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In the circumstances of the first half 2010, Valeo demonstrates its ability to achieve its profitability objectives with an operating margin level of 6.1% of sales, the highest level in 10 years

- **Original equipment sales growth of 44%, higher than production growth in each geographic region**
- **Significantly improved net income, at 168 million euros, or 3.5% of sales**
- **Strong cash generation of 291 million euros and significant reduction of debt to 438 million euros at June 30, 2010**
- **Upward revision of the operating margin objective for 2010 to a level higher than 5% of sales in current market conditions**

PARIS, France, July 27, 2010 – Following the meeting of its Board of Directors today, Valeo presented its results for the first half 2010.

Jacques Aschenbroich, Valeo’s Chief Executive Officer, declared:

“The Group’s first half performance in terms of operating margin, which reached 6.1% of sales; net income, which stood at 168 million euros; and cash flow were the result of the commitment and hard work of Valeo teams worldwide who remained highly motivated during the crisis that hit the company hard in 2009, to lower the break-even point for the long term. These excellent results confirm that Valeo has again become a growth stock; they strengthen our confidence in the future and in our ability to achieve the objectives set in the strategic plan unanimously approved by the Board and presented on March 10.”

In million euros	H1 - 2009	H1 - 2010	Change
Sales	3,472	4,787	**+38%**
Gross margin	453	856	**+89%**
% of sales	*13.0%*	*17.9%*	***+4.9pts***
Operating margin (1)	(51)	292	**na**
% of sales	*-1.5%*	*6.1%*	***+7.6pts***
EBITDA	229	564	**+146%**
% of sales	*6.6%*	*11.8%*	***+5.2pts***
Net income Group share	(213)	168	**na**
% of sales	*-6.1%*	*3.5%*	***+9.6pts***
Free cash flow (2)	(4)	**291**	**na**
Net cash flow (3)	(49)	**241**	**na**
Net financial debt	841	**438**	**-48%**

1 Operating income less other income and expenses
2 Free cash flow corresponds to net operating cash flow less net disbursements on tangible/intangible assets. This indicator is therefore calculated before payment of interest payments.
3 Net cash flow corresponds to free cash flow less interest payments and after taking into account other financial flows.

Valeo

Growth of 38% for consolidated sales and 44% for original equipment sales

In million euros	Q2 2009*	Q2 2010*	Change 2010/2009*	H1-2009	H1-2010	Change 2010/2009
Sales	**1,848**	**2,478**	**+34%**	**3,472**	**4,787**	**+38%**
On a like-for-like basis			**+29%**			**+34%**
Original equipment	1 490	2 059	+38%	2 743	3 957	+44%
Aftermarket	306	371	+21%	616	722	+17%
Miscellaneous	52	48	-8%	113	108	-4%

** Unaudited*

Thanks to a sustained level of activity in the second quarter 2010, **global passenger car production** continued to recover in the first half 2010, registering a 39% rise versus the first half 2009.

During the first half 2010, automotive production growth per region was as follows:

- Europe (and Africa): +23%, despite the end of vehicle scrapping programs and the stabilization of new car registrations during the first half 2010 (+0.2% versus the first half 2009); this is mainly attributable to the non-recurrent stock reduction effect in 2009 and to the increase in exports outside of Europe;
- Asia (and others): +43%, mainly linked to continued growth in China (+45%);
- North America: +72%, compared with a first half 2009 highly impacted by the drop in production and the restructuring of certain U.S. automakers;
- South America: +17%.

Benefiting from a favorable automotive environment and the outperformance of its original equipment activity on all markets, the Group recorded for the first half 2010 **consolidated sales** of 4,787 million euros, up by 38% versus the first half 2009. On a like-for-like basis, consolidated sales were up by 34%.

In this context, **original equipment sales** amounted to 3,957 million euros (83% of consolidated sales). Compared with the first half 2009, passenger car original equipment sales were up by 40% (like-for-like), higher than the growth of global automobile production (+39% annualized change). The performance of the original equipment activity is notable on all of the Group's main markets (see below).

At the same time, **aftermarket sales** totaled 722 million euros (15% of consolidated sales), up by 17% versus the first half 2009 (616 million euros).

Passenger car original equipment sales growth higher than the market growth in each geographic region

In million euros	H1-2009	H1-2010	Change 2010 / 2009	Change (like-for-like)	Automotive Production
Europe & Africa	1,753	2,297	+31%	+31%	+23%
Asia and others *of which China*	420	697	+66% *+73%*	+59% *+72%*	+43% *+47%*
North America	245	458	+87%	+86%	+72%
South America	203	291	+44%	+19%	+17%

During the first half 2010, passenger car production in Europe, Asia, North America and South America increased by 23%, 43%, 72% and 17%, respectively, versus the first half 2009. At the same time, passenger car original equipment sales (on a like-for-like basis) were up by 31% in Europe, 59% in Asia, 86% in North America and 19% in South America.

This outperformance of the passenger car original equipment activity in first half year can mainly be explained by:

- the ramp-up of new product lines within the Powertrain Systems Business Group, mainly in Asia and North America, and within the Comfort & Driving Assistance Business Group, notably in Europe and North America;
- a growing presence on the new platforms of most of the Group’s customers.

All Business Groups contribute to the Group's operational performance

Sales by Business Group:

In million euros	H1-2009	H1-2010	Change 2010 / 2009
Comfort & Driving Assistance Systems	627	848	+35%
Powertrain Systems	951	1,344	+41%
Thermal Systems	1,012	1,447	+43%
Visibility Systems	904	1,186	+31%

All Business Groups contributed to the growth of the Group's consolidated sales during the first half 2010.

The Comfort & Driving Assistance Systems and Visibility Systems Business Groups recorded sales growth lower than that of global automotive production (+39% annualized change) due to:

- the relatively small weight of the Asian market in the Comfort & Driving Assistance Systems Business Group;
- the relatively higher weight of the aftermarket in the Visibility Systems Business Group.

EBITDA by Business Group:

% of sales	H1-2009	H1-2010	Change 2010 / 2009
Comfort & Driving Assistance Systems	6.1%	11.8%	+5.7pts
Powertrain Systems	9.0%	9.7%	+0.7pts
Thermal Systems	6.1%	13.3%	+7.2pts
Visibility Systems	4.5%	11.4%	+6.9pts

All Business Groups contributed to improving the Group's operational performance during the first half 2010.

The Powertrain Systems Business Group recorded a lower rise in EBITDA mainly due to:

- non recurrent start-up costs for new plants;
- the weight of Research & Development expenses in the area of electric drivelines.

Record order intake

The order intake versus original equipment sales ratio was up significantly at June 30, 2010, reaching a record level of 1.64, or 6,478 million euros (versus 1.10 at June 30, 2009, this low level being linked to the postponement of orders during the crisis in 2009) with a similar level of performance among the different Business Groups.

Sharp improvement in operating results

During the first half 2010, the **gross margin rate** amounted to 17.9% of sales (or 856 million euros) versus 13% of sales (or 453 million euros) during the same period in 2009.

The Group's **operating margin** (before other income and expenses) totaled 292 million euros, or 6.1% of sales, versus -1.5% of sales in the first half 2009 (at -51 million euros), the highest margin level achieved in 10 years.

R&D efforts, particularly in the area of CO_2 emissions reduction, increased by 14% to total 267 million euros, or 5.6% of sales (versus 234 million euros, or 6.7% of sales during the same period in 2009). Administrative and selling expenses amounted to 297 million euros, or 6.2% of sales (versus 270 million euros, or 7.8% of sales during the same period in 2009).

Other income and expenses in the first half totaled -31 million euros, or -0.6% of sales, notably including provisions for social costs relating to the plan for setting up the new organization announced in March 2010. **Operating income** totaled 261 million euros, or 5.5% of sales versus -88 million euros during the same period in 2009, at -2.5% of sales.

Income before taxes showed a profit of 226 million euros versus a loss of 186 million euros during the same period in 2009:

- The cost of the net financial debt totaled 32 million euros, up by 52% versus the same period in 2009. This change is the result of:
  - the renegotiation of confirmed bank lines in the context of a degraded credit market;
  - the cost of carry of the gross financial debt in the context of particularly low short-term interest rates;
- Other income and financial expenses showed a net expense of 14 million euros compared with a net expense of 37 million euros during the same period in 2009 (of which 16 million euros in losses from currency and raw material hedging);
- The share in the results of associated companies showed a profit of 11 million euros.

The effective tax rate stood at 22%, notably including the recognition of deferred tax assets in certain countries. After taking into account the minority interests' share of 9 million euros during the period, **the net income Group share** totaled 168 million euros, or 3.5% of sales versus a loss of 213 million euros during the same period in 2009.

The Group's improved operating performance, along with a strict management of investments and working capital, enabled Valeo to generate a **free cash flow** (less financial interest) of 291 million euros in the first half 2010.

Net cash flow, after interest payments and the taking into account of other financial elements, amounted to 241 million euros in the first half.

As a result, Valeo had as of June 30, 2010, a **cash balance** of 1,132 million euros. The Group also benefits from a program of confirmed bilateral credit lines worth 1,116 million euros.

Net financial debt totaled 438 million euros at June 30, 2010, down by 284 million euros versus December 31, 2009 (722 million euros).

The **leverage ratio** (net financial debt to EBITDA) was down sharply, at 0.4 times EBITDA (calculated over 12 months rolling) versus 1.1 at end December 2009. The gearing ratio (net financial debt to net shareholders' equity excluding minority interests) stood at 30% of equity, down by 29 points compared with December 31, 2009 (59% of equity).

Highlights

On March 25, 2010, Pardus Capital Management issued a statement in which it announced the “resumption of ordinary course operations and the lifting of the suspension on withdrawals effective March 31, 2010”, adding that it was giving investors the choice “to remain invested in the Fund for at least one year or to convert to a distribution class and receive cash and securities over time.”
Following this statement, Pardus Investments Sàrl declared two lower threshold crossings to the French AMF:

- By letter dated June 1, 2010, Pardus Investments Sàrl declared having crossed on May 28, 2010 under the threshold of 15% of the capital and voting rights, bringing its stake to 14.88% of the capital and 14.45% of the voting rights;
- By letter dated July 20, 2010, Pardus Investments Sàrl declared having crossed on July 15, 2010, the threshold of 12% of the capital and 10% of voting rights, bringing its stake to 10.01% of the capital and 9.72% of the voting rights;

As part of the implementation of its strategy, Valeo announced the following initiatives during the first half:

- the sale of its lighting modules activity became effective on June 30, 2010; the Group had announced this planned sale on February 25, 2010, in line with its strategy to divest non-strategy activities;
- the acquisition, announced on May 19, 2010, of 100% (versus 66.7% previously) of the electrical systems production entity based in Pune, India, which manufactures alternators and starter motors for passenger cars.

On June 9, Valeo announced the launch of its second generation Stop-Start system in the third quarter 2010 by PSA Peugeot Citroën. This system, coupled with the HDi diesel engines of the Peugeot and Citroën brands, will be featured on both manual and automated manual transmission models and will equip a million vehicles by 2013. The micro-hybrid system automatically cuts off the vehicle’s engine at a red light or in a traffic jam and restarts it when engine power is solicited. CO_2 emissions are reduced by 5g per kilometer on average, and by up to 15% in congested urban traffic.

On May 26, 2010, Valeo announced the creation of an Advisory Board whose main mission is to provide Management with an international perspective on Group issues and strategy, as well as support for operations in regions where Valeo wishes to develop its presence. The Advisory Board, chaired by Erich Spitz, a former member of the Valeo Board of Directors, comprises five top-level figures who are experts in the Group’s businesses and markets.

2010 Outlook

Thanks to the continued recovery of automotive production noted in the first half 2010, and despite the end of vehicle scrapping programs in Europe and the macro economic uncertainties that may impact the economic situation in the fourth quarter, Valeo is revising upwards it forecast for production in its main markets in 2010:

- In Europe, an increase of 6%;
- In Asia, an 18% rise, thanks in particular to continued growth in China;
- In North America, an improvement of 30%;
- In South America, a rise of 10%.

Based on this scenario, and thanks to controlled costs and the implementation of its new organization, Valeo affirms its confidence and is revising upwards its operating margin level objective for the full-year 2010 to a level higher than 5% of sales in current market conditions.

Next event

Third quarter 2010 sales, to be published on October 21, 2010 after closing of the stock market.

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 117 plants, 21 Research centers, 40 Development centers, 10 distribution platforms and employs 56,000 people in 27 countries worldwide.

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