The Covid-19 crisis is accelerating market trends that validate our strategic choices

First-half 2020:

Our top priorities are to protect our employees and to resume operations as quickly as possible

Stronger liquidity position, with 2.3 billion euros available in undrawn credit lines and 2.1 billion euros in net cash and cash equivalents at June 30, 2020

Strong outperformance in all automotive production regions; sales of 7,058 million euros (down 28%) despite a 35% decline in the market

Costs reduced by 570 million euros, and investments and gross inventories by 384 million euros

Negative operating margin(1) of 840 million euros affected by one-off charges of 457 million euros

One-off charges of 622 million euros linked mainly to the Covid-19 crisis

Free cash flow(2) consumption of 1,049 million euros

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

"With the Covid-19 crisis, we are witnessing both a growing preference for individual mobility and accelerating demand for safer, electric mobility all over the world. This trend further demonstrates the relevance of our strategic choices.

Protecting all of our employees has been of the utmost importance during this pandemic. This is the rationale behind the safety protocol – which is mandatory and audited – put in place at all of the Group's sites. Measures have also been taken on an exceptional scale to ensure the continuity of our operations going forward, including cost savings of 570 million euros and a reduction of 384 million euros in investments and gross inventories. The Group also recognized 622 million euros in one-off charges.

I would like to thank all of our staff for their extraordinary, unwavering commitment and reiterate my confidence in the future of our Group in a post-Covid world which is proving the relevance of the strategy we have pursued over the past few years."

(1) Excluding share in net earnings (losses) of equity-accounted companies
(2) See financial glossary, page 16.

Valeo’s strategic choices have been validated

In a post Covid-19 world, the transformation of the market is picking up pace, driven by the following revolutions:

- “greener” mobility based on powertrain electrification;
- safer mobility based on advanced driver assistance systems (ADAS) and autonomous cars.

Valeo has made strategic choices to carve out a leading position in these market segments and to support its customers in launching flagship models, while sharply increasing the average content per vehicle. These choices are proving even more relevant in a post Covid-19 world.

Valeo now occupies a front-ranking position in powertrain electrification, both for 48V systems and high-voltage electric solutions through our Valeo Siemens eAutomotive joint venture. It also continues to strengthen its leadership on the driving assistance market.

This has been achieved thanks to the significant investments made over the past few years to develop 12 new technological platforms. These platforms are already up and running, giving the Group a major competitive and technological advantage.

The results of this strategy are now clear and are in line with the outlook presented at our Investor Day on December 10, 2019: in the second half of the year, Valeo is expecting sales of its 48V systems to triple and sales of its front cameras to grow by more than 50% as compared to the second half of 2019.

Protecting our employees: our top priority

The Group has put in place a health protocol to allow operations to resume in order to meet customer demand, while ensuring maximum protection for all of our employees. The measures are mandatory and applicable systematically and consistently at all Valeo sites worldwide, whether in plants, R&D centers or head offices. The protocol has been audited. It represents a negative impact of around 10% on plant productivity and will remain in place as long as the virus is active.

Valeo has been extremely active in its commitment to the fight against Covid-19, providing resources to a consortium for the manufacture of 10,000 ventilators, and donating 80,000 FFP2/FFP3 masks to hospitals. It has also manufactured masks in some of its own plants.

Stronger liquidity position

Valeo has arranged 1.1 billion euros in additional credit lines with its major banking partners and now has 2.3 billion euros available in undrawn credit lines.

The Group now has a stronger liquidity position:

- no debt repayments falling due before June 2021;
- average debt maturity of 3.4 years;
- sufficient headroom under its bank covenant (net debt[1] to EBITDA[1] calculated over a 12-month rolling period);
- net cash and cash equivalents of 2.1 billion euros at June 30, 2020.

[1] See financial glossary, page 16.

Strong outperformance in all automotive production regions

Consolidated sales came in at 7,058 million euros in first-half 2020, down 28% on a like-for-like basis[1] compared with first-half 2019.

The Group significantly outperformed automotive production in all production regions, ahead by 9 percentage points in Europe, 15 percentage points in China, 7 percentage points in Asia excluding China, 4 percentage points in North America, and 16 percentage points in South America. On a global scale, the Group outpaced automotive production by 6 percentage points, slightly less than in second-half 2019 (8-percentage-point outperformance), reflecting an unfavorable geographic mix in the context of the health crisis.

In China, sales rallied sharply from March onwards, after very sluggish activity levels in February. The Group expects business to continue at a sustained pace throughout third-quarter 2020.

In North America, activity levels were very subdued in April and May before plants resumed production from end-May. The Group expects business to continue at a sustained pace throughout the summer and particularly in July, with automakers deciding to cancel their summer shutdowns.

In Europe, following very low sales figures between mid-March and mid-May, the return to 2019 business levels is proving slower and more gradual than in China or North America.

In South Korea and Japan, automotive production was hard hit by the fall in export sales due to the health crisis.

In Brazil and India, where the economic situation is still extremely fragile, the recovery remains very slow.

In the second half of the year, the Group's outperformance will continue at a sustained pace thanks to strong growth for the Powertrain Systems Business Group's 48V solutions and the Comfort & Driving Assistance Systems Business Group's front cameras.

Order intake[1]: many requests for quotation suspended during the health crisis

In the first half of the year, the Group recorded an order intake of 5.6 billion euros, negatively impacted by customer decisions to suspend requests for quotation in light of the disruptions caused by the health crisis.

Major action plan quickly put in place to variabilize costs and limit cash consumption

The measures taken by Valeo have enabled costs to be reduced by 570 million euros compared to first-half 2019 (of which 90% in the second half), and investments and gross inventories to be reduced by 384 million euros.

Valeo's action plan involved the following measures:

- variabilization of personnel costs representing cost savings of 248 million euros, including a reduction of headcount by 12,000;
- reduction of 196 million euros in gross R&D expenditure in first-half 2020, of which 80% in the second quarter;
- reduction of 97 million euros in production overheads;
- other cost savings representing 29 million euros;

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[1] See financial glossary, page 16.

- reduction of 141 million euros in investments in property, plant and equipment in first-half 2020, of which 153 million euros in the second quarter;
- reduction of 243 million euros in gross inventories in first-half 2020;
- reduction of 249 million euros in dividends.

Valeo Siemens eAutomotive has implemented the same measures as Valeo to mitigate the impact of the crisis on its business as far as possible: the joint venture's loss of 134 million euros for the first half is in line with the Group's expectations, despite the Covid-19 crisis.

The Group confirms that Valeo Siemens eAutomotive's loss and cash consumption for the year as a whole is expected to be slightly lower than in 2019, in line with the Group's expectations.

One-off charges: Valeo acknowledges the new post Covid-19 environment

Given the steep decline in business in the second quarter, Valeo conducted a thorough analysis of the value of its assets based on significantly more downbeat production scenarios.

As a result of the Covid-19 health crisis, the automotive market has deteriorated in the regions where Valeo and its customers are present. The deterioration has led to business disruptions in many countries, a decline in sales, operating losses and a downward revision of short- and medium-term forecasts for automotive production. Amid the unfavorable economic climate which has significant consequences for Valeo, the Group reviewed the value in use of its capitalized development costs, the assets allocated to certain cash-generating units (CGUs), including the Top Column Module (TCM) business and the Business Groups, as well as the value in use of its Brazilian assets and the residual assets operated by its diesel-related businesses.

As a result, the Group recognized one-off charges for the period of 622 million euros, as detailed below:

- impairment charged against operating assets, particularly those relating to the Group's Brazilian operations, to diesel-related businesses and to capitalized R&D costs for a certain number of projects (392 million euros);
- other operating risks (109 million euros);
- Top Column Module business (53 million euros);
- investments in certain start-ups (31 million euros);
- impairment of deferred tax assets (37 million euros).

90% of these mainly non-cash charges are directly linked to the Covid-19 crisis.

First-half results impacted by Covid-19

The measures taken by Valeo have enabled costs to be reduced by 570 million euros compared to first-half 2019 (of which 90% in the second half), and investments and gross inventories to be reduced by 384 million euros.

Thanks to the cost savings made, Valeo has been able to:

- variabilize costs representing 58% of the margin on purchases in the second quarter;
- limit the operating margin drop-through (before amortization and capitalized Research and Development expenditure) to 25% for the second quarter and 28% for the first half.

The operating margin[1] drop-through (before amortization and capitalized Research and Development expenditure) is calculated as follows:

		First-half 2020	First-half 2019	Change
Sales	*(€m)*	7,058	9,776	(2,718)
Operating margin[1]	*(€m)*	(840)	514	(1,354)
One-off charges	*(€m)*	457	0	457
Capitalized development expenditure	*(€m)*	(319)	(400)	81
Amortization of capitalized development expenditure	*(€m)*	236	184	52
Restated* operating margin[1]	*(€m)*	(466)	298	(764)
			Drop-through	***28%***

* Excluding one-off charges and capitalized Research and Development expenditure (capitalized costs less amortization).

This performance was achieved despite a decline in operating productivity of around 10%, owing to the measures taken to protect employees in the context of the health crisis.

Operating margin[1] was impacted by one-off charges in an amount of 457 million euros.

The Group reported a net attributable loss of 1,215 million euros for the period, which includes 622 million euros in non-recurring items.

Free cash flow for the period was a negative 1,049 million euros. This chiefly results from:

- EBITDA[2] of 202 million euros;
- an adverse change in the net balance of accounts and notes receivable and payable, which represented a negative contribution to cash generation of 691 million euros;
- the reduction in inventories, which represented a positive contribution to cash generation of 204 million euros;
- investments in property, plant and equipment and intangible assets for 714 million euros.

Accordingly, net debt totaled 4,037 million euros at June 30, 2020.

(1) Excluding share in net earnings (losses) of equity-accounted companies.
(2) See financial glossary, page 16.

Outlook

For the second half of 2020, Valeo has based its guidance on production volume estimates published by IHS. These estimates do not factor in a second phase of Covid-19 lockdown restrictions or any adverse impact on production, supply chain and market evolution.

Based on this scenario, i.e., a fall of 10% in automotive production, the Group's objectives for the second half of the year are:

- a continued strong outperfomance by production region;
- restructuring expenses of between 50 and 100 million euros designed to accelerate the structural reduction in costs;
- EBITDA[1] representing around 10% of sales;
- free cash flow[1] exceeding 400 million euros;
- reduced losses for the Valeo Siemens eAutomotive joint venture compared with the second half of 2019 (in line with the Group's expectations of a slight reduction in losses in 2020).

[1] See financial glossary, page 16.

Paris, July 21, 2020. At today's meeting, Valeo's Board of Directors approved the interim consolidated financial statements for the six months ended June 30, 2020[1]. The results for first-half 2020 shown below have been prepared in accordance with IFRS:

		First-half 2020	First-half 2019	*Change*
Valeo order intake[2] (excluding Valeo Siemens eAutomotive)	*(in €bn)*	5.6	11.1	N/A
Sales	*(in €m)*	7,058	9,776	-28%
Original equipment sales	*(in €m)*	5,863	8,220	-29%
Gross margin	*(in €m)*	507	1,754	-71%
	(as a % of sales)	*7.2%*	*17.9%*	*-10.7 pts*
R&D expenditure	*(in €m)*	(928)	(785)	18.2%
	(as a % of sales)	*(13.1)%*	*(8)%*	*-5.2 pts*
Selling and administrative expenses	*(in €m)*	(419)	(455)	-8%
	(as a % of sales)	*(5.9)%*	*(4.7)%*	*-1.2 pts*
Operating margin excluding share in net earnings (losses) of equity-accounted companies	*(in €m)*	(840)	514	*-263%*
	(as a % of sales)	*(11.9)%*	*5.3%*	*-17.2 pts*
Share in net earnings (losses) of equity-accounted companies	*(in €m)*	(166)	(107)	*N/A*
	(as a % of sales)	*(2.4)%*	*(1.1)%*	*-1.3 pts*
Operating margin[2] including share in net earnings (losses) of equity-accounted companies	*(in €m)*	(1,006)	407	*-347%*
	(as a % of sales)	*(14.3)%*	*4.2%*	*-18.5 pts*
Net attributable income (loss)	*(in €m)*	(1,215)	162	*-850%*
	(as a % of sales)	*(17.2)%*	*1.7%*	*-18.9 pts*
EBITDA[2]	*(in €m)*	202	1,218	-83%
	(as a % of sales)	*2.9%*	*12.5%*	*-9.6 pts*
Change in operating working capital*	*(in €m)*	(574)	230	N/A
Investments in property, plant and equipment and intangible assets	*(in €m)*	(714)	(966)	-26%
Free cash flow[2]	*(in €m)*	(1,049)	237	-543%
Net debt[2]	*(in €m)*	4,037	2,877	+€1,160m

** Change in working capital excluding (i) the change in non-recurring sales of accounts and notes receivable in a negative amount of 29 million euros in first-half 2020 and a negative amount of 6 million euros in first-half 2019 and (ii) the restatement of R&D cash contributions for a negative amount of 39 million euros in the first half reclassified in investments in property, plant and equipment and intangible assets.*

(1) Further to their statutory audit, the Statutory Auditors issued an unqualified opinion on the consolidated financial statements for the six months ended June 30, 2020.

(2) See financial glossary, page 16.

Change in global automotive production

Amid the health crisis, automotive production fell by 35% in first-half 2020, according to IHS/CPCA[1] estimates.

Automotive production (year-on-year change)	Second-quarter	First-half
	IHS + CPCA*	IHS + CPCA*
Europe & Africa	-63%	-40%
Asia, Middle East & Oceania	-27%	-28%
o/w China	*+5%*	*-23%*
o/w Japan	*-47%*	*-26%*
o/w South Korea	*-24%*	*-20%*
o/w India	*-86%*	*-51%*
North America	-69%	-40%
South America	-82%	-51%
Total	**-47%**	**-35%**

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

Change in sales

In the first half of 2020, **sales** were down 28% like for like[2].

The impacts of changes in exchange rates and in Group structure were negligible in the first six months of the year (positive 0.1%).

Sales (in millions of euros)	As a % of total H1 2020 sales	Second-quarter				First-half			
		2020	2019	LFL* change	Change	2020	2019	LFL* change	Change
Original equipment	83%	2,066	4,099	-49%	-50%	5,86 3	8,220	-29%	-29%
Aftermarket	12%	333	504	-33%	-34%	824	1,005	-18%	-18%
Miscellaneous	5%	171	332	-48%	-49%	371	551	-32%	-33%
Total	**100%**	**2,570**	**4,935**	**-48%**	**-48%**	**7,05 8**	**9,776**	**-28%**	**-28%**

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

Like-for-like original equipment sales fell by 28%, representing a 6-percentage-point outperformance versus global automotive production. The Group delivered an outperformance in all of its production regions, but its global outperformance was affected by an unfavorable geographic mix in the context of the health crisis.

Aftermarket sales declined by 18% like for like, with automotive repair services remaining open during the crisis.

Miscellaneous sales were down 32% like for like, mainly due to the decline in tooling sales.

(1) CPCA: China Passenger Car Association.
(2) See financial glossary, page 16.

Change in original equipment sales by region

Original equipment sales (by destination, in millions of euros)	Second-quarter 2020	Second-quarter 2019	Second-quarter LFL* change	Second-quarter Outperf. vs. IHS/CPCA**	First-half 2020	First-half 2019	First-half LFL* change	First-half Outperf. vs. IHS/CPCA**
Europe & Africa	872	1,996	-56%	+7 pts	2,765	4,025	-31%	+9 pts
Asia, Middle East & Oceania	908	1,181	-23%	+4 pts	1,925	2,381	-20%	+8 pts
o/w China	*508*	*433*	*+17%*	*+12 pts*	*797*	*861*	*-8%*	*+15 pts*
o/w Japan	*162*	*306*	*-49%*	*-2 pts*	*486*	*637*	*-27%*	*-1 pt*
o/w South Korea	*208*	*330*	*-36%*	*-12 pts*	*498*	*651*	*-22%*	*-2 pts*
o/w India	*7*	*42*	*-78%*	*+8 pts*	*47*	*89*	*-45%*	*+6 pts*
North America	270	824	-68%	+1 pt	1,070	1,624	-36%	+4 pts
South America	16	98	-72%	+10 pts	103	190	-35%	+16 pts
Total	**2,066**	**4,099**	**-49%**	**-2 pts**	**5,863**	**8,220**	**-29%**	+6 pts

** Like for like (constant Group structure and exchange rates)[(1)].*
*** Based on IHS automotive production estimates released on July 16, 2020/CPCA[(2)] estimates for data relating to China.*

The Group was held back by an unfavorable geographic mix in second-quarter 2020, with original equipment sales outperforming automotive production in each of its regions, but underperforming automotive production at the global level.

Like-for-like[(1)] original equipment sales fell by 29% over the first six months of 2020, outperforming global automotive production (IHS and CPCA estimates) by 6 percentage points:

- **in Europe**, following very low sales figures between mid-March and mid-May, the return to 2019 business levels is proving slower and more gradual than in China or North America. Like-for-like sales fell by 31% over the first six months of 2020, representing a 9 percentage point outperformance versus automotive production (IHS estimates);
- **in Asia**, like-for-like original equipment sales fell 20%, reflecting an outperformance of 8 percentage points over automotive production (IHS/CPCA estimates):
    - **in China**, sales rallied sharply from March onwards, after very sluggish activity levels in February. Like-for-like sales fell by 8% over the first six months of 2020, representing a 15 percentage point outperformance versus automotive production (CPCA estimates). The Group expects business to continue at a sustained pace throughout the third quarter,
    - **in Japan** and South Korea, like-for-like original equipment sales were down 27% and 22%, respectively, slightly below automotive production (IHS estimates). Business in these countries was hard hit by the fall in exports due to the crisis;
- **in North America**, activity levels were very subdued in April and May before plants resumed production from end-May. Sales fell by 36% over the first six months of 2020, representing a 4 percentage point outperformance versus automotive production (IHS estimates). The Group expects business to continue at a sustained pace throughout the summer and particularly in July, with automakers deciding to cancel their summer shutdown;
- **in South America**, like-for-like original equipment sales decreased by 35%, outpacing automotive production (IHS estimates) by 16 percentage points.

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(1) See financial glossary, page 16.
(2) CPCA: China Passenger Car Association.

Operating margin[1] drop-through (before amortization and capitalized Research and Development expenditure) of 28% in the first half

		First-half 2020	First-half 2019	*Change*
Sales	*(in €m)*	7,058	9,776	*-28%*
Gross margin	*(in €m)*	507	1,754	*-71%*
	(as a % of sales)	*7.2%*	*17.9%*	*-10.7 pts*
R&D expenditure	*(in €m)*	(928)	(785)	+18%
	(as a % of sales)	*(13.1)%*	*(8)%*	*-5.1 pts*
Administrative and selling expenses	*(in €m)*	(419)	(455)	-8%
	(as a % of sales)	*(5.9)%*	*(4.7)%*	*-1.2 pts*
Operating margin excluding share in net earnings (losses) of equity-accounted companies	*(in €m)*	(840)	514	*-263%*
	(as a % of sales)	*(11.9)%*	*5.3%*	*-17.2 pts*
Share in net earnings (losses) of equity-accounted companies	*(in €m)*	(166)	(107)	*N/A*
	(as a % of sales)	*(2.4)%*	*(1.1)%*	*-1.3 pts*
Operating margin including share in net earnings (losses) of equity-accounted companies [2]	*(in €m)*	(1,006)	407	*-347%*
	(as a % of sales)	*(14.3)%*	*4.2%*	*-18.5 pts*
Other income and expenses	*(in €m)*	(135)	(30)	*+350%*
	(as a % of sales)	*(1.9)%*	*(0.3)%*	*-1.6 pts*
Net attributable income (loss)	*(in €m)*	(1,215)	162	*-850%*
	(as a % of sales)	*(17.2)%*	*1.7%*	*-18.9 pts*

The measures taken by Valeo have enabled costs to be reduced by 570 million euros compared to first-half 2019 (of which 90% in the second quarter).

Valeo's action plan involved the following measures:

- variabilization of personnel costs representing cost savings of 248 million euros, including a reduction of headcount by 12,000;
- reduction of 196 million euros in gross R&D expenditure in first-half 2020, of which 80% in the second quarter;
- reduction of 97 million euros in production overheads;
- other cost savings representing 29 million euros.

Thanks to the cost savings made, Valeo has been able to:

- variabilize costs representing 58% of the margin on purchases in the second quarter;
- limit the operating margin drop-through[1] (before amortization and capitalized Research and Development expenditure) to 25% for the second quarter and 28% for the first half.

[1] Excluding share in net earnings (losses) of equity-accounted companies.

[2] See financial glossary, page 16.

The operating margin[1] drop-through before amortization and capitalized Research and Development expenditure is calculated as follows:

		First-half 2020	First-half 2019	Change
Sales	(€m)	7,058	9,776	(2,718)
Operating margin[1]	(€m)	(840)	514	(1,354)
One-off charges	(€m)	457	0	457
Capitalized development expenditure	(€m)	(319)	(400)	81
Amortization of capitalized development expenditure	(€m)	236	184	52
Restated* operating margin[1]	(€m)	(466)	298	(764)
			Drop-through	***28%***

* Excluding one-off charges and capitalized Research and Development expenditure (capitalized costs less amortization).

This performance was achieved despite a decline in operating productivity of around 10%, owing to the measures taken to protect employees in the context of the health crisis.

The share in net earnings (losses) of equity-accounted companies represented a loss of 166 million euros in the first half, compared to a loss of 107 million euros in first-half 2019. This line item is affected by the share in the loss reported by Valeo Siemens eAutomotive, which is bearing the costs needed to expand its order book in a context defined by the health crisis and by the decline in profitability of the Group's Chinese joint ventures. It also includes impairment recognized against the Group's equity investments for 31 million euros. Valeo Siemens eAutomotive's loss of 134 million euros for the first half is in line with the Group's expectations, despite the Covid-19 crisis.

Operating margin including share in net earnings (losses) of equity-accounted companies amounted to a negative 1,006 million euros in the first half.

The operating loss of 1,141 million euros takes into account **other income and expenses** for a net negative amount of 135 million euros, of which 98 million euros in respect of impairment charged against fixed assets. The impairment charges related to the Group's assets in Brazil (63 million euros), the Top Column Module business (23 million euros), and assets operated by diesel-related businesses (13 million euros).

The cost of net debt was 33 million euros.

The effective tax rate came out at 2.3% and includes write-downs of 37 million euros recognized against deferred tax assets following revised assumptions as to automotive production volumes over the next five years.

The net attributable loss was 1,215 million euros and includes non-recurring items totaling 622 million euros.

(1) Excluding share in net earnings (losses) of equity-accounted companies.
(2) See financial glossary, page 16.

Segment reporting

Sales

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

Sales by Business Group* (in millions of euros)	**Second-quarter**					**First-half**				
	2020	**2019**	**Change in OE sales****	**Change in sales**	**Outperf. vs. IHS/CPCA*****	**2020**	**2019**	**Change in OE sales****	**Change in sales**	**Outperf. vs. IHS/CPCA*****
Comfort & Driving Assistance Systems****	494	909	-46%	-46%	+1 pt	1,380	1,810	-24%	-24%	+11 pts
Powertrain Systems	712	1,299	-48%	-45%	-1 pt	1,897	2,565	-27%	-26%	+8 pts
Thermal Systems	560	1,187	-53%	-53%	-6 pts	1,560	2,330	-33%	-33%	+2 pts
Visibility Systems	779	1,512	-50%	-48%	-3 pts	2,169	3,014	-30%	-28%	+5 pts

** Including intersegment sales.*
*** Like for like (constant Group structure and exchange rates)[1].*
**** Based on IHS automotive production estimates released on July 16, 2020/CPCA[2] estimates for China.*
***** Excluding the Top Column Module business.*

Impairment

		Comfort & Driving Assistance Systems	**Powertrain Systems**	**Thermal Systems**	**Visibility Systems**	**Total**
Operating assets	*(in €m)*	(87)	(39)	(72)	(65)	(263)
Investments in start-ups	*(in €m)*	(31)				(31)
Top Column Module business	*(in €m)*	(22)				(22)
Group assets in Brazil	*(in €m)*		(11)	(41)	(11)	(63)
Total	***(in €m)***	**(140)**	**(50)**	**(113)**	**(76)**	**(379)**

EBITDA[1]

EBITDA *(in millions of euros and as a % of sales by Business Group)*	**First-half 2020**	**First-half 2019**	***Change***
Comfort & Driving Assistance Systems*	84	283	-70%
	6.1%	*15.6%*	*-9.5 pts*
Powertrain Systems	91	319	-71%
	4.8%	*12.4%*	*-7.6 pts*
Thermal Systems	(31)	262	-112%
	(2.0)%	*11.2%*	*-13.2 pts*
Visibility Systems	75	324	-77%
	3.5%	*10.7%*	*-7.2 pts*
Group	**202**	**1,218**	***-83%***
	2.9%	***12.5%***	***-9.6 pts***

** Excluding the Top Column Module business.*

[1] See financial glossary, page 16.
[2] CPCA: China Passenger Car Association.

Valeo

Free cash flow consumption[1] of 1 billion euros

(in millions of euros)	First-half 2020	First-half 2019
EBITDA	202	1,218
Change in operating working capital*	(574)	230
Income tax	(106)	(152)
Change in provisions	232	(36)
Other operating items, of which:	(89)	(57)
Payments for the principal portion of lease liabilities	*(43)*	*(46)*
Restructuring costs	*(30)*	*(10)*
Provisions for pensions	*(16)*	*(1)*
Investments in property, plant and equipment and intangible assets	(714)	(966)
Free cash flow[1]	(1,049)	237
Net financial expenses	(62)	(56)
Other financial items	(161)	(447)
Net cash flow[1]	(1,272)	(266)

** Change in working capital excluding (i) the change in non-recurring sales of accounts and notes receivable in a negative amount of 29 million euros in first-half 2020 and a negative amount of 6 million euros in first-half 2019 and (ii) the restatement of R&D cash contributions for a negative amount of 39 million euros in the first half reclassified in investments in property, plant and equipment and intangible assets.*

Free cash flow for the period was a negative 1,049 million euros. This chiefly results from:

- EBITDA[2] of 202 million euros;
- an adverse change in the net balance of accounts and notes receivable and payable, which represented a negative contribution to cash generation of 691 million euros;
- the reduction in inventories, which represented a positive contribution to cash generation of 204 million euros;
- investments in property, plant and equipment and intangible assets for 714 million euros.

Net cash flow[1] amounted to a negative 1,272 million euros, reflecting:

- 62 million euros in net financial expenses paid;
- other financial items totaling 161 million euros, mainly relating to loans granted by the Group to the Valeo Siemens eAutomotive joint venture.

Net debt[1]

Net debt stood at 4,037 million euros at June 30, 2020, up 1,220 million euros compared with end-December 2019.

The **leverage ratio** (net debt/EBITDA) came out at 2.7 times EBITDA and the **gearing ratio** (net debt/stockholders' equity excluding non-controlling interests) stood at 123% of equity.

The average maturity of gross long-term debt stood at 3.4 years at June 30, 2020, versus 4 years at December 31, 2019.

[1] See financial glossary, page 16.

One-off charges recognized in first-half 2020

The Group recognized one-off charges during the period, as detailed below:

		Operating assets	Investments in start-ups	Top Column Module business	Deferred tax assets	Other operating liabilities	Total
Gross margin	(€m)	(121)		(31)		(109)	(261)
R&D expenditure	*(€m)*	*(196)*					*(196)*
Operating margin excluding share in net earnings (losses) of equity-accounted companies	(€m)	(317)		(31)		(109)	(457)
Share in net earnings (losses) of equity-accounted companies	(€m)		*(31)*				*(31)*
Other income and expenses*	(€m)	*(76)*		*(22)*			*(98)*
Operating income (loss)	(€m)	(392)	(31)	(53)		(109)	(585)
*Income tax expense**	*(€m)*				*(37)*		*(37)*
Net income (loss)	**(€m)**	**(392)**	**(31)**	**(53)**	**(37)**	**(109)**	**(622)**

** In light of the Covid-19 health crisis, the Group assessed the recoverability of its tax loss carryforwards using future taxable profit projections covering a period of five years, prepared based on a revised medium-term business plan. As a result, a write-down of 37 million euros was recognized at June 30, 2020.*

Reconciliation of Valeo and Top Column Module business data

The Group has decided to withdraw from the Top Column Module segment and is no longer taking orders for this product line.

The following table reconciles published consolidated data with data excluding the Top Column Module business:

		H1 2020 (reported)	TCM	First-half 2020 excluding TCM
Sales	*(in €m)*	7,058	85	6,973
Gross margin	*(in €m)*	507	(35)	542
	(as a % of sales)	*7.2%*	*(41.2)%*	*7.8%*
R&D expenditure	*(in €m)*	(928)	(9)	(919)
	(as a % of sales)	*(13.1)%*	*(10.6)%*	*(13.2%)*
Selling and administrative expenses	*(in €m)*	(419)	(6)	(413)
	(as a % of sales)	*(5.9)%*	*(7.1)%*	*(5.9)%*
Operating margin excluding share in net earnings (losses) of equity-accounted companies	*(in €m)*	(840)	(50)	(790)
	(as a % of sales)	*(11.9)%*	*(58.8)%*	*(11.3)%*

Highlights

In January 2020, Valeo took part in the Consumer Electronics Show (CES) in Las Vegas (United States) for the seventh year in a row. In a world first, Valeo unveiled its autonomous, electric delivery droid, developed in partnership with Meituan Dianping, China's leading e-commerce platform for services, which operates the country's popular food delivery service, Meituan Waimai. The droid's autonomy and electric power are delivered by Valeo technologies that are already series produced and aligned with automotive industry standards, thereby guaranteeing a high level of safety. The modularity of the platforms means the Group's technologies can just as easily be fitted to cars, autonomous shuttles, robotaxis and even droids. These new markets will allow Valeo to further consolidate its leadership around the world in vehicle electrification, driver assistance systems and autonomous driving. At the CES, Hexagon, Hyundai and Valeo also unveiled a new technology which enables a vehicle to pinpoint its exact location with centimeter-level precision, thereby improving a vehicle's active safety technologies and enhancing road safety.

In January 2020, Valeo was once again the leading automotive company in the new edition of the Corporate Knights annual global ranking of the 100 most sustainable corporations, which is published every January at the Davos Summit in Switzerland, replicating the performance achieved in 2019. On February 13, 2020, Valeo also secured an excellent ranking in the Corporate Knights/As You Sow Carbon Clean200 list of publicly traded companies that are leading the way with solutions for the transition to a clean energy future.

In March 2020, Valeo received the 2020 Road Safety Innovation Award in the "Preventing the consequences of an accident" category for its Valeo Rescuer™ solution. This is the first emergency e-Call system to comply with European standards that is applicable for vehicles already on the road.

On March 24, 2020, Valeo's Board of Directors made a unanimous decision to co-opt the Fonds Stratégique de Participations (FSP) as a director, to replace Georges Pauget. The FSP is represented on Valeo's Board of Directors by Julie Avrane-Chopard, formerly Senior Partner at McKinsey & Company's Paris office. On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors confirmed the independence of the Fonds Stratégique de Participations and its permanent representative. The co-optation of the FSP reflects the increased stake it holds in Valeo's share capital. For Pierre de Villeneuve, Chairman of the FSP, "this investment again illustrates the FSP's aim to participate in financing and transforming businesses with a long-term growth objective".

In April 2020, Valeo announced that in view of the exceptional circumstances created by the Covid-19 pandemic, its Board of Directors had decided to reduce the dividend to 0.2 euros per share, compared to the 1.25 euro dividend per share that had been announced in February 2020 at the time of publishing its 2019 results. This decision is designed to preserve the Group's cash in an amount of 249 million euros in a context of significant economic uncertainty.

In April 2020, Valeo won a PACE (Premier Automotive Suppliers' Contribution to Excellence) Award for its XtraVue™ Trailer, the world's first system enabling drivers to "see through" the trailer or caravan they are towing. This unique and innovative driving assistance technology makes towing objects simpler and safer for drivers. Using cameras and software developed by Valeo, the system combines the data recorded by the vehicle and trailer cameras into a single, homogenous image. The image is displayed on screen in front of the driver, enabling them to see what's going on behind their vehicle as if they could see right through the trailer or caravan. For more than 20 years, these PACE awards given by Automotive News have crowned top innovations by automotive suppliers in terms of technological advances and business performance. The prestigious accolade serves as a reference worldwide for automotive innovation.

In June 2020, Valeo took second place in France's INPI industrial property institute rankings, with 1,034 patents published in 2019, confirming its high capacity for innovation. In March, Valeo was also ranked France's second biggest patent filer with the European Patent Office (EPO) for 2019, with 539 patents (37th worldwide). These two rankings underline Valeo's commitment to protecting the cornerstone of its strategy: innovation.

On June 3, 2020, Ichikoh inaugurated its new Atsugi plant in Japan. This plant was recently built and will gradually take over the production operations of the Isehara plant. It will be home to innovative technologies (collaborative robots, automated guided vehicles, etc.), and will enable Ichikoh to improve its competitiveness and the quality of the products it sells.

On June 25, 2020, Valeo's Annual Shareholders' Meeting approved the transformation of Valeo into a European Company. The transformation will be effective following the end of negotiations relating to the involvement of employees in the European Company.

Ratings assigned to Valeo's long- and short-term debt by rating agencies Moody's and Standard & Poor's:

- Moody's: "Baa3/P3" long- and short-term issuer rating, negative outlook;
- Standard & Poor's (under review): "BBB-/A-3" long- and short-term issuer rating, creditwatch negative.

Upcoming events

Third-quarter 2020 sales: October 27, 2020

Financial glossary

- Valeo **order intake** corresponds to business awarded by automakers during the period (including joint ventures accounted for based on Valeo's share in net equity) less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. *Unaudited indicator.*
- **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.
- **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 after taking into account acquisitions and disposals of property, plant and equipment and intangible assets, and net payments relating to the principal portion of lease liabilities, excluding the change in non-recurring sales of receivables.
- **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 financing and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, short-term investments not included in cash and cash equivalents and the fair value of derivative instruments hedging foreign currency and interest rate risks associated with these items.

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 Universal 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, risks associated with the Covid-19 epidemic, 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 2019 Universal Registration Document registered with the AMF on April 28, 2020 (under number D.20-0385).

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 issued by 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 CO_2 emissions and to the development of intuitive driving. In first-half 2020, the Group generated sales of 7.1 billion euros and invested 14.7% of its original equipment sales in Research and Development. Valeo has 190 plants, 20 research centers, 43 development centers and 15 distribution platforms, and at June 30, 2020 employed 102,400 people in 33 countries worldwide. Valeo is listed on the Paris Stock Exchange.

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