b>Debt-to-equity ratio</b>	<b>19%</b>	<b>27%</b>	

\* Including own-held shares.

Quarterly results <sup>(1)</sup> (Millions of euro)	Q1-2004	Q2-2004
<b>Net sales and revenues</b>	<b>2,415</b>	<b>2,513</b>
<b>Gross margin</b>	<b>429</b>	<b>454</b>
% sales	17.8%	18.1%
<b>Operating income</b>	<b>111</b>	<b>140</b>
% sales	4.6%	5.6%

(1) The auditors have performed a fairness review of quarterly data.

## FIRST HALF HIGHLIGHTS

- Positive organic growth in the second quarter
- Small improvement in operating margin and rise in income despite the increase in raw material prices and pressure on sales
- Strong cash flow generation
- Major contracts signed in the Driving Assistance Domain
- Increase in ratio of new orders to sales

## MANAGEMENT REPORT

### REVIEW OF OPERATIONS

#### Valeo's activity in the context of automotive production

Consolidated sales rose from 4,846 million euros in the first half 2003 to 4,928 million euros for the first half 2004. This rise of 2% consisted largely of changes in the reporting entity, with a positive impact of 5% (mainly due to the consolidation of Zexel Valeo Climate Control and Shanghai Valeo Automotive Electrical Systems, which took effect on December 1, 2003 and January 20, 2004, respectively) and currency variations with a negative impact of 2% (including the 10% depreciation of the average rate of the US dollar against the euro).

In the second quarter, Group sales totaled 2,513 million euros, a rise of 4% compared to the same period in 2003. The effect of changes in the reporting entity amounted to a positive 5%, while currency exchange rates had a negative impact of 2%. Organic growth was therefore a positive 1%, compared to a decline of 3% for the first quarter 2004.

Sales for the first half were made up of 4,091 million euros in the original equipment market (83% of total sales) and 837 million euros for the aftermarket (17% of total sales). The comparable figures for 2003 were 4,011 million euros (83%) and 835 million euros (17%).

In **Europe** (70% of sales by commercialization zone in the first half 2004, compared to 72% in the previous year), consolidated sales remained virtually stable. According to JD Power LMC, the production of passenger cars in Western Europe dropped by 0.2% over the same period. In the second quarter, Valeo sales grew by 1%, outperforming the benchmark for reference automotive production (-0.2%).

Outside Europe, interim sales came to 1,474 million euros, up by 7% compared to the first half 2003. Valeo sales in **North America** amounted to 783 million euros, compared to 931 million euros for the first half 2003.

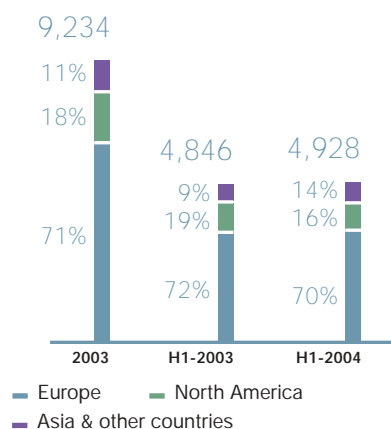
They represented 16% of consolidated sales (19% in the previous year). At constant exchange rates, local income fell by 10% over the first half. In the second quarter, North American sales declined by 8% at constant exchange rates, an improvement over the 12% fall recorded in the first quarter. According to Ward's, the output of small vehicles in North America grew slightly (0.7%) in the first half, reflecting a drop of 0.3% and a rise of 1.6% in the first and second quarters respectively.

**Asia** accounted for consolidated sales of 541 million euros for the first half, representing 11% of Group sales. Sales rose by 70% compared to 2003, including 4% at constant exchange rates and reporting entity. Local automotive output is estimated to have increased by 8.5% in the first six months of the year.

Finally, Valeo posted half-yearly sales of 150 million euros in **South America** (3% of total sales), a rise of 17% (19% at constant exchange rates), while automotive output in Brazil and Argentina grew by 17.5% according to local manufacturing associations. Organic sales rose by 13% and 26% in the first and second quarters.

### SALES BY REGION

(in millions of euros and % of sales)



## Order book

The Group registered new orders at a rate of 1.3 times sales at the end of 2003; this rose to 1.4 times sales at the end of the first half 2004, confirming the upward trend initiated in 2002.

Significant new orders were registered, notably with General Motors in Europe, Ford in Europe and North America and DaimlerChrysler as well as Honda, PSA Peugeot Citroën, and Renault.

## Commercial successes and customer awards

At the beginning of June, Valeo took part in the **launch of Dacia's Logan vehicle**, as one of the major suppliers. Eight of the Group's ten industrial Branches have contributed to this low-cost model from the Renault group. Wiring and Heating/air-conditioning components are made locally in Mioveni in Romania, at the customer's production site. Valeo has also contracted out the production of complete lighting and vehicle access systems under local license. Finally, the Group's European plants deliver the radiators, condensers, alternators, and clutch systems for the vehicle. Thanks to its dense network of industrial sites and its pragmatic approach, Valeo is positioning itself as a strategic partner for its customer as part of its plans to develop low-cost vehicles.

The Group also unveiled major **new orders** that underline the appeal of its technological offering and its ability to develop products to tight deadlines. Two leading innovations in our Driving Assistance Domain were adopted by customers for the mass production of tourist vehicles.

The lane departure warning system, developed in collaboration with Valeo's partner, Iteris, will be fitted on Nissan's Infiniti range (on the FX models in 2005 and the M45 models in 2006). Nissan will thus become the first automaker in the world to include such systems on passenger vehicles in mass production.

Valeo Raytheon Systems (VRS), in which Valeo owns a 62.4% stakeholding has announced its first production contract for its blind spot detection system, signed with a major North-American manufacturer. VRS developed this highly innovative system for passenger vehicles in just over a year, and mass production is scheduled to start in 2006. Valeo was also honored with a number of significant awards in recognition of its capacity for technological innovation and operational excellence. Valeo's Start-Stop starter-alternator, one of the highlights of its "Powertrain Efficiency" Domain, was awarded the Grand Prix du Jury by EPCOS/Société des Ingénieurs de l'Automobile. The starter-alternator combines both the starter function and electricity generation within a single, easily fitted unit. It automatically cuts off the engine when the vehicle is at standstill—at traffic lights, for example—then restarts it quietly and instantly when the driver engages a gear or releases the brake. The Start-Stop starter-alternator offers clear advantages in terms of ease of fitting and the reduction of pollutant emissions and noise levels. It will be offered on the Citroën C3 as of next autumn. This will make Citroën the first manufacturer to offer this system on a mass-produced vehicle.

The Group's customers have recognized its excellent operational performance, as witnessed by the numerous awards it has received.

For example, **Nissan** has recognized the excellent quality standards of three Valeo divisions (wiper systems at the Juarez site in Mexico; electrical and engine cooling systems at the San Luis Potosi sites, also in Mexico).

**General Motors** has awarded its highly prized title of Supplier of the Year 2003 to the Starter-Alternator division of Valeo Electrical Systems. In addition, **Shanghai General Motors** awarded the title of Best Supplier of the Year to Valeo, a sign of the Group's successful decade of operations in China, where it now employs 2,500 people through eight joint ventures.

Other awards were given to various Valeo divisions during the six-month period, particularly by Shanghai-Volkswagen, Hyundai, Toyota, and Honda.

### **Industrial rationalization**

The Group continued to rationalize its industrial facilities during the first half. Two production sites were closed: one in the first quarter at Santo Tirso in Portugal, in the Electronics & Connective Systems Branch, one in the second quarter at Gebze in Turkey, in the Electrical Systems Branch. After the integration of the Shanghai Valeo Automotive Electrical Systems site in the first quarter, following the increase in control of the company in January 2004, the Group operated a total of 128 production sites at June 30, 2004, compared to 129 sites at December 31, 2003.

Since March 31, 2001, the number of production sites has fallen from 170 to 128, following 35 closures, 24 sales, 8 acquisitions, and 9 openings. At June 30, 2004, 41% of Valeo's production sites were situated in low-cost countries, reflecting the opening of new assembly units on automaker customers' sites, and the optimization of the Group's industrial footprint.

The Group's workforce numbered 68,800 at June 30, 2004, compared to 68,200 at December 31, 2003, and 69,300 at June 30, 2003. The reduction in the workforce by 500 over one year ending June 30, represented a reduction of 3,250 at a constant reporting entity, or 4.7%. The rest was the result of disposals (rear lighting for trucks in France) and acquisitions (Zexel Valeo Climate Control and Shanghai Valeo Automotive Electrical Systems). Over the period, more than two thirds of the reduction in the workforce concerned the wiring and connective systems activity.

### **Rationalization of purchasing**

At June 30, 2004, Valeo had 2,830 suppliers, compared to 2,897 pro forma at December 31, 2003, including a net total of 422 from Zexel Valeo Climate Control and Shanghai Valeo Automotive Electrical Systems, consolidated in December 2003 and January 2004, respectively.

Management efforts focused mainly on the cost of purchasing, in the context of a steep rise in raw material prices in the first half. Vigorous corrective action was undertaken, which partly offset the negative effects of this rise on margins.

### **Strategic operations**

At the beginning of the period, Valeo concluded its operation to increase its stakeholdings in two of its Chinese joint ventures, Shanghai Valeo Automotive Electrical Systems (from 30% to 50%) and Valeo Shanghai Automotive Electric Motors and Wiper Systems (from 50% to 55%). The former was fully consolidated on January 20, 2004, and over a full year of operations is expected to contribute sales of some 80 million euros. On July 8, 2004, Valeo took the opportunity of a rights issue and the implementation of a new partnership structure to increase its stake in the Nanjing Valeo Clutch Company, its Chinese joint venture, from 50% to 55%. This operation is subject to the approval of the Chinese authorities and should be completed by the end of August 2004.

## Adoption of IFRS

Application of Commission regulation (EC) No 1725/2003, published in the Official Journal of the European Communities on October 13, 2003, requires companies listed on a regulated stock exchange in one of the member states to present their consolidated accounts for financial years beginning as of January 1, 2005 according to IFRS (International Financial Reporting Standards), as published by the International Accounting Standards Board. Valeo is subject to this requirement, and has implemented a pilot methodology under the responsibility of the Financial Controller.

An initial assessment was undertaken in order to:

- identify the main discrepancies between the new standards and Valeo's current practice (see Note 1 in the appendix to the consolidated financial statements as of June 30, 2004);
- analyze accounting options;
- estimate the impact on organization and IT.

Valeo is currently preparing to deploy these new standards by:

- overhauling procedures, and adapting source IT systems and the reporting system;
- training the main operational staff concerned.

In its consolidated accounts for 2004, published according to French accounting standards, the Group plans, at this stage in the project, to provide quantitative information on the impact of the adoption of IFRS as of January 1, 2004, which, in line with the first-time adoption standard, will be recorded as shareholders' equity.

## FINANCIAL REVIEW

### Statement of income

For the first half 2004, net income totaled 120 million euros, compared to 102 million euros for the same period in 2003, representing an increase of 18%.

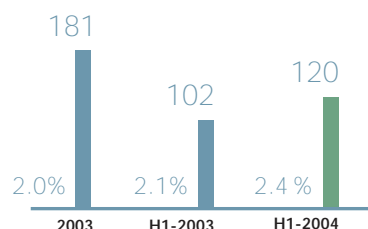
In both periods, an exceptional income was recorded, corresponding to the rebate by the French tax authorities of tax on capital gains generated through the disposal of the stakeholding in Luk in 1999. In the second quarter 2003, Valeo received a rebate of 88 million euros. In the first quarter of this year, the Group received the balance of the overpayment, totaling 83 million euros.

Also under non-recurring items, the Group recorded a treasury stock write-down of 1 million euros in the first half 2003, (including an allocation of 4 million euros in the first quarter) and gains of 5 million euros from the sale of treasury stock in the first quarter 2004.

Undiluted earnings per share stand at 1.46 euros for the first half (including a tax credit of 1.01 euros per share), compared to 1.24 euros for the first half 2003 (including a tax credit of 1.17 euros per share). Undiluted earnings per share excluding goodwill amortization amounted to 2.00 euros, compared to 1.79 euros in 2003.

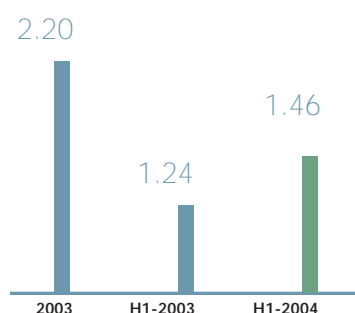
### NET INCOME

(in millions of euros an % of sales)



## UNDILUTED NET EARNINGS PER SHARE

(in euros)



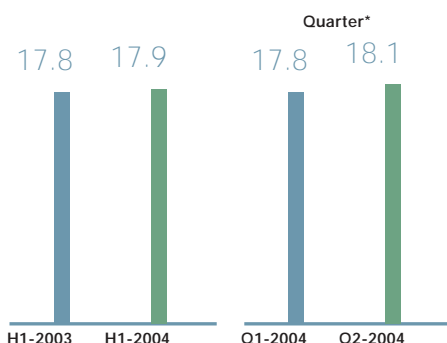
### Gross margin

Valeo's consolidated gross margin was 883 million euros for the first six months, up 2.3% compared to the first half 2003. Gross margin totaled 17.9% of sales, a rise of 0.1 point compared to the first half 2003, and a fall (0.1 point) compared to the second half 2003. This performance should be viewed in the light of the major tension in raw material prices, particularly in the second quarter.

For the second quarter, gross margin amounted to 454 million euros (up 4.4%) or 18.1% of sales, a level of profitability equivalent to that recorded in the year-earlier period. The good level of sales at the end of the period and the very tight control over operating parameters partly offset the effects of soaring raw material prices on the gross margin.

### GROSS MARGIN

(% sales)



\* The auditors have performed a fairness review of quarterly data.

### Operating costs excluding production

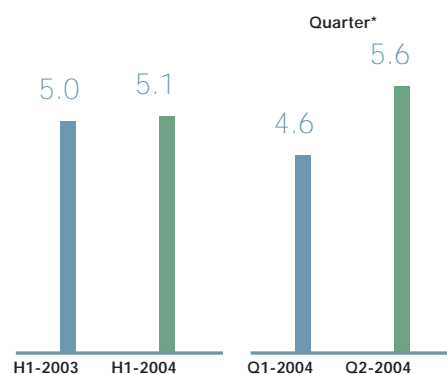
**Research & Development** costs totaled 306 million euros or 6.2% of sales for the first half, compared to 296 million euros or 6.1% of sales for the first half 2003. The Group maintained its R&D efforts while continuing to improve productivity.

**Administrative and commercial costs** for the half year stabilized at 326 million euros, while their proportion in terms of sales dropped by 0.1 point to 6.6%. Administrative costs fell by 1.3%. The half-yearly commercial costs grew slightly faster than income (2.2% compared to 1.7%).

**Consolidated operating income** for the six-month period rose from 241 million euros in 2003 (5.0% of sales) to 251 million euros or 5.1% of sales in 2004, representing a slight growth of 4.1% in absolute value. For the second quarter 2004, operating income was 140 million euros, a rise of 6.1% compared to the year-earlier period, while the operating margin rose by 0.1 point to 5.6% of sales, despite the tension in prices for the supply of raw materials (mainly non-ferrous metals and steels).

### OPERATING INCOME

(% sales)



\* The auditors have performed a fairness review of quarterly data.

### Other items in the statement of income

At 238 million euros, the half-yearly income before other income and expenses, and corporation tax rose 6.7% compared to the first half 2003.

Net other income and expenses for the half year was negative at 62 million euros, a reduction of 7.5% compared to 2003.

The provision for half-yearly corporation tax was almost zero, following the favorable impact of the 83 million-euro tax rebate, mentioned above, in the first quarter.

The contribution of minority interests to the Group's income grew faster than the latter (+71% for the half year to 16 million euros) due mainly to the consolidation of 50% of the climate control system activities of Zexel Valeo Climate Control on December 31, 2003.

### Liquidity and balance sheet

At 390 million euros, the Group's net financial debt was reduced by 31%, from 568 million euros at December 31, 2003, because of:

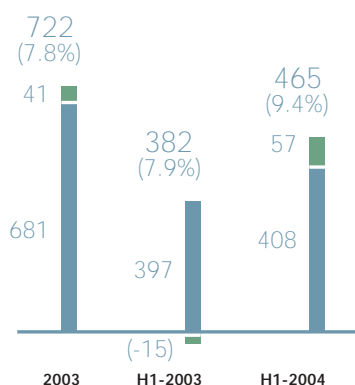
- improved operational results, and the impact of the tax rebate;
- the reduction of the working capital requirements, which came to 0.8% of sales, down from 2.2% at end December 2003;
- control of industrial investments, which remained at 4.3% of sales, compared to 4.4% in the first half 2003.

Stockholders' equity at June 30, 2004, amounted to 1,947 million euros for the Group share, down 33 million euros from December 31, 2003, after a provision for a tax deduction of 83 million euros (see Note 3 of the appendix to the consolidated financial statements at June 30, 2004).

Provisions for contingencies and charges came to 1,031 million euros, including 147 million euros of provisions for restructuring and social costs, compared to 204 million euros at December 31, 2003.

### NET OPERATING CASH FLOW

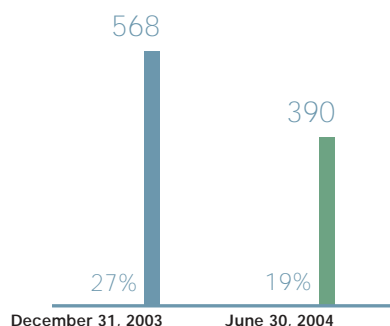
(in millions of euros and % of sales)



### NET FINANCIAL INDEBTNESS

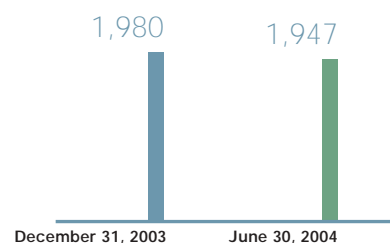
(including ownheld shares)

(in millions of euros and debt-to-equity ratio)



### SHAREHOLDERS' EQUITY

(in millions of euros)



## STOCK MARKET DATA

### SHARE PRICE

The share price varied between 31.0 and 38.35 euros during the first half of 2004, for an average price of 34.07 euros. It rose from 31.75 euros at 31 December 2003 to a closing price of 34.25 euros on 30 June, representing an increase of 7.9%. The share performed slightly better than the CAC 40 index and the DJ Stoxx auto European index for the automotive sector, outperforming them by 3% and 1.9% respectively.

### CHANGE IN SHAREHOLDER STRUCTURE

The shareholder structure changed very little compared to December 31, 2003 and March 31, 2004. The float represented 73.3% (71.7% of voting rights). The main institutional shareholders were the Wendel Group (9.97% of the capital and 9.86% of voting rights), Franklin Templeton Resources (9.92% and 9.82%), and the Caisse des Dépôts et Consignations Group (6.78% and 8.65%).

At June 30, 2004, Valeo held 877,704 of its own shares (1.07% of the capital without voting rights) compared to 819,618 shares on March 31, 2004 (1.00%) and 1,018,618 shares (1.24%) on December 31, 2003.

### VALEO SHARE

Quoted on the Paris Bourse under the deferred settlement system.

A component of the Euronext 100, SBF 120, FTSE All-Share and FTSE4Good indexes.

Traded on the London Market and Nasdaq Europe, and quoted in the form of sponsored ADRs in the US.

Shares may be held in either registered or bearer form, at the shareholder's discretion.

Double voting rights for registered shares if held for more than four years.

### FINANCIAL INFORMATION

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0 800 814 045

## STOCK MARKET DATA

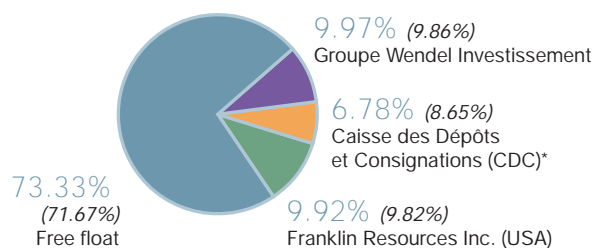
	1st half 2004	2003	2002	2001
<b>Market Capitalization (end of period) (€ bn)</b>	<b>2.81</b>	<b>2.61</b>	<b>2.46</b>	<b>3.72</b>
<b>Number of shares</b>	<b>82,133,728</b>	<b>82,133,728</b>	<b>82,133,728</b>	<b>82,133,728</b>
<b>Highest share price (euros)</b>	<b>38.35</b>	<b>36.40</b>	<b>53.00</b>	<b>59.90</b>
<b>Lowest share price (euros)</b>	<b>31.00</b>	<b>19.75</b>	<b>23.00</b>	<b>30.02</b>
<b>Average share price (euros)</b>	<b>34.07</b>	<b>29.27</b>	<b>40.14</b>	<b>47.17</b>
<b>End of period share price (euros)</b>	<b>34.25</b>	<b>31.75</b>	<b>29.90</b>	<b>44.80</b>

## DATA PER SHARE

(euros)	1st half 2004	2003	2002	2001
<b>Net earnings</b> (for average number of shares)	1.46	2.20	1.63	(7.12)
<b>Dividend</b>		1.05	1.00	0.70
<b>Dividend including tax credit</b>		1.58	1.50	1.05

## SHAREHOLDERS AT JUNE 30, 2004

In % of equity (in % of voting rights)



\*Own account

Number of shares: 82,133,728  
Number of voting rights: 83,023,963

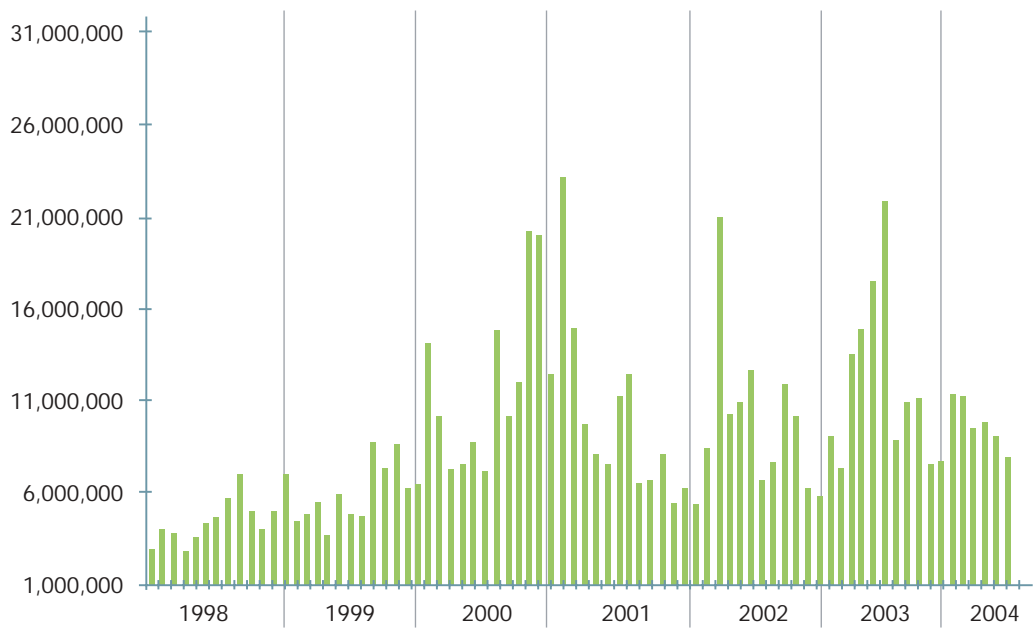
## PROVISIONAL REPORTING SCHEDULE

- Third quarter 2004 results:  
October 18, 2004
- Annual results 2004:  
end January 2005
- First quarter 2005 results:  
mid April 2005
- First half 2005 results:  
end July 2005

### SHARE PRICE (IN EURO)



### MONTHLY TRADING VOLUME (NUMBER OF SHARES)



**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2004**

<b>Consolidated statements of income</b>	<b>12</b>
<b>Consolidated balance sheets</b>	<b>13</b>
<b>Consolidated statements of cash flows</b>	<b>14</b>
<b>Consolidated statements of changes in stockholder's equity</b>	<b>15</b>
<b>Notes to the consolidated financial statements</b>	<b>16</b>
<b>Auditors' review report on the interim consolidated financial statements</b>	<b>22</b>

## CONSOLIDATED STATEMENTS OF INCOME

<i>(in € millions)</i>	6 months ended June 30, 2004	6 months ended June 30, 2003	12 months ended Dec. 31, 2003
<b>NET SALES AND REVENUES (note 4)</b>	<b>4,928</b>	<b>4,846</b>	<b>9,234</b>
Cost of sales	(4,045)	(3,983)	(7,581)
<b>GROSS MARGIN</b>	<b>883</b>	<b>863</b>	<b>1,653</b>
% sales	17.9%	17.8%	17.9%
Research and development expenditures	(306)	(296)	(564)
Selling expenses	(97)	(94)	(185)
Administrative expenses	(229)	(232)	(439)
<b>OPERATING INCOME</b>	<b>251</b>	<b>241</b>	<b>465</b>
% sales	5.1%	5.0%	5.0%
Net financial expense	(13)	(18)	(41)
Other income/expense – net	(62)	(67)	(89)
<b>INCOME BEFORE INCOME TAXES</b>	<b>176</b>	<b>156</b>	<b>335</b>
Income taxes (note 3)	-	(5)	(55)
<b>NET INCOME FROM CONSOLIDATED COMPANIES</b>	<b>176</b>	<b>151</b>	<b>280</b>
Equity in net earnings of associated companies	5	5	9
Amortization of goodwill	(45)	(45)	(90)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>136</b>	<b>111</b>	<b>199</b>
% sales	2.8%	2.3%	2.2%
Minority interests	(16)	(9)	(18)
<b>NET INCOME</b>	<b>120</b>	<b>102</b>	<b>181</b>
% sales	2.4%	2.1%	2.0%
Average number of shares outstanding (thousands)	82,134	82,134	82,134
<b>Earnings per share (in €)</b>	<b>1.46</b>	<b>1.24</b>	<b>2.20</b>
Diluted earnings per share (in €)	1.45	1.24	2.20

The notes on pages 16 to 21 are an integral part of the interim consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

<i>(in € millions)</i>	At June 30, 2004	At June 30, 2003	At Dec. 31, 2003
<b>ASSETS</b>			
Cash and marketable securities	998	774	860
Accounts and notes receivable - net	1,985	1,907	1,780
Inventories - net	595	583	570
Short-term deferred tax assets	68	55	56
Prepaid expenses and other current assets	299	292	185
<b>Current assets</b>	<b>3,945</b>	<b>3,611</b>	<b>3,451</b>
Property, plant and equipment	5,946	5,583	5,755
Less accumulated depreciation	(3,899)	(3,484)	(3,659)
Property, plant and equipment - net	2,047	2,099	2,096
Goodwill - net	1,243	1,310	1,261
Other intangibles - net	54	45	54
Investments in companies carried at cost	3	65	3
Investments in companies at equity	79	36	76
Loans and other assets	14	12	12
Investments and other non-current assets	96	113	91
Long-term deferred tax assets	31	64	65
<b>Fixed assets</b>	<b>3,471</b>	<b>3,631</b>	<b>3,567</b>
<b>TOTAL ASSETS</b>	<b>7,416</b>	<b>7,242</b>	<b>7,018</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Short-term debt	189	526	237
Accounts and notes payable	1,837	1,679	1,664
Current maturities of long-term debt	150	9	28
Provisions - current portion	324	399	359
Other liabilities and deferred income	1,037	1,042	719
<b>Current liabilities</b>	<b>3,537</b>	<b>3,655</b>	<b>3,007</b>
Long-term debt	1,054	653	1,166
Long-term deferred tax liabilities	13	25	18
Provisions for contingencies and charges	707	769	715
<b>Long-term liabilities</b>	<b>1,774</b>	<b>1,447</b>	<b>1,899</b>
Minority interests	158	135	132
Share capital	246	246	246
Additional paid-in capital	736	736	736
Retained earnings	965	1,023	998
<b>Stockholders' equity</b>	<b>1,947</b>	<b>2,005</b>	<b>1,980</b>
<b>Stockholders' equity including minority interests</b>	<b>2,105</b>	<b>2,140</b>	<b>2,112</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>7,416</b>	<b>7,242</b>	<b>7,018</b>

The notes on pages 16 to 21 are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in € millions)</i>	6 months ended June 30, 2004	6 months ended June 30, 2003	12 months ended Dec. 31, 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income from consolidated companies	176	151	280
Net dividends received from associated companies	2	1	2
Other adjustments to reconcile net income to net cash provided by operating activities:			
• depreciation, amortization and provisions for impairment in value	278	270	531
• net charges to/(reversals from) provisions and deferred taxes	(48)	(39)	(144)
• (gains)/losses - net of tax - on disposals of fixed assets	2	16	14
• other income and deductions with no cash effect	(2)	(2)	(2)
<b>Cash flows</b>	<b>408</b>	<b>397</b>	<b>681</b>
Changes in operating working capital:			
• inventories	(10)	35	63
• accounts and notes receivable	(177)	(185)	19
• accounts and notes payable	143	39	(64)
• other receivables and payables	101	96	23
<b>Net cash provided by operating activities</b>	<b>465</b>	<b>382</b>	<b>722</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures:			
• property and intangibles	(217)	(207)	(460)
• investments and other non-current assets	(1)	(3)	(5)
Proceeds - net of tax - from disposal of:			
• property and intangibles	12	6	14
• investments and other non-current assets	1	-	2
Impact of changes in scope of consolidation	(3)	-	(42)
<b>Net cash used in investing activities</b>	<b>(208)</b>	<b>(204)</b>	<b>(491)</b>
<b>Net cash provided before financing activities</b>	<b>257</b>	<b>178</b>	<b>231</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid to parent company stockholders	(85)	-	(81)
Equalization tax on dividends	-	-	(39)
Dividends paid to minority interests in consolidated subsidiaries	(4)	(8)	(13)
Proceeds from:			
• issuance of share capital	-	-	2
• issuance of long-term debt	15	-	465
• capital grants received	2	1	7
Reduction in long-term debt	(9)	(7)	(13)
<b>Net cash provided by/(used in) financing activities</b>	<b>(81)</b>	<b>(14)</b>	<b>328</b>
Effect of exchange rate changes on cash	10	(23)	(43)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>186</b>	<b>141</b>	<b>516</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>623</b>	<b>107</b>	<b>107</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>809</b>	<b>248</b>	<b>623</b>

The notes on pages 16 to 21 are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Number of shares	(in € millions)	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Stockholders' equity
<b>82,133,728</b>	<b>Stockholders' equity at Dec. 31, 2002</b>	<b>246</b>	<b>736</b>	<b>(100)</b>	<b>1 219</b>	<b>2 101</b>
	Dividends	-	-	-	(81)	(81)
	Equalization tax on dividends <sup>(1)</sup>	-	-	-	(39)	(39)
	Translation adjustment	-	-	(160)	-	(160)
	2003 net income	-	-	-	181	181
	Other movements <sup>(2)</sup>	-	-	-	(22)	(22)
<b>82,133,728</b>	<b>Stockholders' equity at Dec. 31, 2003</b>	<b>246</b>	<b>736</b>	<b>(260)</b>	<b>1 258</b>	<b>1 980</b>
	Dividends	-	-	-	(85)	(85)
	Equalization tax on dividends <sup>(3)</sup>	-	-	-	(101)	(101)
	Translation adjustment	-	-	34	-	34
	First-half 2004 net income	-	-	-	120	120
	Other movements	-	-	-	(1)	(1)
<b>82,133,728</b>	<b>Stockholders' equity at June 30, 2004</b>	<b>246</b>	<b>736</b>	<b>(226)</b>	<b>1 191</b>	<b>1 947</b>

(1) Equalization tax on dividends paid in 2003.

(2) Impact of the increase in Valeo's stake in Zexel at December 1, 2003.

(3) This total includes:

- €18 million in equalization tax relating to dividends paid in 2004,
- €83 million in equalization tax which became due (on dividends paid in 2001 and 2002) further to the corporate income tax rebate received in 2004 (see Note 3 on page 18). This amount has been charged against stockholders' equity pending appropriation by the Annual General Meeting that will be called to approve the financial statements for the year ending December 31, 2004.

The notes on pages 16 to 21 are an integral part of the interim consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 - ACCOUNTING POLICIES

**1.1 - The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in France as well as with recommendation no. 99-R-01 of the Conseil National de la Comptabilité (French accounting regulatory body) concerning interim accounts.**

The accounting principles and policies applied are consistent with those used to prepare the annual financial statements for the year ended December 31, 2003.

The application of the International Accounting Standards published by the IASB is compulsory for European listed companies from 2005. In preparation for the transition to IAS/IFRS, Valeo has made an identification of the departures from these standards.

Valeo already applies certain measurement and recognition requirements of the international standards IAS/IFRS. In particular, Valeo complies with the major provisions of International Accounting Standards concerning the valuation of inventory (IAS 2), the accounting treatment of leases (IAS 17) and property, plant and equipment (IAS 16), and accounting for income taxes (IAS 12).

However, to date Valeo has identified departures from the following standards, which, if they had been applied, would have had a material effect on the consolidated financial statements:

- All the accounting standards established by the International Accounting Standards Board are not applied in their entirety (IAS 1). In addition, the application of IAS 1 (Presentation of Financial Statements), IAS 7 (Cash Flow Statements), IAS 14 (Segment Reporting) and IAS 34 (Interim Financial Reporting) could have a material impact on the presentation of Valeo's financial information.

In particular, the caption "Other income/expense – net" (corresponding primarily to headcount reduction and restructuring costs, gains and losses on disposals of consolidated subsidiaries and associated companies accounted for by the equity method, and other exceptional items) will have to be reclassified and included in operating income.

- IAS 19: Valeo records provisions for pensions and other employee benefits according to methods similar to those set out in IAS 19. However, several departures relating to certain aspects of the standard have been identified.
- IAS 36: Valeo currently amortizes goodwill on a straight-line basis and exceptional amortization may be recorded where indicators of a lasting impairment in value can be identified. The revised IAS 36 provides that goodwill amortization is no longer compulsory and that systematic annual impairment tests should be carried out.
- IAS 32 and IAS 39: Valeo applies French generally accepted accounting principles in relation to financial instruments. The application of IAS 32 and IAS 39 (subject to their approval by the European Union) is expected to have various consequences such as:
  - the split of the convertible and/or exchangeable "Océane" bonds issued by the Group in 2003 into a debt component and an equity component,
  - the recognition of derivative instruments at fair value in the balance sheet,
  - the recognition of treasury shares as a deduction from equity rather than as marketable securities.
- IAS 37: the application of this standard may require Valeo to record provisions in relation to certain contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

- IAS 38: Valeo charges development costs to the statement of income when they are incurred whereas IAS 38 requires the capitalization of development costs when certain criteria are met.

- IFRS 1: the standard relating to the first-time adoption of IAS/IFRSs includes specific options which may have a material impact on the Group's financial statements (for instance electing to recognize all cumulative actuarial gains and losses relating to employee benefits or electing for the cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IFRSs).

- IFRS 2: employee benefits under stock option plans will have to be expensed based on fair value.

- IFRS 3: Valeo applies French generally accepted accounting principles in relation to business combinations. If IAS 22 had been applied to determine the goodwill arising on the acquisition of ITT Electrical Systems in 1998, stockholders' equity would have been increased by €487 million at June 30, 2004 (€495 million at December 31, 2003) and net income for the six months ended June 30, 2004 would have been reduced by €17 million (€36 million for the year ended December 31, 2003). However, for the transition to IFRSs, Valeo has chosen not to restate business combinations which occurred prior to January 1, 2004 in accordance with the option provided in IFRS 1.

## 1.2 Income tax expense

Income taxes for the six months ended June 30 are calculated by applying to first-half income before tax the estimated effective tax rate for the year, as adjusted to take account of any items specific to the first half. This calculation is made on a company by company basis or, where appropriate, for each tax Group, and each category of taxable income.

## 2 - CHANGES IN THE SCOPE OF CONSOLIDATION

### 2.1 - Transactions carried out in the first half of 2004

#### 2.1.1 Acquisitions

- **Shanghai Valeo Automotive Electrical Systems**

In January 2004, Valeo acquired a controlling interest in Shanghai Valeo Automotive Electrical Systems, raising its stake in the company from 30% to 50%. Shanghai Valeo Automotive Electrical Systems contributed €33 million to consolidated sales in first-half 2004.

- **Valeo Shanghai Automotive Electric Motors**

In April 2004, Valeo acquired an additional 5% interest in Valeo Shanghai Automotive Electric Motors in China, increasing its stake to 55%. The acquisition of this additional interest did not have any impact on consolidated sales.

- **Ichikoh**

Ichikoh has been accounted for by the equity method since September 30, 2003. In June 2004, Valeo increased its stake in the company from 21.6% to 22.6%.

- **Valeo Raytheon Systems Inc.**

Valeo pursued its investments in Valeo Raytheon Systems Inc, raising its stake from 58.1% at December 31, 2003 to 62.4% at June 30, 2004.

#### 2.1.2 Disposal

In the first half of 2004 Valeo sold its interest in TCA in Argentina, a company accounted for by the equity method.

## 2.2 - 2003 transactions

### 2.2.1 Acquisitions

- **Valeo Auto Lighting**

Valeo acquired an additional 24% interest in Hubei Valeo Auto Lighting in China, increasing its stake to 75% in March 2003. The acquisition of this additional interest did not have any impact on consolidated sales.

- **Zexel**

Valeo acquired an additional 10% interest in Zexel Valeo Climate Control, increasing its stake to 50% as from December 1, 2003. Since that date the Climate Control business (managed de facto by Valeo) has been fully consolidated and the Compressors business (jointly managed) has been proportionally consolidated. This acquisition contributed €34 million to consolidated sales in 2003 and €225 million in first-half 2004. However, its impact on net income in 2003 and 2004 is not material.

### 2.2.2 Disposals

- **Saint-Aubin**

On October 1, 2003, Valeo sold its plastic injection business, based at Saint-Aubin d'Arquenay (France), to IMTEC, one of the Group's suppliers. This business had external sales of €1 million in 2003.

- **Vénissieux**

On October 31, 2003, Valeo sold its business of rear light and safety accessories for Heavy Goods Vehicles, trailers and buses based at Vénissieux (France). The business reported sales of €24 million for 2003 (€15 million for first-half 2003).

## 2.3 - Impact of changes in scope of consolidation and exchange rates on sales and revenues

Group sales amounted to €4,928 million in first-half 2004, up 2% on the comparable prior-year period.

Changes in Group structure had a 5 point positive impact but changes in exchange rates shaved 2 points off the growth rate. Based on a comparable structure and at constant exchange rates, sales were globally stable compared with the same period of previous year.

## 3 - INCOME TAXES

The consolidated income statement for first-half 2004 includes an €83 million tax rebate received from the French tax authorities in 2004, corresponding to the remaining portion of the tax (€171 million) wrongly paid in 2001 on the capital gain from the disposal of the Group's 50% interest in LuK that had not been reimbursed prior to that date (an initial tax rebate of €88 million had already been obtained in first-half 2003).

As this capital gain has been deemed not to be subject to corporate income tax, the French tax authorities have stated that equalization tax is now due. Therefore, an amount of €83 million has been charged against stockholders' equity pending appropriation.

However, Valeo is of the opinion that the Group should be able to benefit from the advantages relating to the free movement of capital within the European Union. The Group's position is that the application of equalization tax to the redistribution of dividends from European subsidiaries based outside France amounts to discrimination. Therefore, Valeo intends to dispute the €83 million in equalization tax claimed by the French tax authorities, basing its argument on the Treaty of Rome.

In order to make an application to court in relation to this issue, Valeo firstly had to request the repayment of the corporate income tax wrongly paid in 2001 before being able to dispute the equalization tax subsequently claimed by the French tax authorities.

## 4 - SEGMENT REPORTING

### 4.1 - Reporting by business

<i>(in € millions)</i>	Sales and revenues	Property, plant and equipment and intangibles (net)	Capital expenditure for the period	Number of employees (at period-end)
<b>6 MONTHS ENDED JUNE 30, 2004</b>				
Transmissions	379	191	15	4,740
Climate Control <sup>(1)</sup>	893	279	29	7,190
Engine Cooling	735	253	16	8,580
Lighting Systems	563	245	37	8,240
Electrical Systems	526	254	30	6,170
Wiper Systems	613	313	25	7,900
Motors & Actuators	153	80	5	1,800
Security Systems	338	98	18	4,050
Switches & Detection Systems	457	199	28	6,140
Electronics & Connective Systems	365	102	9	12,630
Distribution	257	30	1	1,110
Holding companies	-	57	2	250
Eliminations	(351)	-	(3)	-
<b>Total</b>	<b>4,928</b>	<b>2,101</b>	<b>212</b>	<b>68,800</b>
<b>6 MONTHS ENDED JUNE 30, 2003</b>				
Transmissions	369	214	20	4,700
Climate Control	693	176	14	5,400
Engine Cooling	772	309	26	8,550
Lighting Systems	610	258	24	8,380
Electrical Systems	475	262	24	5,120
Wiper Systems	633	336	34	8,220
Motors & Actuators	219	88	10	2,300
Security Systems	337	90	14	4,230
Switches & Detection Systems	443	188	32	6,100
Electronics & Connective Systems	402	127	11	14,990
Distribution	252	34	2	1,060
Holding companies	-	62	5	250
Eliminations	(359)	-	(1)	-
<b>Total</b>	<b>4,846</b>	<b>2,144</b>	<b>215</b>	<b>69,300</b>
<b>12 MONTHS ENDED DEC. 31, 2003</b>				
Transmissions	720	203	41	4,550
Climate Control <sup>(2)</sup>	1,321	281	45	7,210
Engine Cooling	1,454	277	46	8,090
Lighting Systems	1,140	239	55	7,650
Electrical Systems	919	242	49	5,140
Wiper Systems	1,235	323	70	8,280
Motors & Actuators	367	83	20	1,880
Security Systems	652	94	32	4,020
Switches & Detection Systems	855	200	68	5,950
Electronics & Connective Systems	737	117	21	14,110
Distribution	518	32	2	1,070
Holding companies	-	59	14	250
Eliminations	(684)	-	(10)	-
<b>Total</b>	<b>9,234</b>	<b>2,150</b>	<b>453</b>	<b>68,200</b>

<sup>(1)</sup> o/w Zexel's Compressors business

<sup>(2)</sup> o/w Zexel's Compressors business

#### 4.2 - Reporting by geographical area

	Sales and revenues	Operating income	Property, plant and equipment and intangibles (net)	Capital expenditure for the period	Number of employees (at period-end)
<b>6 MONTHS ENDED JUNE 30, 2004</b>					
Europe	3,620	174	1,527	166	51,500
Rest of world	1,375	78	574	52	17,300
Eliminations	(67)	(1)	-	(6)	-
<b>Total</b>	<b>4,928</b>	<b>251</b>	<b>2,101</b>	<b>212</b>	<b>68,800</b>
<b>6 MONTHS ENDED JUNE 30, 2003</b>					
Europe	3,631	148	1,617	172	54,600
Rest of world	1,274	92	528	43	14,700
Eliminations	(59)	1	(1)	0	-
<b>Total</b>	<b>4,846</b>	<b>241</b>	<b>2,144</b>	<b>215</b>	<b>69,300</b>
<b>12 MONTHS ENDED DEC. 31, 2003</b>					
Europe	6,908	308	1,578	352	52,300
Rest of world	2,431	157	572	102	15,900
Eliminations	(105)	0	0	(1)	-
<b>Total</b>	<b>9,234</b>	<b>465</b>	<b>2,150</b>	<b>453</b>	<b>68,200</b>

The above figures are by original areas of production and not by market.

Sales by geographical market are as follows:

<i>(in € millions)</i>	6 months ended June 30, 2004	6 months ended June 30, 2003	12 months ended Dec. 31, 2003
Europe	3,454	3,467	6,579
Rest of world	1,474	1,379	2,655
<b>Total</b>	<b>4,928</b>	<b>4,846</b>	<b>9,234</b>

## 5 - FINANCIAL STATEMENTS OF THE PARENT COMPANY

The Company recorded an operating loss of €4 million for first-half 2004, against an operating loss of €6 million in the same period of 2003.

Net financial income amounted to €30 million for the first half of 2004, compared with €41 million for the first half of 2003.

First-half 2004 net income was €112 million, versus €143 million for the same period one year ago.

This figure includes a €83 million tax rebate received in 2004, corresponding to the remaining portion of the tax (€171 million) wrongly paid in 2001 on the gain from the disposal of the Group's 50% interest in LuK that had not been reimbursed prior to that date (an initial tax rebate of €88 million had already been obtained in first-half 2003).

As a result of this rebate, the French tax authorities are now claiming equalization tax in an amount of €83 million from Valeo, in relation to dividends paid in 2001 and 2002 (see Note 3). The amount of this equalization tax has been charged against stockholders' equity pending appropriation by the Annual General Meeting that will be called to approve the financial statements for the year ending December 31, 2004.

## AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

*This is a free translation into English of the 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.*

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 limited review of the accompanying interim consolidated financial statements of Valeo and its subsidiaries for the period from January 1 to June 30, 2004, presented in euros, and of the information contained in the interim management report.

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

We conducted our limited review in accordance with the professional standards applied in France. Those standards require that we perform limited procedures to obtain reasonable assurance, below the level resulting from a full audit, that the interim consolidated financial statements do not contain any material errors. A limited review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards applied in France.

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements, in order to present fairly the consolidated results of operations for the six months ended June 30, 2004 and the consolidated financial position and assets of Valeo and its subsidiaries at that date in conformity with accounting principles applied in France.

In accordance with professional standards applied in France, we have also reviewed the information given in the interim management report accompanying the interim consolidated financial statements that were the subject of our limited review. We have no matters to report as to its fair presentation and its conformity with the interim consolidated financial statements.

Paris, July 22, 2004

### The Statutory Auditors

PricewaterhouseCoopers Audit	RSM Salustro Reydel		
Serge Villepelet	Jean-Christophe Georghiou	Jean-Pierre Couzet	Emmanuel Paret

