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Valeo's first-half 2012 results demonstrate the strength of its growth model: consolidated sales up 12.5% to 6 billion euros, operating margin up 7.2% to 370 million euros and free cash flow up 10% to 148 million euros

Jacques Aschenbroich, Valeo's Chief Executive Officer, stated:
"Valeo has demonstrated once again the appeal of its innovations and product portfolio, with order intake reaching a record high of 8 billion euros and sales advancing 12.5%. Our operating margin also demonstrated its resilience, up 7.2% in a first half characterized by a 5% fall in European automotive production. Thanks to our strategy of focusing the Group's activities on developing technologies that reduce CO_2 emissions and on expanding our business in high-growth markets in Asia and emerging countries, Valeo is well equipped to pursue its profitable growth."

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First-half 2012 results

Record order intake(1) of 8 billion euros (1.6 times original equipment sales) and consolidated sales of 6 billion euros, up 12.5% or 4% on a like-for-like basis[*]

- Original equipment sales up 13.5%, or 5% on a like-for-like basis
- Performance higher than the market in Europe and Asia
- Performance higher than global automotive production, excluding Japanese automakers
- Continued expansion in Asia, which represented 24% of original equipment sales in first-half 2012 versus 18% for the same prior-year period

Resilient operating margin, up 7.2% to 370 million euros or 6.2% of sales

- Gross margin increased 9.8% to 1,006 million euros, or 16.8% of sales
- Net research and development expenditure rose 9.8% and administrative and selling expenses remained under control
- Net income came in at 198 million euros, down 9.2%

ROCE and ROA

- ROCE and ROA at 31% and 19%, respectively

Free cash flow up 10% to 148 million euros, despite a 117 million euro increase in capital expenditure to 424 million euros in response to the rise in order intake

- Strong financial position with net debt at 485 million euros and a modest gearing ratio at 25%

[*] Constant Group structure and exchange rates.

2012 outlook

Based on the following scenario:

- 5% to 6% growth in global automotive production in 2012;
- 6% to 7% decline in Europe;
- Stable raw material prices in the second half relative to current levels.

Valeo has set the following objective:

- full-year 2012 operating margin level (in millions of euros) in the same magnitude of full-year 2011.

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Paris, France, July 26, 2012 – Following the meeting of its Board of Directors today, Valeo released its results for the first half of 2012:

	H1 2011	H1 2012*	Change
Sales (in €m)	5,334	5,999	+12.5%
o/w OE sales (in €m)	4,510	5,118	+13.5%
Gross margin (in €m)	916	1,006	+9.8%
Gross margin (as a % of sales)	*17.2%*	*16.8%*	*-0.4 pts*
Operating margin(2) (in €m)	345	370	+7.2%
Operating margin(2) (as a % of sales)	*6.5%*	*6.2%*	*-0.3 pts*
Operating income (in €m)	344	348	+1.2%
Operating income (as a % of sales)	*6.4%*	*5.8%*	*-0.6 pts*
Net income (in €m)	218	198	-9.2%
Net income (as a % of sales)	*4.1%*	*3.3%*	*-0.8 pts*
Earnings per share (in €)	2.89	2.63	-9%
Capital turnover	5.5	5	N/A
ROCE(3)	36%	31%	-5pts
ROA(4)	*22%*	*19%*	*-3pts*
EBITDA(5) *(as a % of sales)*	11.3%	10.9%	0.4pts
Free cash flow(6) (in €m)	134	148	+10%
Net cash flow(7) (in €m)	(183)	31	N/A
Net debt(8) (in €m)	452	485	+7.3%

* Further to their limited review, the Statutory Auditors issued an unqualified opinion on the consolidated financial statements for the six months ended June 30, 2012.

Record order intake of 8 billion euros

The **order intake** in the first six months of 2012 hit a record high of 8 billion euros, up from 7.7 billion euros in the same period in 2011. This reflects:

- the appeal of Valeo's innovations (more than 30% of order intake) and its product portfolio with the Group's automaker customers;
- the successful expansion of Valeo's operations in Asia, where the order intake reached 2.9 billion euros (36% of the total order intake), in line with the Group's strategy.

First-half sales up 12.5% to 6 billion euros

Global automotive production advanced 9% in first-half 2012. This reflects widely contrasting results across the various regions:

- Asia (51% of global automotive production) climbed 15% on the back of further growth in China (up 7%) and a favorable comparison basis for Japan due to the events that hit the country in the first six months of 2011;
- Europe (25% of global automotive production) shrank 5% compared with first-half 2011, which had been boosted by the final phases of automotive stimulus programs in certain countries;
- North America (19% of global automotive production) delivered robust 22% growth spurred by the rally in new vehicle registrations and the return to normal activity levels for Japanese automakers;
- South America (5% of global automotive production) contracted by 8%.

Against this backdrop, the **Group's consolidated sales** were up 12.5% to 5,999 million euros.

The **impact of changes in Group structure** on consolidated sales totaled 316 million euros and was mainly attributable to the consolidation of Niles. The **impact of changes in exchange rates** was a positive 2.6%, stemming chiefly from the slide in the euro against other currencies, particularly the US dollar. On a like-for-like basis, consolidated sales advanced by 4% in the first half of 2012.

Consolidated sales can be analyzed as follows by market:

- **original equipment sales** (85% of consolidated sales) came in at 5,118 million euros, up 13.5%, or 5% like-for-like;
- **aftermarket sales** (12% of consolidated sales) as reported came in 1.8% higher at 732 million euros, but fell 4% like-for-like. The aftermarket business was directly impacted by the deteriorating economic climate in Europe but continued to grow in the rest of the world;
- **miscellaneous sales** (3% of consolidated sales) came in 42% higher at 149 million euros, chiefly reflecting higher tooling revenues.

Original equipment sales grew faster than:

- **the market in Asia and Europe**
- **global automotive production, excluding Japanese automakers**

Original equipment sales by destination	First-half			
In millions of euros	2011	2012	OE sales growth*	Auto. production growth**
Asia, Middle East & Oceania	804	1,255	+20%	+15%
of which China	*318*	*481*	*+25%*	*+7%*
of which Japan	*187*	*385*	*+26%*	*+54%*
Europe & Africa	2,720	2,705	-1%	-5%
North America	640	863	+18%	+22%
South America	346	295	-11%	-8%
World total	4,510	5,118	+5%	+9%

** Like-for-like*
*** LMC estimates*

Despite:

- a relatively good performance for original equipment sales in Europe; and
- vigorous organic growth reported by Valeo in China and in other Asian countries excluding Japan;

the Group's geographic positioning and the sharp rally in Japanese automaker activity meant that original equipment sales grew at a slower pace than automotive production worldwide.

Excluding Japanese automakers (including Nissan), the Group's original equipment sales advanced 2%, compared to world automotive production growth of 1% (excluding Japanese automakers), surpassing the market by one percentage point.

In Asia, original equipment sales rose 56% to 1,255 million euros. On a like-for-like basis, original equipment sales were up 20%, compared to automotive production growth of 15%, **beating the market by five percentage points**. This performance testifies to very strong original equipment sales in China, South Korea and India (with growth outpacing automotive production by 18, 12 and 6 percentage points, respectively) and the return to normal market conditions for Japanese automotive production. In the first half of 2012, Asia accounted for 24% of the Group's original equipment sales versus 18% in the same year-ago period.

In Europe, the Group's original equipment sales broadly held firm at 2,705 million euros, slipping 1% on a like-for-like basis whereas automotive production retreated 5%. The Group's performance therefore **outpaced the market by four percentage points**.

In North America, original equipment sales came in at 863 million euros, up 35%. Like-for-like original equipment sales climbed 18%, compared to 22% growth in automotive production, and came in at **four percentage points lower than the market**, due mainly to the strong rally among Japanese automakers in the first half of the year.

In South America, original equipment sales totaled 295 million euros, down 15%. Like-for-like original equipment sales fell 11%, versus an 8% decline in automotive production, standing at **three percentage points lower than the market.**

Growth by Business Group

As was the case for the consolidated Group, the first-half sales performance for each Business Group reflected the specific geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Sales In millions of euros	First-half			
	2011*	2012*	Sales growth**	OE sales growth**
Powertrain Systems	1,549	1,681	+2%	+3%
Thermal Systems	1,559	1,719	+7%	+8%
Visibility Systems	1,304	1,357	+2%	+1%
Comfort and Driving Assistance Systems	970	1,291	+5%	+5%

* Including intersegment sales
** Like-for-like

Sales for the Powertrain Systems Business Group totaled 1,681 million euros, up 2% on a like-for-like basis. This performance chiefly reflected the lesser weighting of Japanese customers in the Powertrain Systems portfolio, as well as a tepid performance by the European aftermarket.

Sales for the Visibility Systems Business Group came in at 1,357 million euros, up 2% on a like-for-like basis, and were held back by the greater weighting of Europe and the aftermarket in the business.

Evolution of the Group's customer portfolio

The share of Asian customers continues to increase and now represents 29% of original equipment sales, ahead of German customers which remain stable at 28% (versus 21% and 29%, respectively, in the same year-ago period).

Resilient operating margin, up 7.2% to 370 million euros or 6.2% of sales

In the first half of 2012, **gross margin** was up 9.8% to 1,006 million euros and represented 16.8% of sales, versus 17.2% in the same year-ago period. Gross margin for the period was impacted by weaker activity levels on the aftermarket, the depreciation of the Brazilian real and the Indian rupee, and startup costs at new plants.

The Group's **operating margin** was up 7.2% to 370 million euros, or 6.2% of sales, versus 6.5% of sales in first-half 2011. Operating margin held firm thanks to sound management of research and development expenditure as well as administrative and selling expenses.

- Valeo is continuing its research and development efforts in response to the rise in the order intake. Net research and development expenditure rose 10% to 313 million euros, or 5.2% of sales, edging down slightly by 0.1 percentage points on the same period in 2011;
- administrative and selling expenses of 323 million euros remained steady at 5.4% of sales, thanks in particular to the tight control of general expenses;
- overall, the first six months of 2012 saw the continued momentum of efforts launched since the 2009 financial crisis aimed at controlling the Group's fixed costs (the breakeven point now stands at 78% of sales, compared with 88% before the crisis in 2007) and at maintaining a flexible cost structure given the prevailing economic climate in Europe.

The Group's **operating income** was 348 million euros for first-half 2012, or 5.8% of sales, after taking into account other expenses, especially restructuring costs and legal costs incurred in respect of anti-trust proceedings.

The **cost of net debt** totaled 50 million euros, corresponding to an increase of 72% in the same year-ago period. This increase chiefly reflects new long-term financing (due in 2017 and 2018) put in place for a total of 1 billion euros in a context defined by:

- a deterioration in the credit market (average borrowing costs of 4.9%);
- bond redemption premiums linked to the Group's debt management policy;
- the reinvestment of surplus cash at very low short-term interest rates.

The Group's share in net earnings of associates in the period was 11 million euros. After taking into account the 28% effective tax rate and non-controlling interests in net income for 15 million euros, in first-half 2012 **net attributable income (Group share)** stood at 198 million euros, or 3.3% of sales, down 9.2% on the same prior-year period.

Earnings per share declined 9% to 2.63 euros.

The return on capital employed (ROCE) and the return on assets (ROA) remained broadly in line with end-2011 at 31% and 19%, respectively.

Free cash flow up 10% on first-half 2011 to 148 million euros, despite the increase in capital expenditure in response to the rise in order intake

The Group's operating performance in first-half 2012 as well as the tight rein on working capital requirement (down 59 million euros) helped offset much of the increase in investments in property, plant and equipment (up 81 million euros) and intangible assets (up 36 million euros) resulting from the rise in its order intake. The proportion of research and development expenditure taken to assets rose from 1.6% to 1.9% of sales owing to a better profitability outlook for projects under development. As a result, Valeo generated 148 million euros in **free cash flow**, up 10% compared to the same period in 2011.

Net cash flow, after interest payments for 56 million euros and other financial items for 61 million euros chiefly related to the acquisition of non-controlling interests in China-based subsidiary Valeo Air Conditioning Hubei, amounted to a 31 million euro cash inflow in the first half of 2012.

Strong financial position

Net debt came in at 485 million euros at June 30, 2012 versus 452 million euros at June 30, 2011. Valeo extended the average maturity of its debt to four years thanks to its active debt management policy, especially the bond issue for 500 million euros maturing in 2017.

The **leverage ratio** (net debt/EBITDA) came out at 0.4 times EBITDA and the **gearing ratio** (net debt/stockholders' equity excluding non-controlling interests) stood at 25% of equity.

2012 outlook

Based on the following scenario:

- 5% to 6% growth in global automotive production in 2012;
- 6% to 7% decline in Europe;
- Stable raw material prices in the second half relative to current levels.

Valeo has set the following objective:

- full-year 2012 operating margin level (in millions of euros) in the same magnitude of full-year 2011.

Highlights

On June 25, 2012, Valeo announced a plan to sell its Access Mechanisms business (Comfort and Driving Assistance Systems Business Group) to Japan-based U-Shin, one of Asia's leading manufacturers of automotive access mechanisms. The project has been submitted to employee representatives for consultation and is subject to approval by the competition authorities. The Access Mechanisms business, which is primarily mechanical-based, comprises products such as locksets, steering column locks, handles and latches. Boasting a broad presence in Europe and South America, the business generated sales of 620 million euros in 2011. At June 30, 2012, it operates 12 plants and has 4,400 employees. The proposed divestment is aligned with Valeo's strategy of focusing on developing products that reduce CO_2 emissions and stepping up its expansion in Asia and emerging markets.

Upcoming events

The Statutory Auditors have performed a limited review of the interim financial statements. The limited review report is in the process of being issued and will be presented in the Half-Year Financial Report. The Half-Year Financial Report containing the condensed interim consolidated financial statements for the six months ended June 30, 2012 is due to be made available to investors on Valeo's web site (www.valeo.com) by Tuesday July 31, 2012 at the latest.

Third-quarter 2012 sales: October 18, 2012 after close of trading.

Valeo is an independent industrial Group fully focused on the design, production and sale of components, integrated systems and modules for the automotive industry, mainly for CO_2 emissions reduction. Valeo ranks among the world's top automotive suppliers. The Group has 127 plants, 21 research centers, 40 development centers, 12 distribution platforms and employs 71,900 people in 28 countries worldwide.

For more information, please contact:

Media relations
Phone: +33 1.40.55.21.75 / +33 1.40.55.37.18

Thierry Lacorre
Investor Relations Director
Phone : +33 1.40.55.37.93

For more information about the Valeo Group and its activities, please visit our web site www.valeo.com

Glossary

(1) Order intake corresponds to business awarded by automakers (less any cancellations) during the period, based on Valeo's best and reasonable estimates in terms of volumes, sale prices and project lifespans.
(2) Operating margin corresponds to operating income before other income and expenses.
(3) ROCE corresponds to operating margin/capital employed excluding goodwill calculated over 12 months.
(4) ROA corresponds to operating margin/capital employed including goodwill.
(5) EBITDA corresponds to operating income before depreciation and amortization of property, plant and equipment and intangible assets, impairment losses and other income and expenses.
(6) Free cash flow corresponds to net cash from operating activities less net outflows on property, plant and equipment and intangible assets.
(7) Net cash flow corresponds to free cash flow less financial expenses and after taking into account the payment of dividends and financial flows relating to mergers and acquisitions.
(8) Net debt comprises all long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets, cash and cash equivalents.

Safe Harbor Statement

Statements contained in this report, which are not historical fact, constitute "Forward-Looking Statements". Even though Valeo’s management feels that the Forward-Looking Statements are reasonable, investors are put on notice that actual results may differ materially due to numerous important factors, risks and uncertainties to which Valeo is exposed. 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 are mainly comprised of the risks resulting from the investigations currently being carried out by the anti-trust authorities as they have been identified in the Registration Document, operational risks which relate to being a supplier in the automotive industry, to the marketing and sales of the types of vehicles produced 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 “*Autorité des Marchés Financiers*” (AMF), including those set out in the “Risk Factors” section of Valeo’s Registration Document registered at the AMF on March 29, 2012 (ref. no. D.12-0237).

The company assumes no responsibility for any estimates made by analysts and any other information prepared by third parties which may be used in this report. 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 after the date of this report.