



INTERIM REPORT 2003

**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*

RSM Salustro Reydel  
*Represented by Mr Jean-Pierre Crouzet*

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(Millions of euro)	6 months ended June 30, 2003	6 months ended June 30, 2002	% change 2003/2002
<b>Net sales and revenues</b>	<b>4,846</b>	<b>5,184</b>	<b>- 6.5%</b>
<b>Gross margin</b>	<b>863</b>	<b>888</b>	<b>- 2.8%</b>
% sales	17.8%	17.1%	
<b>Operating income</b>	<b>241</b>	<b>240</b>	<b>+ 0.4%</b>
% sales	5.0%	4.6%	
<b>Net income</b>	<b>102</b>	<b>68</b>	<b>+ 50.0%</b>
<b>Earnings per share (euro)</b>	<b>1.24</b>	<b>0.82</b>	<b>+ 51.2%</b>
<b>Earning before depreciation and amortization</b>	<b>416</b>	<b>402</b>	<b>+ 3.5%</b>
<b>Capital expenditures</b>	<b>215</b>	<b>289</b>	<b>- 25.6%</b>
<b>Number of employees at June 30</b>	<b>69,300</b>	<b>72,000</b>	<b>- 3.8%</b>

(Millions of euro)	At June 30 2003	Dec. 31, 2002	% change 2003/2002
<b>Stockholders' equity</b>	<b>2,005</b>	<b>2,101</b>	<b>- 4.6%</b>
<b>Net indebtedness</b>	<b>414</b>	<b>564</b>	<b>- 26.6%</b>
<b>Debt-to-equity ratio</b>	<b>21%</b>	<b>27%</b>	

Quarterly results (1) (Millions of euro)	Q1-2003	Q2-2003
<b>Net sales and revenues</b>	<b>2,440</b>	<b>2,406</b>
<b>Gross margin</b>	<b>428</b>	<b>435</b>
% sales	17.5%	18.1%
<b>Operating income</b>	<b>109</b>	<b>132</b>
% sales	4.5%	5.5%

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



Dear shareholders,

I would like to thank you for your confidence at the Annual General Meeting held on March 31 of this year: the renewed Board of Directors, set up as part of the transformation of Valeo into a joint stock company ("société anonyme") with a Board of Directors, appointed me Chairman & Chief Executive Officer. Since then, your Group has adopted the best practices in corporate governance: the Board is now governed by internal regulations and a code of good practice, while its work is prepared by four committees in charge of audits, strategy, appointments and compensation. Since my appointment, the Valeo management team and I have intensified the actions initiated at the beginning of 2001 aimed at restoring the Group's room for maneuver.

In the first half, Valeo accelerated its commercial growth and continued to improve its financial performance in spite of a difficult economic environment.

Group sales withstood the reduction in automobile production in Europe (-1%) and in North America (-4%). Adjusted to take account of the increase in the value of the euro, sales fell by 0.3%. The Group's profitability increased thanks to the improved flexibility of its production base and the restructuring of its activities in the United States and Western Europe. The gross margin amounted to 17.8% of sales, up 0.7 points compared to the year-earlier period.

Production facilities have been refocused and the Group's productivity is now one of the best in the industry. At June 30, 2003, Valeo had 130 production sites, compared to 170 at the beginning of 2001, with 40% located in low-cost regions.

Valeo is in a more competitive position also as a result of its efforts to optimize the supply chain: programs to increase productivity are implemented more efficiently by a streamlined supplier base.

Valeo is now winning orders at a rate of 1.3 times its sales, compared to 1.0 times in 2001. Group sales will begin to reflect this increased growth rate from mid-2004, when these contracts will enter into production. Valeo will then contribute to several major technological developments in the automotive industry, including the introduction of starter-alternators that will bring down the cost of switching to hybrid vehicles, and the widespread implementation of new-generation park assist systems and lighting systems offering improved safety (Xenon headlamps, bending lights, etc.).

In the second half, your Group will continue to rationalize its industrial facilities in order to increase its competitiveness despite the expected decline in automotive output on both sides of the Atlantic. Valeo's ability to adapt to market fluctuations reassures its automaker customers that the Group is fully able to uphold its strategic commitment to supply advanced systems with ever more competitive price, quality and service.

A handwritten signature in black ink, appearing to be 'T. Morin', written in a cursive style.

**Thierry Morin** - Chairman & Chief Executive Officer

## Valeo's activity and the world automotive environment

Sales for the first half 2003 amounted to 4,846 million euros, down 0.3% compared to the first half 2002, based on constant exchange rates and reporting entity.

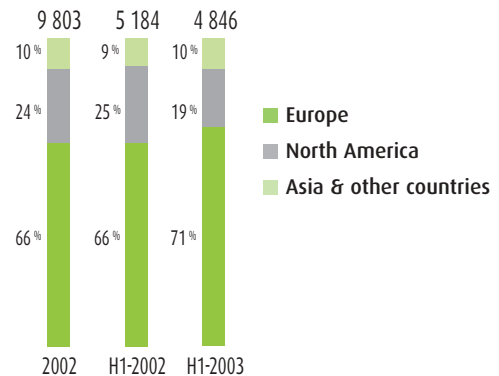
Changes in the reporting entity had a negligible impact on the Group's sales, while currency variations had a negative impact of 6.2%. The gross fall in sales was thus 6.5%.

An analysis of sales by geographic region reveals the following:

- in Europe, Valeo's competitive technology offering gave sales growth of 1%, whereas automotive output fell by 1%.
- in North America, sales declined by 28%, or by 12% at constant exchange rates and reporting entity due to the continued fall in the US dollar (down 19% against the euro over one year). This change is the result of rigorous control over profitability and the commercial consequences of the restructuring of the Valeo Electrical Systems Inc. subsidiary in 2002. Automotive output in this region dropped by 4% over the half year.
- in Asia, Valeo's sales progressed by 3%, or by 19% at constant exchange rates and reporting entity. The Group benefited from its local presence and experience in the region. The 9% climb in output in the region is largely due to the dynamic Chinese economy (+36%). Over the six-month period, production in Korea (+7%) benefited from strong exports.
- in South America, excluding currency and inflation effects, sales increased by 13% in a market that grew by 3%. However, the fall in the Brazilian real since the first half 2002 had a strong impact on sales expressed in euros (-13%).

The original equipment market represented 4,011 million euros of Group sales and the aftermarket represented 835 million euros. In the first half 2003, Valeo generated 71% of its sales in Europe, 19% in North America, 6% in Asia and 4% in other countries. Europe's contribution increased by 5 points compared to the year-earlier period, because of the appreciation of the euro and the Group's vigorous commercial growth in this region.

Sales by region  
(in millions of euros and % of sales)



## Improved order book

The Group registered new orders at a rate of 1.3 times sales for the first half (compared to 1.0 and 1.2 times sales in 2001 and 2002, respectively). Its solid order book reflects the quality and innovative nature of its product portfolio as well as the competitiveness of its production facilities.

## Commercial successes and customer awards

Valeo gained a number of new contracts in the first half, notably:

- an increased presence on the Renault Mégane II, that won the 2003 "Car of the Year" award. This model offers the highest content per vehicle in the segment, due to the incorporation of new technologies, such as Xenon headlamps, that had previously only been present on top-end automobiles,
- a contract to supply General Motors with wiper systems featuring the innovative Flat Blade technology; this will be fitted on future generations of vehicles including the GMT 900 four-wheel drive. This order reflects the recovery of the Valeo Electrical Systems Inc. subsidiary and is the biggest contract signed with General Motors since the start of VESI's restructuring.

For the third year running, the Group's R&D efforts have been recognized by EPCOS/SIA (Electronics Parts and Components/Société des Ingénieurs Automobiles) for innovation in automotive electronics systems. The award, in

the “Powertrain” category, went to Valeo’s new interfaced alternator. This system incorporates a regulator to control the alternator’s output voltage and optimize communication with the engine management system. The use of a microprocessor in an alternator regulator is a worldwide first.

Many Valeo Branches, divisions and sites received awards from customers for the quality of their products and services. Toyota awarded prizes to many of the Group’s divisions, including the Lighting sites in France as well as Mexico’s Wiper division in Juarez and its Transmissions division in Queretaro. The Wiper division at San Luis Potosi in Mexico and the Engine Cooling division at Saragossa in Spain obtained the first prize for logistics from General Motors and the Aragon Development Institute, respectively. The Engine Cooling division in the USA won the Honda Quality Award, while Valeo Transmissions Mexico was awarded a prize by Subaru. The Korea Transmissions division and Mexico’s Electrical Systems division received the prize for the Best Supplier of the Year from Hyundai & Kia Motors and Ford, respectively. The new Valeo Wiper plant in Bietigheim received the A.T. Kearney “Global Excellence of Operations” award for the production plant of the year. Finally, for the second year running, Valeo Service was nominated Best Supplier by the Auto Union Group.

## Technology developments

Valeo, leader on the Ultrasonic Park Assist systems market, expanded its range with two innovations:

- the product is marketed on the aftermarket under the name Master-Park™. Valeo Service is supplying this system to the aftermarket while maintaining the same performance and reliability as its OE system. Its software expertise ensures that just five versions of the Master-Park™ will cover nearly 80% of European automobiles.
  - the Group launched the development and application of the sensor fusion technology in order to create a visual parking system that makes reversing easier for the driver. This product combines information from three detection systems that were previously independent (steering angle sensor, miniature camera and bumper sensors); it displays information in real-time to help the driver reverse and park.
- Valeo was present at the Geneva Motor Show with its contribution of three technologies to a Bertone prototype:

- infrared night vision: this function offers the driver visibility that is three times better than standard direct vision. By incorporating an infrared beam and an integral miniature camera that sends images to the driver, this technology provides a similar light level while in dimmed mode to that of normal headlamps.
- bi-xenon lights: this system provides twice the brightness of typical halogen lamps.
- LED lamps: this technology is based on electroluminescent diodes and offers great flexibility in the design of the front and rear of the vehicle, while guaranteeing excellent lighting performance.

This prototype is a foretaste of new trends, both in terms of style and the application of advanced systems in mass production.

## Optimization of production facilities

In anticipation of a difficult economic context, the Group sustained the pace of its program to rationalize its production facilities.

All Branches contributed to the improvement of the Group’s results. Efforts to reorganize facilities in the first half included the following actions:

- the Wiper Systems operations at Bietigheim, Germany, were transferred to the new site, and the old one was closed;
- the Group announced plans to open a new Polish site (Chrzanow) for Lighting Systems. This will be the fifth plant in Poland and will eventually employ 600 people, bringing Valeo’s total investment in the country over the past three years to more than 100 million euros;
- as part of the program of selective disposals, the four wiring units in India and the Ain Harrouda site in Morocco, acquired through Sylea, were sold;
- the sites at Fort Worth in the United States and Carmen de Areco in Argentina (Switches & Detection Systems), those at Sant Esteve Sesrovires near Barcelona in Spain (Lighting Systems), at Jablonec in the Czech Republic (Wiring) and at Sainte Savine in France (Switches & Detection Systems) were closed;

- the Switches & Detection Systems Branch opened a new site in Sao Paulo Interlagos, Brazil.

In addition, Valeo announced a plan to restructure its sites at Abrera (Spain) and Santo Tirso (Portugal) in the Electronics & Connective Systems Branch; this will involve the transfer of production to other sites in Morocco and Tunisia.

This reorganization is part of the plan to transfer a portion of production to low-cost countries. At June 30, 2003, nearly 40% of the Group's sites were located in low-cost production regions.

At June 30, 2003, production was spread between 130 sites compared to 142 a year earlier.

### Closer links with suppliers

Valeo continued to rationalize its supplier base. At June 30, 2003, the Group had around 2,700 suppliers compared to 3,300 at the end of June 2002, a reduction of more than 18%. At the same time, 38 new Valeo Integrated Partners (VIPs) joined the Group's circle of preferred suppliers, bringing the total number of these suppliers to 98 compared to 60 a year earlier, an increase of 63%.

### Stronger presence in China

Valeo signed a new agreement with its partner Hubei Auto Lighting. This increases the Group's share in the capital of Hubei Valeo Auto Lighting from 51% to 75%. The production capacity of the lighting Branch in China will gradually be increased.

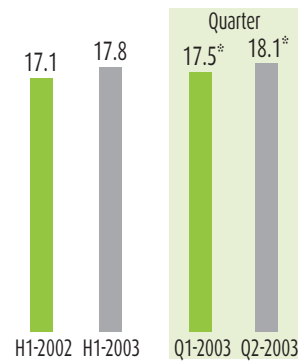
Valeo has been present in China for a decade; it now has eight sites there including three via minority shareholdings. Valeo has announced its intention to open several other sites in China in order to increase all its activities there over the next few years.

### Margins and results: continued rise in profitability

Despite its decline in sales, Valeo improved its margins as a result of its industrial rationalization policy, which has increased the Group's flexibility. In the first half 2003, the Group's gross margin increased by 0.7 points to 17.8% of sales (17.1% for the year-earlier period).

Over the first half, the gross margin increased from 17.5% of sales in the first quarter to 18.1% of sales in the second quarter, compared to 16.5% and 17.7%, respectively, in 2002.

Gross margin  
(% of sales)



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

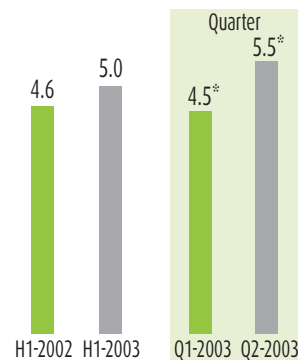
For the six month period, research and development costs were 296 million euros, or 6.1% of sales, reflecting the Group's strong commitment to the design of advanced systems.

Administrative and sales expenses were down by 4% to 326 million euros, or 6.7% of sales.

As a result of the improved gross margin rate, the operating income reached 241 million euros, or 5.0% of sales, a rise of 0.4 points compared to the first half 2002.

Over the six-month period, operating income increased from 4.5% of sales in the first quarter to 5.5% in the second quarter, compared to 3.8% and 5.4%, respectively, in 2002.

Operating income  
(% of sales)



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

For the first half 2003, the net financial expense was 18 million euros, compared to an expense of 33 million euros in

the same period in 2002. The 2003 net financial expense takes into account interest of 8 million euros on tax rebate (see paragraph below on taxes). Financial expenses included an unrealized loss on the Group's 890,416 treasury shares held at June 30, 2003 calculated on the basis of an average share price of 27.36 euros over this month.

Net other income and expenses for the period were negative at 67 million euros; this reflects the intensity of the restructuring plan underway.

Income tax stood at 5 million euros, compared to 60 million euros for the first half 2002. This sharp reduction is the result of a tax rebate of 88 million euros corresponding to a portion of the tax paid in 2001 for the 1999 disposal of the 50% Group's interest in Luk.

Having obtained this rebate, in September 2003 Valeo will pay an equalization tax of 39 million euros relating to the payment of dividends of 81 million euros in July 2003. At June 30, this equalization tax has been charged against stockholders' equity; at the Annual General Meeting held to approve the 2003 accounts, it will be proposed to record this as a carry forward loss in the Valeo Group's accounts.

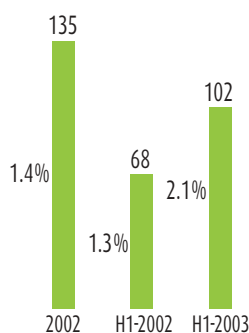
The net income from consolidated companies reached 151 million euros for the first half 2003, compared to 125 million euros for the year-earlier period.

Equity in net earnings of associated companies was 5 million euros, compared to 3 million euros for the first half 2002.

Amortization of goodwill amounted to 45 million euros, compared to 50 million euros for the year-earlier period.

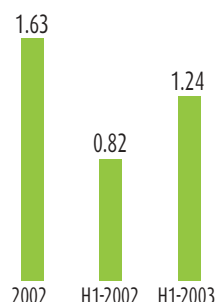
Net income after minority interests and amortization of goodwill totaled 102 million euros (2.1% of sales) compared to 68 million euros (1.3% of sales) for the first half 2002, an increase of 50%.

Net income  
(in millions of euros and % of sales)



Net earnings per share for the first half amounted to 1.24 euros.

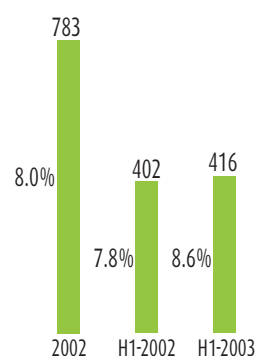
Net earnings per share  
(in euros)



## Operating cash flow and improvement in balance sheet

Due to the increase in the net income, the earnings before depreciation and amortization totaled 416 million euros or 8.6% of Group sales, compared to 7.8% of sales in the first half 2002.

Earnings before depreciation and amortization  
(in millions of euros and % of sales)

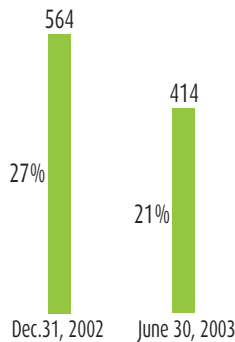


With a refocused and restructured Group, capital expenditure was limited to 215 million euros or 4.4% of sales, compared to 5.6% for the year-earlier period.

The Group's financial debt was reduced by 27% to 414 million euros at the end of June 2003, compared to 564 million euros at December 31, 2002, due to:

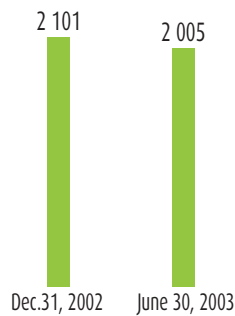
- an improvement in operating results;
- a reduction in working capital requirements, which totaled 1.3% of sales compared to 2.4% at the end of December 2002;
- control over capital expenditure, which was reduced by more than 25% compared to the year-earlier period.

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



At June 30, 2003, the Group shareholder equity totaled 2,005 million euros, down 96 million euros against end December 2002, including exchange adjustments of 78 million euros and 39 million euros for the equalization tax (see paragraph above on taxes).

Shareholders' equity  
(in millions of euros)



Provisions for contingencies and charges totaled 1,168 million euros. This includes 300 million euros of provisions for reorganization expenses, compared to 365 million euros at December 31, 2002. In addition to the amounts used in the first half (82 million euros) are amounts related to exchange rate effects and the reclassification of balance sheet items.

## Corporate governance

At the Annual General Meeting held on March 31, 2003, shareholders approved the transformation of Valeo into a joint stock company ("société anonyme") with a Board of Directors, and appointed the directors. The Board appointed Thierry Morin as Chairman & Chief Executive Officer of the Group.

The Board adopted internal governance rules that include a code of good conduct. These rules govern in particular relations between the Board of Directors and the Chairman and Chief Executive Officer. They introduce a system of corporate governance that reflects the best practices among listed companies. Four committees will prepare the Board's decision-making processes: an audit committee, a strategy committee, an appointments committee and a compensation committee.

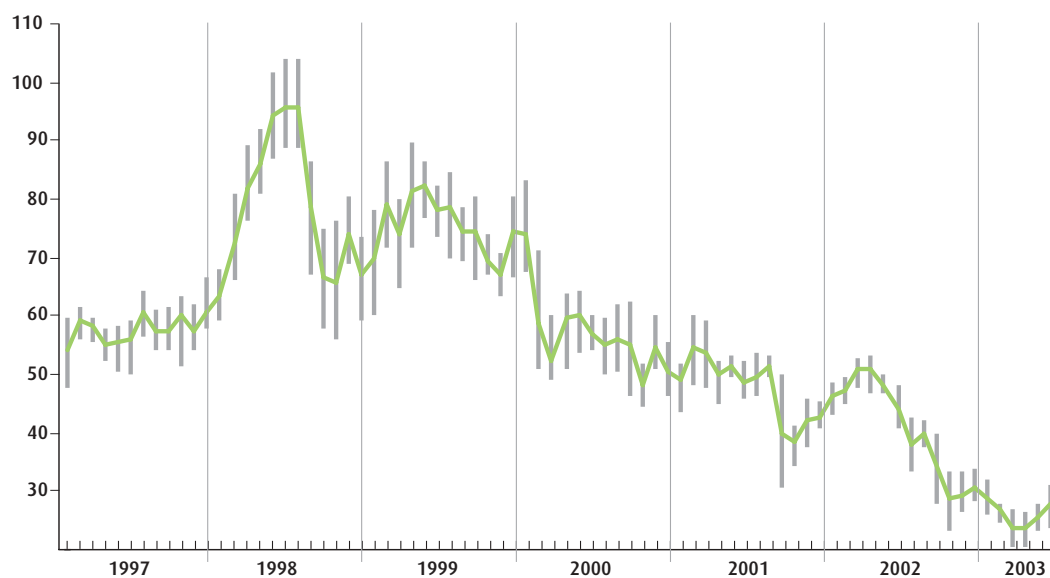
## Stock market data

	1 <sup>st</sup> half 2003	1 <sup>st</sup> half 2002	2002	2001	2000
Market Capitalization (end of period) (€ bn)	2.48	3.51	2.46	3.72	3.94
Number of shares	82,133,728	83,333,728	82,133,728	83,056,603	82,923,403
Highest share price (€)	31.50	53.00	53.00	59.90	82.60
Lowest share price (€)	19.75	40.10	23.00	30.02	43.90
Average share price (€)	29.41	47.35	40.04	47.17	56.35
End of period share price (€)	30.20	42.10	29.90	44.80	47.56

## Data per share

(€)	1 <sup>st</sup> half 2003	1 <sup>st</sup> half 2002	2002	2001	2000
Net earnings (on average number of share)	1.24	0.82	1.63	(7.12)	4.44
Dividend	-	-	1.00	0.70	1.35
Dividend including tax credit	-	-	1.50	1.05	2.03

## Share price (in euro)



## Share performance

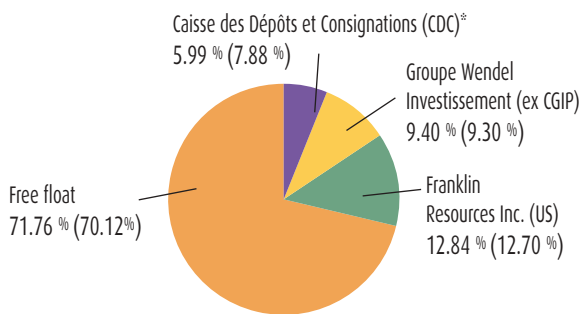
At June 20, 2003, Valeo's share price had risen by 1.0% over its closing price at the end of December 2002. Over the same period, the CAC 40 and SBF 120 had seen growth of 0.7% and 1.4% respectively.

The liquidity of the share has continued to rise, with an average of 10.8 million shares changing hands each month, compared to 10.4 and 10.2 million in 2001 and 2002.

## Change in Shareholder structure

### Shareholder structure at June 30, 2003

In % of equity (in % of voting rights)

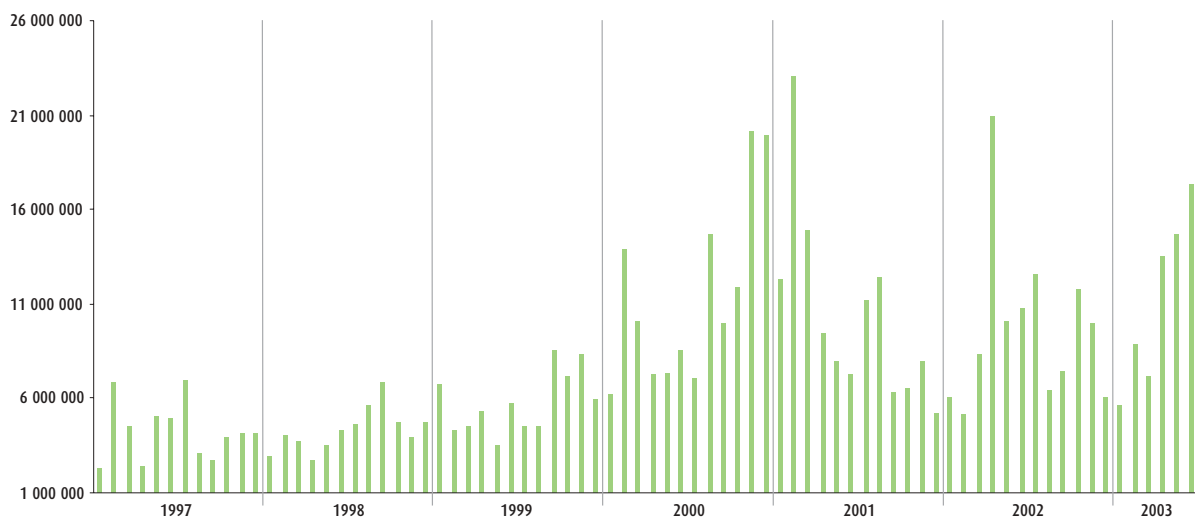


Number of shares: 82,133,728  
 Number of voting rights: 83,008,336  
 \*Own account

The shares held by Wendel Investissement no longer carry double voting rights, as a result of this Group's internal legal reorganization in March 2003.

Acting as financial intermediaries, State Street Bank and Northern Trust have respectively increased their stakes to 5% and 2%, on 25 February 2003 and 20 May 2003.

## Monthly trading volume (number of shares)



## 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.
- 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 4 years.

## Provisional reporting schedule

Announcement	Provisional date
Third Quarter 2003 results	22 October 2003
Annual results 2003	end-January 2004
First Quarter 2004 results	mid-April 2004
First Half 2004 results	end-July 2004

## Financial information

**Bruno-Roland Bernard**  
 Investor Relations Director

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(Millions of euro)	6 months ended June 30, 2003	6 months ended June 30, 2002	12 months ended Dec. 31, 2002
<b>NET SALES AND REVENUES (note 4)</b>	<b>4,846</b>	<b>5,184</b>	<b>9,803</b>
Cost of sales	(3,983)	(4,296)	(8,101)
<b>GROSS MARGIN</b>	<b>863</b>	<b>888</b>	<b>1,702</b>
% sales	17.8%	17.1%	17.4%
Research and development expenditures	(296)	(309)	(577)
Selling expenses	(94)	(97)	(186)
Administrative expenses	(232)	(242)	(452)
<b>OPERATING INCOME</b>	<b>241</b>	<b>240</b>	<b>487</b>
% sales	5.0%	4.6%	5.0%
Financial income and expenses - net	(18)	(33)	(62)
Other income and expenses - net	(67)	(22)	(74)
<b>INCOME BEFORE INCOME TAXES</b>	<b>156</b>	<b>185</b>	<b>351</b>
Income taxes (note 3)	(5)	(60)	(106)
<b>NET INCOME FROM CONSOLIDATED COMPANIES</b>	<b>151</b>	<b>125</b>	<b>245</b>
Equity in net earnings of associated companies	5	3	7
Amortization of goodwill	(45)	(50)	(95)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>111</b>	<b>78</b>	<b>157</b>
% sales	2.3%	1.5%	1.6%
Minority interests	(9)	(10)	(22)
<b>NET INCOME</b>	<b>102</b>	<b>68</b>	<b>135</b>
% sales	2.1%	1.3%	1.4%
Average number of shares outstanding (thousands)	82,134	83,241	83,038
<b>Earnings per share (euro)</b>	<b>1.24</b>	<b>0.82</b>	<b>1.63</b>
Fully diluted earnings per share (euro)	1.24	0.82	1.63

The notes on pages 16 to 19 are an integral part of the interim consolidated financial statements.

(Millions of euro)	At June 30, 2003	At June 30, 2002	At Dec. 31, 2002
<b>ASSETS</b>			
Cash and marketable securities	774	831	686
Accounts and notes receivable - net	1,907	2,034	1,752
Inventories - net	583	683	628
Short-term deferred tax assets	55	54	56
Prepaid expenses and other current assets	292	448	300
<b>Current assets</b>	<b>3,611</b>	<b>4,050</b>	<b>3,422</b>
Property, plant and equipment	5,583	5,721	5,652
Less : accumulated depreciation	(3,484)	(3,395)	(3,420)
Property, plant and equipment - net	2,099	2,326	2,232
Goodwill - net	1,310	1,467	1,387
Other intangibles - net	45	47	43
Investments in companies carried at cost	65	66	66
Investments in companies at equity	36	33	34
Loans and other assets	12	10	10
Investments and other non-current assets	113	109	110
Long-term deferred tax assets	64	117	106
<b>Fixed assets</b>	<b>3,631</b>	<b>4,066</b>	<b>3,878</b>
<b>TOTAL ASSETS</b>	<b>7,242</b>	<b>8,116</b>	<b>7,300</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Short-term debt	526	682	579
Accounts and notes payable	1,679	1,826	1,667
Current maturities of long-term debt	9	14	14
Provisions – current portion	399	536	419
Other liabilities and deferred income	1,042	1,155	835
<b>Current liabilities</b>	<b>3,655</b>	<b>4,213</b>	<b>3,514</b>
Long-term debt	653	668	657
Long-term deferred tax liabilities	25	26	25
Provisions for contingencies and charges	769	913	869
<b>Long-term liabilities</b>	<b>1,447</b>	<b>1,607</b>	<b>1,551</b>
Minority interests	135	130	134
Share capital	246	250	246
Additional paid-in capital	736	736	736
Retained earnings	1,023	1,180	1,119
<b>Stockholders' equity</b>	<b>2,005</b>	<b>2,166</b>	<b>2,101</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>7,242</b>	<b>8,116</b>	<b>7,300</b>

The notes on pages 16 to 19 are an integral part of the interim consolidated financial statements.

(Millions of euro)	6 months ended June 30, 2003	6 months ended June 30, 2002	12 months ended Dec. 31, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income from consolidated companies	151	125	245
Net dividends received from associated companies	1	-	-
Other adjustments to reconcile net income to cash flows			
• depreciation and amortization	270	284	554
• net charges to /(reversals from) provisions and deferred taxes	(39)	(115)	(208)
• losses - net of tax - on disposals of fixed assets	16	10	12
• other income and deductions with no cash effect	(2)	(7)	(4)
Cash flows	397	297	599
Changes in operating working capital:			
• inventories	35	45	69
• accounts and notes receivable	(185)	(254)	(1)
• accounts and notes payable	39	173	29
• other receivables and payables	96	208	106
<b>Net cash provided by operating activities</b>	<b>382</b>	<b>469</b>	<b>802</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures:			
• property and intangibles	(207)	(327)	(606)
• investments and other non-current assets	(3)	(2)	(3)
Proceeds - net of tax - from disposal of:			
• property and intangibles	6	18	19
• investments and other non-currents assets	-	1	-
Impact of changes in scope of consolidation	-	(35)	7
<b>Net cash used in investing activities</b>	<b>(204)</b>	<b>(345)</b>	<b>(583)</b>
<b>NET CASH PROVIDED BEFORE FINANCING ACTIVITIES</b>	<b>178</b>	<b>124</b>	<b>219</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid to parent company stockholders	-	-	(58)
Dividends paid to minority interests in consolidated subsidiaries	(8)	(7)	(10)
Proceeds from:			
• issuance of share capital	-	12	12
• cancellation of shares held in treasury stock	-	-	(51)
• issuance of long-term debt	-	2	3
• capital grants received	1	1	3
Reduction in long-term debt	(7)	(7)	(14)
<b>Net cash (used in)/provided by financing activities</b>	<b>(14)</b>	<b>1</b>	<b>(115)</b>
Effect of exchange rate changes on cash	(23)	(21)	(43)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>141</b>	<b>104</b>	<b>61</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>107</b>	<b>46</b>	<b>46</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>248</b>	<b>150</b>	<b>107</b>

The notes on pages 16 to 19 are an integral part of the interim consolidated financial statements.

Number of shares	(Millions of euro)	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Stockholders' equity
<b>83,056,603</b>	<b>Stockholders' equity at December 31, 2001</b>	<b>249</b>	<b>725</b>	<b>90</b>	<b>1,198</b>	<b>2,262</b>
	Dividends	-	-	-	(58)	(58)
277,125	Issuance of shares: through exercise of options	1	11	-	-	12
(1,200,000)	Capital reduction: through cancellation of shares held in treasury stock	(4)	-	-	(47)	(51)
	Effect of a change of method (application of new standard CRC 2000-06 on liabilities)	-	-	-	(9)	(9)
	Translation adjustment	-	-	(190)	-	(190)
	2002 net income	-	-	-	135	135
<b>82,133,728</b>	<b>Stockholders' equity at December 31, 2002</b>	<b>246</b>	<b>736</b>	<b>(100)</b>	<b>1,219</b>	<b>2,101</b>
	Dividends (1)	-	-	-	(81)	(81)
	Equalization tax on dividends (2)	-	-	-	(39)	(39)
	Translation adjustment	-	-	(78)	-	(78)
	First-half 2003 net income	-	-	-	102	102
<b>82,133,728</b>	<b>Stockholders' equity at June 30, 2003</b>	<b>246</b>	<b>736</b>	<b>(178)</b>	<b>1,201</b>	<b>2,005</b>

(1) The dividend will be paid in July 2003, following the decision of the Annual General Meeting held to approve the financial statements for the year ended December 31, 2002. Unpaid dividends on shares held in treasury stock have been credited to retained earnings.

(2) To be appropriated (see note 5)

## 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 the recommendations of the *Conseil National de la Comptabilité* (French accounting regulatory body) concerning interim accounts.**

Valeo also applies the valuation and accounting requirements of certain International Accounting Standards (IAS/IFRS) in preparing the consolidated financial statements, except the following standards in particular:

- IAS 1: international accounting standards (IAS/IFRS) have not been applied in their entirety;
- IAS 8: "Other income and expenses – net" corresponding primarily to severance and restructuring costs, gains and losses on disposals of consolidated subsidiaries and associated companies, and exceptional asset write-downs, are not included in operating income;
- IAS 14: segment reporting;
- IAS 22: Valeo accounts for business combinations in accordance with French generally accepted accounting principles. If IAS 22 had been applied to determine goodwill on ITT Electrical Systems in 1998, stockholders' equity at June 30, 2003 would have been increased by €539 million (€583 million at December 31, 2002) and net income for the six months ended June 30, 2003 would have been reduced by €18 million (€39 million for the year ended December 31, 2002).
- IAS 38: Valeo continues to charge development costs to the statement of income when they are incurred;
- IAS 39: Valeo applies French generally accepted accounting principles to account for financial instruments.

### 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 Transaction carried out in the first half of 2003

In March 2003, Valeo raised its interest in China-based Hubei Valeo Auto Lighting by 24% to 75%.

### 2.2 2002 transactions

- **Partnership with the US-based Jabil Circuit group for printed circuit board manufacturing.**

Valeo transferred its Meung-sur-Loire facility (750 people) to the world-class electronics manufacturing company Jabil Circuit in July 2002. The transfer of production from the Fort Worth facility in the United States was undertaken as from November 2002. This operation has no impact on Group sales.

- **Creation of Valeo Raytheon Systems Inc.**

Valeo set up a joint venture with Raytheon dedicated to developing and producing new automobile applications using radar technology designed for obstacle detection systems. This business has been consolidated since September 2002. It has 17 employees at June 30, 2003 and did not generate any sales in 2002 and 2003.

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

Group sales amounted to €4,846 million in first-half 2003, down 6.5% on the year-earlier period.

Changes in exchange rates had a 6.2 point negative impact. Changes in Group structure did not have a material impact. Based on a comparable structure and at constant exchange rate, sales are stable.

### 3 - INCOME TAXES

The net deferred tax benefit for the six months ended June 30, 2003 includes an €88 million tax rebate received from the French tax authorities in 2003, corresponding to a portion of the tax paid in 2001 on the gain from the 1999 disposal of the Group's 50% interest in LuK. The €8 million in interest also received from the French tax authorities in connection with this rebate have been recorded in financial income. Valuation allowances have been recorded in respect of certain deferred tax assets, based on the Group's revised estimate at June 30, 2003 of the probability of their being recovered.

### 4 -SEGMENT REPORTING

#### 4.1 By business segment

(Millions of euro)	Sales and revenues <sup>(1)</sup>	Capital expenditure	Number of employees
<b>6 months ended June 30, 2003</b>			
Transmissions	369	20	4,700
Climate Control	693	14	5,400
Engine Cooling	772	26	8,550
Lighting Systems	610	24	8,380
Electrical Systems	475	24	5,120
Wiper Systems	633	34	8,220
Motors and Actuators	219	10	2,300
Security Systems	337	14	4,230
Switches and Detection Systems	443	32	6,100
Electronics and Connective Systems	402	11	14,990
Distribution	252	2	1,060
<b>6 months ended June 30, 2002</b>			
Transmissions	384	25	4,620
Climate Control	721	27	5,390
Engine Cooling	835	25	8,460
Lighting Systems	630	28	8,380
Electrical Systems	462	39	5,050
Wiper Systems	732	51	8,070
Motors and Actuators	325	13	3,190
Security Systems	336	13	4,090
Switches and Detection Systems	435	34	6,270
Electronics and Connective Systems	554	28	17,240
Distribution	277	2	1,000
<b>12 months ended December 31, 2002</b>			
Transmissions	731	49	4,660
Climate Control	1,385	56	5,320
Engine Cooling	1,559	57	8,400
Lighting Systems	1,168	51	8,430
Electrical Systems	915	62	5,140
Wiper Systems	1,395	101	8,020
Motors and Actuators	573	24	2,740
Security Systems	645	28	4,000
Switches and Detection Systems	829	68	5,980
Electronics and Connective Systems	953	48	15,160
Distribution	535	4	1,000

(1) Before elimination of inter-segment sales

## 4.2 Geographical areas

(Millions of euro)	Sales and revenues			Capital expenditure	Number of employees
	Geographical area	Sales between geographical areas	Total		
<b>6 months ended June 30, 2003</b>					
France	1,803	183	1,986	78	22,100
Other European countries	1,766	157	1,923	89	23,300
North America	876	5	881	29	8,700
South America	119	4	123	4	2,700
Asia	270	4	274	10	3,300
Africa	12	180	192	5	9,200
Eliminations	-	(533)	(533)	-	-
<b>TOTAL</b>	<b>4,846</b>	<b>-</b>	<b>4,846</b>	<b>215</b>	<b>69,300</b>
<b>6 months ended June 30, 2002</b>					
France	1,788	222	2,010	91	23,500
Other European countries	1,745	148	1,893	117	24,300
North America	1,234	21	1,255	42	10,300
South America	133	3	136	10	2,600
Asia	272	5	277	17	3,600
Africa	12	172	184	12	7,700
Eliminations	-	(571)	(571)	-	-
<b>TOTAL</b>	<b>5,184</b>	<b>-</b>	<b>5,184</b>	<b>289</b>	<b>72,000</b>
<b>Year ended December 31, 2002</b>					
France	3,412	410	3,822	181	21,800
Other European countries	3,367	289	3,656	241	23,700
North America	2,199	25	2,224	73	9,600
South America	240	7	247	15	2,700
Asia	563	10	573	27	3,600
Africa	22	323	345	19	7,700
Eliminations	-	(1,064)	(1,064)	-	-
<b>TOTAL</b>	<b>9,803</b>	<b>-</b>	<b>9,803</b>	<b>556</b>	<b>69,100</b>

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

Sales by geographical market are as follows:

(Millions of euro)	France	Other European countries	North America	South America	Asia and other	Africa	Total
6 months ended June 30, 2003	1,206	2,234	931	129	319	27	4,846
6 months ended June 30, 2002	1,222	2,189	1,293	148	302	30	5,184
Year ended December 31, 2002	2,313	4,216	2,315	266	636	57	9,803

## 5 - FINANCIAL STATEMENTS OF VALEO COMPANY

The company recorded an operating loss of €6 million for first-half 2003, against an operating loss of €7 million in the same period of 2002.

Net financial income totaled €41 million for the first half of 2003 compared with €5 million for the first half 2002.

First-half 2003 net income was €143 million, versus €141 million for the first half of 2002. This figure includes an €88 million tax rebate received in 2003, corresponding to a portion of the tax paid in 2001 on the gain from the 1999 disposal of Valeo's 50% interest in LuK. The Company also received interest on the rebate, amounting to €8 million.

As a result of the rebate, Valeo will pay €39 million in equalization tax on the total dividend of €81 million decided by the Annual General Meeting called to approve the financial statements for the year ended December 31, 2002. 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, 2003.

In our capacity as Statutory Auditors of the Company and as required by Article L232-7 of the French *Code du 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, 2003, presented in euro, and of the information contained in the interim 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 generally accepted 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 generally accepted 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, 2003 and the consolidated financial position and assets of Valeo and its subsidiaries at that date in conformity with accounting principles generally accepted in France.

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

Paris, July 24, 2002

### The Statutory Auditors

PricewaterhouseCoopers Audit  
Serge Villepelet

RSM Salustro Reydel  
Jean-Pierre Cruzet

## INTERIM REPORT 2003

### ERRATUM

**The following text replaces the note 1.1 to the consolidated financial statements on page 16.**

**1.1 The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in France as well as with the recommendation n° 99-R-01 of the *Conseil National de la Comptabilité* (French accounting regulatory body) concerning interim accounts.**

Valeo also applies the valuation and accounting requirements of certain International Accounting Standards (IAS/IFRS) in preparing the consolidated financial statements. In particular, Valeo complies, in their significant aspects, with the provisions of International Accounting Standards concerning the accounting treatment of income arising in the ordinary course of business (IAS 18), the valuation of inventory (IAS 2), the accounting treatment of leases (IAS 17) and property, plant and equipment (IAS 16, historical cost method), accounting for income taxes (IAS 12), the valuation and accounting treatment of employee benefits (IAS 19), the effect of changes in foreign exchange rates (IAS 21), impairment of assets (IAS 36) and valuation of liabilities (IAS 37).

Among the International Accounting Standards applicable in preparing the interim consolidated financial statements for the six months ended June 30, 2003, Valeo has not applied certain standards which, if they had been applied, would have had a material effect on the interim consolidated financial statements. Those standards are as follows :

- IAS 1: international accounting standards (IAS/IFRS) have not been applied in their entirety;
- IAS 8: "Other income and expenses – net" corresponding primarily to severance and restructuring costs, gains and losses on disposals of consolidated subsidiaries and associated companies, and exceptional asset write-downs, are not included in operating income;
- IAS 14: segment reporting;
- IAS 22: Valeo accounts for business combinations in accordance with French generally accepted accounting principles. If IAS 22 had been applied to determine goodwill on ITT Electrical Systems in 1998, stockholders' equity at June 30, 2003 would have been increased by €539 million (€583 million at December 31, 2002) and net income for the six months ended June 30, 2003 would have been reduced by €18 million (€39 million for the year ended December 31, 2002).
- IAS 38: Valeo continues to charge development costs to the statement of income when they are incurred;
- IAS 39: Valeo applies French generally accepted accounting principles to account for financial instruments.

**Valeo**

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