

Acceleration in outperformance and cash generation in 2019

- Outperformance of 8 percentage points in the second half and 6 percentage points over the year
- Strong free cash flow⁽¹⁾ generation of 519 million euros
- Increase in EBITDA⁽¹⁾⁽²⁾, excluding the Top Column Module business and the impact of the General Motors strike, to 2,551 million euros, or 13.2% of sales, up sharply in the second half
- Operating margin⁽²⁾⁽³⁾ excluding the Top Column Module business and the impact of the General Motors strike, at 5.8% of sales, in line with October 24, 2019 guidance
- Dividend maintained at €1.25 per share

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

"The technological platforms we have developed in the past few years, mainly in the electrification and ADAS segments, have driven our sharp outperformance versus the automotive market (8 percentage points in second-half 2019) and also allowed us to reduce, from the second half of 2019, our R&D expenses and our capital expenditure, as explained at the Investor Day on December 10, 2019. With 519 million euros of free cash flow generated in 2019, we have clearly confirmed that even in a tough automotive market, we are able to finance our growth and support the development of our Valeo-Siemens joint venture. In a market set to remain uncertain in 2020, we will once again deliver a substantial outperformance, generate significant free cash flow and improve our operating margin, thanks to our strict control over costs and capital expenditure."

Concerning the Covid-19 outbreak in China, we have taken every step to protect our employees. It is too early to assess the impact on the automotive industry and on Valeo specifically.

Our plants located outside Hubei province, which account for 90% of our nominal sales in China, have resumed production, with supply chains gradually getting back in order.

(1) See Financial Glossary, page 16.

(2) On October 24, 2019, Valeo announced it would withdraw from the Top Column Module (TCM) business.

(3) Excluding share in net earnings of equity-accounted companies.

Paris February 20, 2020 – Order intake⁽¹⁾ for 2019 totaled 22.8 billion euros (including 0.8 billion euros relating to Valeo Siemens eAutomotive), of which 47% was for innovative products⁽²⁾. At 22 billion euros, Group order intake represented 1.34 times original equipment sales.

Consolidated sales⁽³⁾ came in at 19,244 million euros, up 1% year on year and stable like for like⁽¹⁾.

Original equipment sales⁽³⁾ totaled 16,122 million euros, stable like for like⁽¹⁾, representing an outperformance of 6 percentage points over the year, with a sharp acceleration in the second half (at 8 percentage points versus 4 percentage points in the six months to June 30). All Business Groups outperformed the market, spurred by the start of production of numerous high-tech innovations (cameras and other ADAS-related products, electrification and lighting systems), mainly in Europe, China and North America, where the Group's outperformance is accelerating. Valeo also continued to enjoy a balanced alignment of its businesses across the main automotive production regions and the main automaker customers.

Despite an uptick in the second half, **aftermarket sales⁽³⁾** were down 2% like for like⁽¹⁾ over the year, owing to the slowdown in business in Europe, China and Turkey, as well as the closure of the Iranian market.

"Miscellaneous" sales⁽³⁾ including tooling revenues (and revenues relating to customer contributions to R&D), rose by a sharp 19%, confirming the hypothesis of a continued outperformance of more than 5 percentage points for original equipment sales in 2020.

In a particularly unstable economic and geopolitical environment and amid a marked 6% decline in automotive production, Valeo pressed ahead with its cost reduction program, reporting lower R&D expenditure and selling and administrative expenses for the year.

R&D expenditure⁽³⁾ contracted 2% or 30 basis points compared with 2018, down sharply in the second half of the year. The decrease was driven by the strict implementation of cost savings measures thanks to the high degree of standardization of Valeo's new technological platforms, which led to a 44 million euro reduction in gross development expenditure (from 2,073 million euros in 2018 to 2,029 million euros in 2019). The contraction in R&D expenditure comes amid a sharp rise in amortization charged against previously capitalized development expenditure (representing 2.1% of sales in 2019 compared to 1.6% in 2018). This reduced the positive net impact of R&D capitalization (by 0.3 percentage points in 2019), with the trend significantly accelerating in the second half of the year (0.7 percentage point reduction in the net impact of the capitalization of development expenditure).

General, administrative and selling expenses⁽³⁾ were down 6% to 860 million euros thanks to the cost savings program and organizational efficiency measures, representing 4.5% of sales, 0.3 percentage points lower than in 2018.

Operating margin⁽⁴⁾ came in at 5.8% of sales excluding the impact of the General Motors strike, in line with the guidance published in October 2019 and with the information disclosed at the Investor Day on December 10, 2019. This performance came despite a bigger-than-expected slowdown in the European and Chinese markets leading to a 6% fall in global automotive production. In the second half of the year, operating margin⁽⁴⁾ represented 6.1% of sales excluding the impact of the General Motors strike, a 1.3 percentage point improvement on the same period in 2018.

The share in net earnings of equity-accounted companies represented a 237 million euro loss (130 million euro loss in the second half). This includes the share in the loss reported by Valeo Siemens eAutomotive, which reached a high of 260 million euros in 2019 in line with our expectations (137 million euro loss in the second half), and lower profitability for Chinese and Indian joint ventures amid declining production in their markets.

(1) See Financial Glossary, page 16.

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

(3) Excluding the TCM business.

(4) Excluding share in net earnings of equity-accounted companies and excluding the TCM business.

After taking account of other income and expenses in an amount of 65 million euros, cost of net debt⁽¹⁾ of 73 million euros and an effective tax rate of 29.4%, **net attributable income** came in at 313 million euros, or 1.6% of sales. Excluding non-recurring items (i.e., the TCM business, the impact of the General Motors strike and other income and expenses), net income came to 444 million euros, representing earnings per share excluding non-recurring items of 1.86 euros.

EBITDA⁽¹⁾ came out at 2,496 million euros, or 12.8% of sales. Excluding non-recurring items (excluding the TCM business and the impact of the General Motors strike), EBITDA came out at 2,551 million euros, or 13.2% of sales. In second-half 2019, it rose sharply to 1,332 million euros, or 13.7% of sales (up 2.2 percentage points compared with the same period of 2018). In line with the plan unveiled at the Investor Day, EBITDA benefited from the 29% acceleration in amortization charged against development expenditure following the start of production on numerous projects in 2019.

Valeo generated **519 million euros in free cash flow**⁽¹⁾. This item results from an 86 million euro improvement in EBITDA, a positive 301 million euro change in working capital (decrease in tooling inventories and in customer overdues) and a 150 million euro reduction in capital expenditure.

Net debt⁽¹⁾ stood at 2,817 million euros at December 31, 2019 (leverage ratio of 1.13 and gearing ratio of 61%), up 569 million euros compared with end-December 2018, after taking account of the impact of IFRS 16 (441 million euros) and the dividend payment (343 million euros).

Valeo is recognized by the major non-financial rating agencies (MSCI, RobecoSAM, CDP and Corporate Knights) as a global leader in the automotive supplier industry, and it continues to work towards its goal of growth and value creation through the transformation of mobility and its commitment to **Sustainable Development**. In 2019, 53% of the Group's original equipment sales were derived from products directly or indirectly helping to reduce CO₂ emissions.

2019 dividend

In light of Valeo's results and its strong cash flow generation, at the next Shareholders' Meeting shareholders will be asked to vote on the payment of a dividend of 1.25 euros per share, stable compared with 2018.

(1) See Financial Glossary, page 16.

2020 outlook

Valeo expects automotive production to be down by 2% in 2020.

Excluding the possible impact of the coronavirus in China, the Group has set the following objectives for 2020 in line with those presented at the Investor Day on December 10, 2019:

- outperformance of more than 5 percentage points;
- strict control over costs and capital expenditure;
- further increase in EBITDA⁽¹⁾ and improvement in operating margin excluding share in net earnings of equity-accounted companies (as a % of sales);
- reduction in the impact of the Valeo Siemens eAutomotive joint venture on “Share in net earnings of equity-accounted companies”;
- significant free cash flow⁽¹⁾ generation.

(1) See Financial Glossary, page 16.

Paris, February 20, 2020. At today's meeting, Valeo's Board of Directors approved the consolidated and parent company financial statements for the year ended December 31, 2019⁽¹⁾. The results for 2019 shown below have been prepared in accordance with IFRS:

		H2 2019	H2 2018	Change	2019	2018	Change
Valeo order intake ⁽²⁾ (excluding Valeo Siemens eAutomotive)	(in €bn)	10.9	10.2	N/A	22.0	24.2	N/A
Sales	(in €m)	9,701	9,261	+5%	19,477	19,124	+2%
Original equipment sales	(in €m)	8,140	7,771	+5%	16,360	16,146	+1%
Gross margin	(in €m) (as a % of sales)	1,700 17.5%	1,676 18.1%	+1% -0.6 pts	3,454 17.7%	3,674 19.2%	-6% -1.5 pts
R&D expenditure	(in €m) (as a % of sales)	(765) (7.9)%	(786) (8.5)%	-3% +0.6 pts	(1,550) (8.0)%	(1,560) (8.2)%	-1% +0.2 pts
Selling and administrative expenses	(in €m) (as a % of sales)	(415) (4.3)%	(442) (4.8)%	-6% +0.5 pts	(870) (4.5)%	(911) (4.8)%	-4.5% +0.3 pts
Operating margin excluding share in net earnings of equity-accounted companies	(in €m) (as a % of sales)	520 5.4%	448 4.8%	+16% +0.6 pts	1,034 5.3%	1,203 6.3%	-14% -1 pt
Share in net earnings of equity-accounted companies	(in €m) (as a % of sales)	(130) (1.3)%	(83) (0.9)%	N/A -0.4 pts	(237) (1.2)%	(111) (0.6)%	N/A -0.6 pts
Operating margin ⁽²⁾ including share in net earnings of equity-accounted companies	(in €m) (as a % of sales)	390 4.0%	365 3.9%	+7% +0.1 pts	797 4.1%	1,092 5.7%	-27% -1.6 pts
Net attributable income	(in €m) (as a % of sales)	151 1.6%	93 1.0%	+62% +0.6 pts	313 1.6%	546 2.9%	-43% -1.3 pts
Basic earnings per share	(in €)	N/A	N/A	N/A	1.3	2.3	-43%
Net income excluding non-recurring items ⁽²⁾	(in €m) (as a % of sales)	N/A N/A	N/A N/A	N/A N/A	444 2.3%	599 3.1%	-26% -0.8 pts
Basic earnings per share excluding non-recurring items	(in €)	N/A	N/A	N/A	1.9	2.5	-24%
ROCE ⁽²⁾⁽³⁾		N/A	N/A	N/A	14%	19%	N/A
ROA ⁽²⁾⁽³⁾		N/A	N/A	N/A	9%	12%	N/A
EBITDA ⁽²⁾	(in €m) (as a % of sales)	1,278 13.2%	1,069 11.5%	+20% +1.7 pts	2,496 12.8%	2,410 12.6%	+4% +0.2 pts
Change in operating working capital*	(in €m)	72	120	N/A	301	(22)	N/A
Investments in property, plant and equipment and intangible assets	(in €m)	(800)	(922)	-13%	(1,766)	(1,916)	-8%
Free cash flow ^{(2)**}	(in €m)	282	125	+256%	519	161	+223%
Net debt including the impact of IFRS 16 ⁽²⁾	(in €m)	2,817	2,248	+€569m	2,817	2,248	+€569m

* Change in working capital excluding (i) changes in non-recurring sales of accounts and notes receivable in a positive amount of 45 million euros in 2019 and a positive amount of 16 million euros in 2018 and (ii) the restatement of cash contributions to R&D reclassified within investments in property, plant and equipment and intangible assets.

** Following the application of IFRS 16, the Group's definition of free cash flow has been adjusted to take into account payments for the principal portion of lease liabilities. The resulting impact on free cash flow is marginal, at around 14 million euros.

(1) Further to their statutory audit, the Statutory Auditors issued an unqualified opinion on the consolidated financial statements for the year ended December 31, 2019.

(2) See Financial Glossary, page 16.

(3) Excluding the TCM business and the impact of the General Motors strike.

Global automotive production

Automotive production (year-on-year change)	H2 2019	Full-year
	IHS + CPCA*	IHS + CPCA*
Europe & Africa	-4%	-4%
Asia, Middle East & Oceania	-5%	-8%
o/w China	-3%	-10%
o/w Japan	-3%	0%
o/w South Korea	-6%	-2%
o/w India	-15%	-11%
North America	-5%	-4%
South America	-6%	-4%
TOTAL	-5%	-6%

* Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.

Global automotive production contracted by 5% in the second half owing to a 4% decline in production in Europe and a 5% decline in North America due to the strike at General Motors.

Order intake⁽¹⁾ supported by technological innovations

Valeo continued to adopt a more selective approach for its **order intake**⁽¹⁾ in 2019, to optimize the development and industrialization of its numerous ongoing projects. In 2019, the Group recorded order intake of 22.8 billion euros, comprising:

- 22 billion euros for Valeo, or 1.34 times original equipment sales;
- 0.8 billion euros for Valeo Siemens eAutomotive, corresponding to an order book worth 11 billion euros at end-2019.

Order intake (excluding Valeo Siemens eAutomotive) remained well-balanced across the Group's different regions:

- 35% in Asia;
- 16% in China, of which 26% of orders were booked with local Chinese automakers;
- 43% in Europe (and Africa);
- 18% in North America.

In all, 47% of the order intake related to innovative products⁽²⁾, confirming the successful positioning of Valeo's new technologies and products in the powertrain electrification, ADAS, autonomous vehicle and digital mobility segments.

(1) See Financial Glossary, page 16.

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

Change in sales⁽¹⁾: outperformance of 8 percentage points in the second half and 6 percentage points over the full year

Consolidated sales⁽¹⁾ totaled 19,244 million euros in 2019, up 1%.

The overall impact of changes in exchange rates and in Group structure was minimal:

- changes in exchange rates had a positive 1.7% impact, primarily reflecting the appreciation of the US dollar and Japanese yen against the euro;
- changes in Group structure had a negative 1.4% impact, and chiefly relate to the exclusion of the TCM business from consolidated figures.

Sales (in millions of euros)	As a % of 2019 sales	Second-half				Full-year			
		2019 ⁽¹⁾	2018	LFL* change	Change	2019 ⁽¹⁾	2018	LFL* change	Change
Original equipment	84%	8,033	7,771	+3%	+3%	16,122	16,146	0%	0%
Aftermarket	10%	976	969	0%	+1%	1,972	2,010	-2%	-2%
Miscellaneous	6%	579	521	+9%	+11%	1,150	968	+15%	+19%
Total	100%	9,588	9,261	+3%	+4%	19,244	19,124	0%	+1%

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

Original equipment sales⁽¹⁾ totaled 16,122 million euros, stable like for like⁽²⁾. This represents an outperformance versus global automotive production of 6 percentage points over the year, with a sharp acceleration in the second half (at 8 percentage points versus 4 percentage points in the six months to June 30).

Aftermarket sales⁽¹⁾ declined by 2% on a like-for-like basis⁽²⁾, owing to the slowdown in business in Europe, China and Turkey, as well as the closure of the Iranian market.

“Miscellaneous” sales⁽¹⁾ including tooling revenues (and revenues relating to customer contributions to R&D), rose by a sharp 19%, confirming the hypothesis of a continued outperformance of at least 5 percentage points for original equipment sales in 2020.

Change in original equipment sales by destination region

Original equipment sales (in millions of euros)	Second-half				Full-year			
	2019 ⁽¹⁾	2018	LFL* change	Outperf. vs. IHS/CPCA* *	2019 ⁽¹⁾	2018	LFL* change	Outperf. vs. IHS/CPCA**
Europe & Africa	3,618	3,528	+5%	+9 pts	7,534	7,660	+1%	+5 pts
Asia, Middle East & Oceania	2,625	2,563	-1%	+4 pts	4,994	5,146	-6%	+2 pts
• o/w China	1,092	1,025	+8%	+11 pts	1,941	2,101	-5%	+5 pts
• o/w Japan	634	675	-13%	-10 pts	1,271	1,329	-10%	-10 pts
• o/w South Korea	660	619	+1%	+7 pts	1,311	1,214	0%	+2 pts
• o/w India	80	93	-18%	-3 pts	169	198	-16%	-5 pts
North America	1,601	1,502	+5%	+10 pts	3,217	2,964	+5%	+9 pts
South America	189	178	+10%	+16 pts	377	376	+6%	+10 pts
TOTAL	8,033	7,771	+3%	+8 pts	16,122	16,146	0%	+6 pts

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

** Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.

(1) Excluding the TCM business.

(2) See Financial Glossary, page 16.

Like-for-like⁽²⁾ **original equipment sales**⁽¹⁾ were stable in 2019, outpacing global automotive production by 6 percentage points (IHS/CPCA estimates). This outperformance accelerated sharply as the year progressed (coming out at 8 percentage points overall for the second half versus 4 percentage points in the six months to June 30) in all production regions:

- **in Europe** (including Africa) (47% of original equipment sales⁽¹⁾), like-for-like⁽²⁾ original equipment sales⁽¹⁾ rose 1%, outpacing automotive production by 5 percentage points. The sharp acceleration in the region's outperformance (from 3 percentage points in the first half to 9 percentage points in the second) was driven by the start of production on numerous projects in the camera, electrification system and lighting segments;
- **in Asia** (31% of original equipment sales⁽¹⁾), like-for-like⁽²⁾ original equipment sales⁽¹⁾ fell 6%, outpacing automotive production by 2 percentage points:
 - ✓ in China, like-for-like⁽²⁾ original equipment sales⁽¹⁾ decreased by 5%, outpacing automotive production by 5 percentage points. The sharp acceleration in the outperformance in China (from an underperformance of 3 percentage points in the first half to an outperformance of 11 percentage points in the second) was fueled by the start-up of numerous projects in the camera and lighting segments;
 - ✓ in Japan, like-for-like⁽¹⁾ original equipment sales⁽²⁾ were down 10%, underperforming automotive production by 10 percentage points (of which an underperformance of 10 percentage points in the second half), primarily due to an unfavorable customer mix, particularly in thermal solutions;
- **in North America** (20% of original equipment sales⁽¹⁾), like-for-like⁽²⁾ original equipment sales⁽¹⁾ rose 5%, outpacing automotive production by 9 percentage points (10 percentage points in the second half), driven by the start of production on projects in the lighting and thermal solutions segments;
- **in South America** (2% of original equipment sales⁽¹⁾), like-for-like⁽²⁾ original equipment sales⁽¹⁾ grew by 6%, outpacing automotive production by 10 percentage points (16 percentage points in the second half).

Balanced geographic alignment of Valeo's businesses

Year-on-year changes in the share of original equipment sales⁽¹⁾ in the four main production regions in 2019 were as follows:

- a rise of 2 percentage points for North America, accounting for 21% of original equipment sales⁽¹⁾;
- stable for South America, accounting for 2% of original equipment sales⁽¹⁾;
- a fall of 1 percentage point for Europe (including Africa), accounting for 47% of original equipment sales⁽¹⁾;
- a fall of 1 percentage point for Asia, accounting for 30% of original equipment sales⁽¹⁾.

(1) Excluding the TCM business.

(2) See Financial Glossary, page 16.

Balanced customer portfolio

The share of original equipment sales⁽¹⁾ among the Group's customers remained stable in 2019:

- Asian customers accounted for 33% of original equipment sales⁽¹⁾;
- German customers accounted for 30% of original equipment sales⁽¹⁾;
- American customers accounted for 18% of original equipment sales⁽¹⁾;
- French customers accounted for 13% of original equipment sales⁽¹⁾.

Change in sales by Business Group

Sales by Business Group (in millions of euros)	Second-half					Full-year				
	2019 ⁽¹⁾	2018	Change in OE sales [*]	Change in sales	Outperf. vs. IHS/CPCA ^{**}	2019 ⁽¹⁾	2018	Change in OE sales [*]	Change in sales	Outperf. vs. IHS/CPCA ^{**}
Comfort & Driving Assistance Systems	1,843	1,867	+4%	-1%	+9 pts	3,649	3,766	+2%	-3%	+8 pts
Powertrain Systems	2,556	2,477	+4%	+3%	+9 pts	5,121	5,141	0%	0%	+6 pts
Thermal Systems	2,252	2,228	-1%	+1%	+4 pts	4,582	4,569	-3%	0%	+3 pts
Visibility Systems	3,000	2,753	+5%	+9%	+10 pts	6,014	5,783	0%	+4%	+6 pts

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

** Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.

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

In 2019, original equipment sales⁽¹⁾ outpaced automotive production by 6 percentage points, with a sharp acceleration in the second half to 8 percentage points. All Business Groups significantly outperformed automotive production during the year:

- the **Comfort & Driving Assistance Systems Business Group** recorded a strong outperformance (8 percentage points for the year and 9 percentage points for the second half), fueled by many new launches in Europe, particularly front cameras for German and French customers, as well as a favorable customer mix in China;
- the **Powertrain Systems Business Group** outperformed by 6 percentage points (9 percentage points in the second half), mainly thanks to launches in the powertrain electrification segment, primarily in Europe;
- the 3 percentage point outperformance of the **Thermal Systems Business Group** (4 percentage point outperformance in the second half) was mainly attributable to an unfavorable customer mix in Asia, particularly with Nissan and Subaru in Japan. In Europe and North America, the Business Group is benefiting from the start of production on projects with French and US customers, respectively;
- the **Visibility Systems Business Group** reported a significant outperformance (6 percentage points over the year and 10 percentage points in the second half), spurred by the start of production on projects in North America with US customers in the lighting segment and a slight upturn in business in Europe and China.

(1) Excluding the TCM business.

(2) See Financial Glossary, page 16.

Operating margin⁽¹⁾ at 6.1% in the second half and 5.8% in 2019, in line with our October 2019 guidance

H2 2019	H2 2018		2019	2018	Change
9,588	9,261	Sales ⁽²⁾ (in €m)	19,244	19,124	+1%
1,697 17.7%	1,676 18.1%	Gross margin ⁽²⁾ (in €m) (as a % of sales)	3,450 17.9%	3,674 19.2%	-6% -1.3 pts
537 5.6%	448 4.8%	Operating margin ⁽²⁾ excluding share in net earnings of equity-accounted companies (in €m) (as a % of sales)	1,064 5.5%	1,203 6.3%	-12% -0.8 pts
(130) (1.4)%	(83) (0.9)%	Share in net earnings of equity-accounted companies (in €m) (as a % of sales)	(237) (1.2)%	(111) (0.6)%	N/A -0.6 pts
407 4.2%	365 3.9%	Operating margin ⁽²⁾ including share in net earnings of equity-accounted companies (in €m) (as a % of sales)	827 4.3%	1,092 5.7%	-24% -1.4 pts
151 1.6%	93 1.0%	Net attributable income (in €m) (as a % of sales)	313 1.6%	546 2.9%	-43% -1.1 pts

R&D expenditure⁽²⁾ contracted by 2%, or 0.3 percentage points compared with 2018, down a sharp 5% in the second half of the year. The decrease was driven by the strict implementation of cost savings measures thanks to the high degree of standardization of Valeo's new technological platforms, which led to a 44 million euro reduction in gross development expenditure (from 2,073 million euros in 2018 to 2,029 million euros in 2019). The contraction in R&D expenditure comes amid a sharp rise in amortization charged against previously capitalized development expenditure (representing 2.1% of sales in 2019 compared to 1.6% in 2018). This reduced the positive net impact of R&D capitalization (by 0.3 percentage points in 2019), with the trend significantly accelerating in the second half of the year (0.7 percentage point reduction in the net impact of the capitalization of development expenditure).

Thanks to the new cost savings program rolled out early in the year and to organizational efficiency measures, **general, administrative and selling expenses⁽²⁾** were also down, shrinking 6% to 860 million euros, representing 4.5% of sales, 0.3 percentage points lower than in 2018.

Operating margin⁽³⁾ narrowed 12% to 1,064 million euros, or 5.5% of sales (down 0.8 percentage points), primarily reflecting:

- a negative volume and inflation effect of 0.7 percentage points;
- start-up costs for new projects, which had a negative impact of 0.5 percentage points;
- a 0.3 percentage point decline in the tooling revenues margin;
- an overall 0.8 percentage point reduction in R&D expenditure and general, administrative and selling expenses;
- a positive scope effect of 0.2 percentage points relating to the Group's withdrawal from the Top Column Module business.

Excluding the impact of the General Motors strike, operating margin⁽³⁾ came in at 5.8% of sales, in line with our October 2019 guidance and the information disclosed at the December 2019 Investor Day. This performance came despite a bigger-than-expected slowdown in the European and Chinese markets leading to a 6% fall in automotive production. In the second half of the year, operating margin⁽¹⁾ represented 6.1% excluding the impact of the General Motors strike, a sharp 1.3 percentage point improvement on the same period in 2018.

(1) Excluding share in net earnings of equity-accounted companies, the TCM business and the impact of the General Motors strike.

(2) Excluding the TCM business.

(3) Excluding share in net earnings of equity-accounted companies and excluding the TCM business.

The share in net earnings of equity-accounted companies represented a loss of 237 million euros, or a negative 1.2% of sales. It takes into account:

- the share of the loss recorded by Valeo Siemens eAutomotive which is bearing the costs needed for its expansion. The loss hit a high of 260 million euros in 2019, in line with our expectations;
- the contribution of the Chinese and Indian joint ventures, whose performance was hard hit by the weak performance of their markets.

Operating income totaled 732 million euros, or 3.8% of sales. It includes other income and expenses representing a net expense of 65 million euros.

After taking into account the cost of net debt of 73 million euros and an effective tax rate of 29.4%, **net attributable income** came to 313 million euros, or 1.6% of sales.

Return on capital employed (ROCE⁽¹⁾⁽²⁾) and **return on assets (ROA⁽¹⁾⁽²⁾)** stood at 14% and 9%, respectively.

EBITDA⁽¹⁾ by Business Group

EBITDA <i>(in millions of euros and as a % of sales by Business Group)</i>	2019	2018	Change	H2 2019	H2 2018	Change
Comfort & Driving Assistance Systems	599 16.4%	528 14.0%	+13% +2.4 pts	316 17.2%	245 13.1%	+29% +4.1 pts
Powertrain Systems	685 13.4%	674 13.1%	+2% +0.3 pts	366 14.3%	305 12.3%	+20% +2.3 pts
Thermal Systems	502 11.0%	495 10.8%	+1% +0.2 pts	240 10.7%	207 9.3%	+16% +1.4 pts
Visibility Systems	660 11.0%	642 11.1%	+3% -0.1 pts	336 11.2%	257 9.3%	+31% +1.9 pts
Other*	50 2.0%	71 2.9%	-30% -0.9 pts	20 1.6%	55 5.1%	-64% -3.6 pts
Group	2,496 12.8%	2,410 12.6%	+3.6% +0.2 pts	1,278 13.2%	1,069 11.5%	+20% +1.7 pts

* Including the TCM business.

EBITDA came out at 2,496 million euros, or 12.8% of sales. In line with the plan unveiled at the Investor Day, EBITDA benefited from the 29% acceleration in amortization charged against development expenditure following the start of production on numerous projects in 2019.

(1) See Financial Glossary, page 16.

(2) Excluding the TCM business and the impact of the General Motors strike.

Free cash flow⁽¹⁾ generation of 519 million euros

H2 2019	H2 2018	(in millions of euros)	2019	2018
1,278	1,069	EBITDA	2,496	2,410
71	120	Change in operating working capital*	301	(22)
(27)	(13)	Restructuring costs	(37)	(31)
(140)	(129)	Income tax	(292)	(267)
(32)	(34)	Provisions for pensions	(33)	(35)
(38)	N/A	Payments for the principal portion of lease liabilities**	(84)	N/A
(30)	34	Other operating items	(66)	22
(800)	(922)	Investments in property, plant and equipment and intangible assets	(1,766)	(1,916)
282	125	Free cash flow ^{(1)**}	519	161
(15)	(5)	Net financial expenses	(71)	(58)
(211)	(169)	Other financial items	(658)	(701)
56	(49)	Net cash flow ⁽¹⁾	(210)	(598)

* Change in working capital excluding (i) changes in non-recurring sales of accounts and notes receivable in a positive amount of 45 million euros in 2019 and a positive amount of 16 million euros in 2018 and (ii) the restatement of cash contributions to R&D reclassified within investments in property, plant and equipment and intangible assets.

** Following the application of IFRS 16, the Group's definition of free cash flow has been adjusted to take into account payments for the principal portion of lease liabilities. The resulting impact on free cash flow is marginal, at around 14 million euros.

Valeo generated 519 million euros in free cash flow⁽¹⁾. This chiefly results from:

- an 86 million euro improvement in EBITDA⁽¹⁾ in value terms, including a 209 million euro increase in the second half of the year;
- a positive 301 million euro impact on free cash flow generation (including a positive 71 million euro impact in the second half) of the change in working capital, following the reduction in tooling inventories and in customer overdues; and
- a 150 million euro reduction in capital expenditure (including a 122 million euro reduction in the second half) resulting from the roll-out of the cost savings program and of new technological platforms.

Net cash flow⁽¹⁾ amounted to a negative 210 million euros, reflecting:

- 71 million euros in net financial expenses paid;
- other financial items totaling 658 million euros, including a 343 million euro outflow relating to the dividend payment.

Net debt stood at 2,817 million euros at December 31, 2019, up 569 million euros compared with end-December 2018, after taking account of lease liabilities recognized following the application of IFRS 16 (441 million euros at December 31, 2019) and the dividend payment (343 million euros).

Including the impact of IFRS 16, the leverage ratio (net debt/EBITDA) came out at 1.13x EBITDA and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 61% of equity.

The average maturity of gross long-term debt fell to 4 years at December 31, 2019, from 4.6 years at December 31, 2018.

Reconciliation of Valeo and Top Column Module (TCM) business data and impact of the General Motors strike

The Group decided to withdraw from the TCM segment and is no longer taking orders for this product line.

The table below reconciles reported consolidated data for 2019 with data excluding the TCM business and excluding the impact of the General Motors strike:

		2019 (audited)	TCM	2019 excluding TCM	Impact of GM strike	2019 excluding TCM and GM strike
Sales	(in €m)	19,477	233	19,244	105	19,349
Original equipment sales	(in €m)	16,360	238	16,122	105	16,227
Gross margin	(in €m) (as a % of sales)	3,454 17.7%	4 18.1%	3,450 17.9%	50 47.6%	3,500 18.1%
R&D expenditure	(in €m) (as a % of sales)	(1,550) (8.0)%	(24) (10.3)%	(1,526) (7.9)%		(1,526) (7.9)%
Selling and administrative expenses	(in €m) (as a % of sales)	(870) (4.5)%	(10) (4.3)%	(860) (4.5)%		(860) (4.5)%
Operating margin excluding share in net earnings of equity-accounted companies	(in €m) (as a % of sales)	1,034 5.3%	(30) (12.9)%	1,064 5.5%	50 47.6%	1,114 5.8%
Share in net earnings of equity-accounted companies	(in €m) (as a % of sales)	(237) (1.2)%		(237) (1.2)%		(237) (1.2)%
Operating margin ⁽¹⁾ including share in net earnings of equity-accounted companies	(in €m) (as a % of sales)	797 4.1%	(30) (12.9)%	827 4.3%	50 47.6%	877 4.5%
EBITDA ⁽¹⁾	(in €m) (as a % of sales)	2,496 12.8%	(5) (2.1)%	2,501 13.0%	50 47.6%	2,551 13.2%

(1) See Financial Glossary, page 16.

Highlights

In February 2020, Valeo was included in the Clean200 list published by Corporate Knights, a tribute to the Group's focus on solutions aimed at reducing CO₂ emissions. Valeo is therefore recognized by the major non-financial rating agencies as a global leader in the automotive supplier industry, and it continues to work towards its goal of growth and value creation through the transformation of mobility and its commitment to Sustainable Development. In 2019, more than 50% of the Group's original equipment sales were derived from products directly or indirectly helping to reduce CO₂ emissions.

In January 2020, at CES in Las Vegas for the seventh consecutive year, Valeo unveiled:

- In a world first, Valeo eDeliver4U, its autonomous, electric delivery droid, developed in partnership with Meituan Dianping, China's leading e-commerce platform for services. Powered by an all-electric 48V system and fitted with Valeo perception systems, the droid can deliver up to 17 meals per trip, autonomously negotiating dense and complex urban environments at about 12km/h without generating any pollutant emissions.
- Valeo Move Predict.ai, a world-first technology that can detect vulnerable road users located in the vehicle's immediate vicinity, such as pedestrians, cyclists, skaters and scooter riders, and predict their intentions. The technology is based on combining Valeo's expertise in 360° perception around the vehicle, thanks to its sensors (latest generation of fisheye and Valeo SCALA® LiDAR), with artificial intelligence.
- A high-precision vehicle positioning system developed in partnership with Hyundai and Hexagon, enabling a vehicle to pinpoint its exact location with centimeter-level precision and thereby enhance road safety.

At its Investor Day held in Paris **in December 2019**, the Group unveiled its medium-term strategy of positioning itself as the leader on the market segments set to undergo strong growth over the next few years. Members of Valeo's management team also discussed the investments made over the last three years to create 12 new technological platforms and to build a unique portfolio of technologies in the electrification and driving assistance (ADAS) segments. They explained all the benefits that these platforms are expected to provide Valeo, particularly in terms of sales growth (outperformance versus global automotive production of around 5 percentage points) as well as higher profitability (increase in EBITDA to more than 15% of sales) and free cash flow generation (between 1.3 and 1.5 billion euros in free cash flow to be generated over the 2020-2022 period, double the figure for the previous 2017-2019 period).

The 12 new technological platforms include two platforms specifically dedicated to the 48V electric system (e-machine and e-axle, DC/DC). During the Investor Day, members of the Powertrain Systems Business Group's management emphasized the importance of the 48V system, a key technology enabling automaker customers to meet ever stricter CO₂ regulatory requirements.

In February 2020 for example, VW published an article in *MTZ worldwide* magazine on the 48V system fitted to the Golf 8 model. Valeo supplies VW with the 48V electric system used on the Golf 8.

In October 2019, Valeo and Dana Incorporated announced a global collaboration to bring to market end-to-end 48V hybrid and electric vehicle systems, which are scheduled for release in early 2020 with a major European carmaker.

Strengthening Valeo's strategic position in the 48V market, this new offering provides all the components required to fully electrify light vehicles (three- and four-wheel urban vehicles) and hybridize vehicles weighing up to 2.5 tons. They comprise an electric motor and an inverter designed and manufactured by Valeo, and a Spicer® Electrified™ e-Gearbox developed by Dana.

In April 2019, for the third year running, Valeo took first place in France's 2018 INPI industrial property institute rankings, with 1,355 patents published in 2018, versus 1,110 in 2017, consolidating its position as the most innovative company in France. Valeo also ranked as France's leading patent filer with the European Patent Office (EPO), with 784 patents published in 2018 (18th worldwide). These two rankings underline Valeo's commitment to protecting the cornerstone of its strategy: innovation.

Upcoming events

First-quarter 2020 sales: April 23, 2020

Financial Glossary

Order intake corresponds to business awarded by automakers during the period to Valeo, and to joint ventures and associates based on Valeo's share in net equity, (except Valeo Siemens eAutomotive, for which 100% of orders are taken into account), less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. *Unaudited indicator.*

Like for like (or LFL): the currency impact is calculated by multiplying sales for the current period by the exchange rate for the previous period. The Group structure impact is calculated by (i) eliminating, for the current period, sales of companies acquired during the period, (ii) adding to the previous period full-year sales of companies acquired in the previous period, and (iii) eliminating, for the current period and for the comparable period, sales of companies sold during the current or comparable period.

Operating margin including share in net earnings of equity-accounted companies corresponds to operating income before other income and expenses.

Net attributable income excluding non-recurring items corresponds to net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax shown in operating margin including share in net earnings of equity-accounted companies.

ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies), excluding goodwill.

ROA, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.

EBITDA corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends from equity-accounted companies.

Free cash flow corresponds to net cash from operating activities (excluding changes in non-recurring sales of receivables and payments for the principal portion of lease liabilities) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.

Net cash flow corresponds to free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities, relating to dividends paid, treasury share purchases and sales, interest paid and received, and acquisitions of equity interests without a change in control, and (iii) changes in non-recurring sales of receivables.

Net debt comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items.

Safe Harbor Statement

Statements contained in this document, which are not historical fact, constitute "forward-looking statements". These statements include projections and estimates and their underlying assumptions, statements regarding projects, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Even though Valeo's Management feels that the forward-looking statements are reasonable as at the date of this document, investors are put on notice that the forward-looking statements are subject to numerous factors, risks and uncertainties that are difficult to predict and generally beyond Valeo's control, which could cause actual results and events to differ materially from those expressed or projected in the forward-looking statements. Such factors include, among others, the Company's ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the antitrust authorities as identified in the Registration Document, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the French financial markets authority (*Autorité des marchés financiers* - AMF), including those set out in the "Risk Factors" section of the 2018 Registration Document registered with the AMF on March 29, 2019 (under number D.19-0224).

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

Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO₂ emissions and to the development of intuitive driving. In 2019, the Group generated sales of 19.2 billion euros and invested 11% of its original equipment sales in Research and Development. At December 31, 2019, Valeo had 191 plants, 20 research centers, 39 development centers and 15 distribution platforms, and employed 114,700 people in 33 countries worldwide. Valeo is listed on the Paris Stock Exchange.

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