Communiqué de presse
Press release

11.18

Valeo reports 13% growth in consolidated sales for first half 2011 with a 17% rise in original equipment sales (excluding Japan) on a like-for-like basis[1] and a 30% surge in net income to 218 million euros

First half 2011 results

- **13% growth in consolidated sales on a like-for-like basis to 5,334 million euros with 15% like-for-like growth in original equipment sales (17% excluding Japan)**
- **18% increase in operating margin to 345 million euros or 6.5% of sales**
- **30% surge in net income to 218 million euros or 4.1% of sales**
- **ROCE$_{(2)}$ at 36% and ROA$_{(3)}$ at 22%**
- **Free cash flow of 134 million euros and net debt of 452 million euros at end June 2011 following the payment of the purchase price for Niles in an amount of 286 million euros**
- **Record level of order intake at 7.7 billion euros**

2011 outlook

In current market and commodity price conditions, Valeo confirms its 2011 guidance.

Paris, France, July 27, 2011 – Following the meeting of its Board of Directors today, Valeo released its results for the first half of 2011:

Jacques Aschenbroich, Valeo's Chief Executive Officer, stated: *"Valeo's strategic focus for the past two years has been on developing products that reduce CO_2 emissions and on driving sales in Asia and emerging markets. This approach is now paying off, as demonstrated by the more-than-15% growth in original equipment sales on a like-for-like basis, and by our improved profitability with an operating margin of 6.5% in spite of the tragic events in Japan and higher commodity prices. In view of our record high order intake – which stands at 7.7 billion euros – and the success that our new products are encountering, I remain bullish about Valeo's ability to accelerate growth compared with the market in all of our businesses and production regions, and to achieve the objectives we set out at our Investor Day on March 9, 2011."*

[1] *Constant Group structure and exchange rates.*

First half 2011 results

In millions of euros	H1 2010	H1 2011	Change 2011/2010
Sales	4,787	**5,334**	**+11%**
Gross margin	856	**916**	**+7%**
% of sales	*17.9%*	***17.2%***	***-0.7 pts***
R&D expenditure, net	(267)	(285)	+7%
% of sales	*-5.6%*	*-5.3%*	*+0.3 pts*
Administrative and selling expenses	(297)	(286)	-4%
% of sales	*-6.2%*	*-5.4%*	*+0.8 pts*
Operating margin (1)	292	**345**	**+18%**
% of sales	*6.1%*	***6.5%***	***+0.4 pts***
Operating income	261	**344**	**+32%**
% of sales	*5.5%*	***6.4%***	***+0.9 pts***
Net income Group share	168	**218**	**+30%**
% of sales	*3.5%*	***4.1%***	***+0.6 pts***
Earnings per share (continuing operations) (€)	2.22	**2.89**	**+30%**
EBITDA (4)	564	**602**	**+7%**
% of sales	*11.8%*	***11.3%***	***-0.5 pts***
Free cash flow (5)	291	**134**	**-54%**
Net cash flow (6)	241	**(183)**	**NA**
Net debt* (7)	438	**452**	**+3%**

* After payment of the purchase price for Niles in the amount of 286 million euros

In the first half of 2011, **global automotive production** remained robust in all regions except Japan, where output contracted 31%. Global production of light vehicles advanced 3% compared with the year-earlier period.

Against this backdrop, **original equipment sales** came in at 4,510 million euros, rising 14% (15% on a like-for-like basis) and outperforming the market by 12 percentage points. Excluding Japan, original equipment sales advanced 17% like for like. In parallel, **aftermarket sales** climbed 3% on a like-for-like basis, to 719 million euros.

Consolidated sales totaled 5,334 million euros, up 11% compared with the first half of 2010 (13% on a like-for-like basis).

Original equipment sales outperformed the market in all the main production regions

Original equipment In millions of euros	First-half			
	2010	**2011**	**% change Valeo sales***	**% change automotive production****
Europe	2,380	2,720	+15%	+8%
Asia excl. Japan	546	616	+14%	+6%
of which China	*299*	*318*	*+10%*	*+4%*
Japan	236	188	-24%	-31%
North America	476	640	+39%	+8%
South America	319	346	+5%	+9%
World total	3,957	4,510	+15%	+3%
Excluding Japan	3,721	4,322	+17%	+7%

** Like-for-like   ** JD Power estimates*

Automotive production rose 8% in both Europe and North America compared with the first half of 2010. In Asia, automotive production declined by 3% as a consequence of the earthquake in Japan, where production contracted 31% over the period.

In view of these results, Valeo's **original equipment sales outperformed automotive production** in its main markets:

- In Europe, Valeo reported 15% sales growth – seven percentage points higher than automotive production thanks to its strong customer positioning and product mix (ramp-up of certain technologies, particularly in the Powertrain Systems and Comfort & Driving Assistance Systems Business Groups).
- In Asia (excluding Japan), Valeo recorded 14% sales growth – eight percentage points higher than automotive production thanks to market share gains for the Group.
- In North America, Valeo posted 39% sales growth, outperforming automotive production by 31 percentage points thanks to its favorable customer positioning and improved product mix as well as market share gains.

These buoyant performances in the main production regions, combined with a positive geographic mix, enabled the Group's **original equipment sales to outperform global market growth by 12 percentage points in the first half of the year** despite the impact on business activity of Japan's March 11 earthquake.

Business levels in Japan should pick up again as from this summer. More broadly, while minor supply chain disruptions cannot be discounted, they are not expected to impact global automotive output in the third quarter 2011.

In the first half of the year, Europe accounted for 60% of original equipment sales. Over the same period, North American sales represented 14% compared with 12% for the same year-ago period. Asia accounted for 18% of original equipment sales in the first half of the year, down two percentage points compared to the same period in 2010 following the earthquake in Japan. Excluding Japan, the Asia region represents 14% of sales, stable compared to the same year-ago period.

All Business Groups contributed to the growth effort and outperformed global automotive production

Sales In millions of euros	First half			
	2010	**2011**	**% change Valeo sales***	**% change OE sales***
Comfort & Driving Assistance Systems	848	970	+15%	+17%
Powertrain Systems	1,344	1,549	+18%	+21%
Thermal Systems	1,447	1,559	+8%	+8%
Visibility Systems	1,186	1,304	+11%	+15%

** Like-for-like*

The Business Groups all enjoyed buoyant growth momentum, with original equipment sales rising faster than global automotive production, which was up 3% in the first half 2011.

The Comfort & Driving Assistance Systems and Powertrain Systems Business Groups outperformed global automotive production by 14 and 18 percentage points respectively, thanks in particular to market share gains in new technologies (Stop-Start, torque converter, driving assistance, cameras, radar, etc.). The Thermal Systems Business Group, which has a strong presence in Japan, was more directly impacted by the earthquake.

The Group also achieved excellent results with its German customers, which accounted for 29% of total original equipment sales compared with 27% in the first half 2010.

Record order intake

On the back of a record high order intake of 7.7 billion euros, the orders-to-sales ratio hit an all-time high of 1.7 (versus 1.6 at December 31, 2010).

30% surge in net income

In the first half of 2011, **gross margin** represented 17.2% of sales, or 916 million euros, edging back 0.7 percentage points compared to the same year-ago period (17.9% of sales, or 856 million euros). This decrease in gross margin mainly reflects higher commodity prices (including for rare earth metals) and the disruptions caused by the Japanese earthquake.

Despite the rise in commodity prices and thanks to the containment of administrative and selling expenses, the Group's **operating margin** (before other income and expenses) in the period under review came in at 345 million euros, or 6.5% of sales compared to 6.1% in the first half of 2010.

Operating income totaled 344 million euros, or 6.4% of sales versus 261 million euros (5.5% of sales) during the same period in 2010.

Income before tax for the first half of the year increased to 302 million euros from 226 million euros one year earlier.

The effective tax rate came out at 26%, while **net income Group share** climbed 30% to 218 million euros or 4.1% of sales compared to 168 million euros (3.5% of sales) for the same period in 2010. Valeo's net income thus reached its highest level for a first half-year since 1998. Earnings per share came out at 2.89 euros per share versus 2.22 euros per share one year earlier.

Free cash flow (before interest expense) amounted to 134 million euros for the first half of 2011, reflecting the Group's operating performance against a backdrop of sharply rising commodity prices and a 40% increase in investments to 307 million euros or 4.2% of sales, as well as vigorous growth in orders and business volumes.

After interest expense (42 million euros) and other financial items (275 million euros), in particular the acquisition of Niles, **net cash flow** represented an outflow of 183 million euros**.**

During the period the Group benefited from Moody's upgrading of Valeo’s long-term debt to investment grade and **actively managed its long-term debt** with a view to:

- extending the average maturity of its debt and smoothing its repayment profile through:
  - the issue of 500 million euros worth of bonds maturing in 2018;
  - the redemption of 200 million euros worth of bonds maturing in 2013.
- financing the acquisition of Niles through a syndicated loan taken out in yen representing 250 million euros and maturing in 2016.

At June 30, 2011, **net debt** totaled 452 million euros, an increase of 174 million euros compared with December 31, 2010 (278 million euros).

At June 30, 2011 Valeo had 1,162 million euros in **available cash and cash equivalents**. The Group also has a program of confirmed bilateral credit lines representing 1,115 million euros.

Outlook

Valeo remains confident in its assumption that global automotive production will increase by approximately 5% for 2011 as a whole.

On this basis, and despite headwinds generated by rising commodity prices, particularly for rare earth metals, Valeo confirms its 2011 guidance, i.e.:

- original equipment sales to outperform the market in its main production regions.
- to achieve full-year operating margin as a percentage of sales slightly higher than 2010.

Highlights

On June 30, 2011, Valeo announced the closing of the acquisition of Niles from RHJ International and Nissan for an enterprise value of 313 million euros (36 billion yen), thereby becoming world leader on the Interior Controls market. The company was integrated into the Comfort & Driving Assistance Systems Business Group on July 1, 2011. Niles is a leading manufacturer of automotive switching systems, recorded sales of 412 million euros (47 billion yen) in 2010, and has 3,900 employees based at eight production sites. It boasts an extensive presence in Asia, particularly in Japan, Thailand, China, Korea and Taiwan. This acquisition strengthens Valeo's positions with respect to long-standing customers, especially Nissan, and its footprint in Asia, particularly in Thailand and China, in line with the Group's goal of generating more than 30% of its sales in Asia by 2015.

On May 11, 2011, Valeo announced the success of its 500 million euro bond issue maturing in 2018 and its offer to redeem 200 million euros worth of bonds maturing in 2013 out of the total 600 million euro issuance in June 2005.

On May 3, 2011, Moody's announced its decision to upgrade Valeo's long-term debt rating from Ba1 to Baa3 with a stable outlook as well as the rating of its short-term debt from Not-Prime to Prime-3.

On April 1, 2011, two new facilities were opened in China: an electronics center in Shenzhen that will develop electronic hardware and services for all Group entities (100 engineers by the end of 2011 and 200 in 2015) and a 15,600 sq.m. wiper systems plant in Wenling that will significantly increase wiper and washing system production capacity for both Chinese and international customers.

Note

Valeo has received several requests from European and American antitrust authorities for documents and information relating to several of its products. As stated previously, it is Valeo’s policy to strictly prohibit anti-competitive behavior. Valeo will fully cooperate with the authorities in this investigation.

Financial calendar

Third quarter 2011 sales: October 20, 2011.

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 124 plants, 21 research centers, 39 development centers, 10 distribution platforms and employs 61,400 people in 28 countries worldwide.

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Safe Harbor Statement

Statements contained in this report, which are not historical fact, constitute “Forward-Looking Statements”. Actual results may differ materially due to numerous important factors. Such factors include the cost and timing of implementing restructuring actions, the company’s ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions, conditions in the automotive industry, and certain global and regional economic conditions. The company assumes no responsibility for any analysts’ estimates and any other information prepared by third parties which we may reference in this report. Valeo does not intend or assume any obligation to review or confirm analysts’ estimates or to update any forward-looking statement to reflect events or circumstances after the date of this report.

Glossary

(1) Operating income less other income and expenses.
(2) Operating margin/capital employed less goodwill calculated over the last 12 months.
(3) Operating income/(Committed capital + Goodwill).
(4) EBITDA corresponds to operating income before amortization of tangible and intangible assets and depreciation.
(5) Free cash flow corresponds to net operating cash flow less net disbursements on tangible/intangible assets.
(6) 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.
(7) Net financial debt includes all long-term financial debts, short-term credits and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents.