

Valeo reports the impacts of the application of IFRS 15 and IFRS 9 on 2017 comparative information

Paris, France, July 17, 2018 – IFRS 15 and IFRS 9 became effective as of January 1, 2018, with comparative periods restated.

The impacts of retrospectively applying IFRS 15 – “Revenue from Contracts with Customers” on 2017 comparative information, as it will be presented in the consolidated financial statements for the six months ended June 30, 2018, are as follows:

- ✓ the external cost of components imposed by customers, which was previously accounted for in original equipment sales, is now presented as a deduction from “Raw materials consumed”. This reclassification results in a 425 million euro reduction in sales for 2017 and mainly concerns the Thermal Systems Business Group’s front-end module operations;
- ✓ customer contributions to Research and Development (including prototypes), which were previously presented as a deduction from “Research and Development expenditure”, are now presented in sales under “Miscellaneous”. This reclassification to sales represents an amount of 364 million euros for 2017, resulting in a 2.0 percentage point rise in Research and Development expenditure as a percentage of sales (from 6.1% to 8.1%);
- ✓ Product Development is usually considered to be related to the production process. Accordingly, customer contributions are recognized in sales over the series production period, although the accounting treatment applied may vary based on projects’ specific contractual or operational features. The application of IFRS 15 results in the deferred recognition of sales, thereby reducing the Group’s operating margin for 2017, including share in net earnings of equity-accounted companies, by 7 million euros (excluding the tax impact).

The retrospective application of IFRS 9 – “Financial Instruments” results in a 12 million euro reduction in net debt at January 1, 2017 and a 2 million euro increase in financial expenses for 2017 relating to the debt renegotiation that took place in 2014 (see Valeo’s 2017 Registration Document, page 294, for a detailed explanation of the application of this standard).

	2017 – Published	IFRS 15			IFRS 9	2017 – Restated
		Reclassification of components imposed by customers	Reclassification of customer contributions to R&D	Customer contributions to Product Development	Debt renegotiation that took place in 2014	
(in millions of euros)						
Total sales	18,550	-425	+364	-5	-	18,484
Cost of sales	(15,076)	+425	-	-	-	(14,651)
Research and Development expenditure	(1,130)	-	-364	-	-	(1,494)
As a % of sales	6.1%					8.1%
Operating margin excluding share in net earnings of equity accounted companies	1,455	-	-	-5	-	1,450
As a % of sales	7.8%					7.8%
Share in net earnings of equity accounted companies	22	-	-	-2	-	20
Operating margin including share in net earnings of equity-accounted companies	1,477	-	-	-7	-	1,470
As a % of sales	8.0%					8.0%
Cost of net debt	(73)	-	-	-	-2	(75)
Income tax expense	(325)	-	-	+1	-	(324)
Net attributable income	886	-	-	-6	-2	878
As a % of sales	4.8%					4.8%

2017 data differ from the amounts presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impact of retrospectively applying these standards. The data are presented in the pro forma tables below:

Sales by type

	Published (before application of IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
(in millions of euros)							
Original Equipment	4,174	4,061	8,235	3,751	4,134	7,885	16,120
Aftermarket	487	476	963	446	478	924	1,887
Miscellaneous	106	160	266	104	173	277	543
TOTAL	4,767	4,697	9,464	4,301	4,785	9,086	18,550

	Pro forma (restated under IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
(in millions of euros)							
Original Equipment	4,067	3,960	8,027	3,648	4,020	7,668	15,695
Aftermarket	487	476	963	446	478	924	1,887
Miscellaneous	189	254	443	175	284	459	902
TOTAL	4,743	4,690	9,433	4,269	4,782	9,051	18,484

	Adjustment (restatement under IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
(in millions of euros)							
Original Equipment	-107	-101	-208	-103	-114	-217	-425
Aftermarket	0	0	0	0	0	0	0
Miscellaneous	+83	+94	+177	+71	+111	+182	+359
TOTAL	-24	-7	-31	-32	-3	-35	-66

Original equipment sales by destination region

(in millions of euros)	Published (before application of IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
Europe & Africa	2,001	1,919	3,920	1,726	1,904	3,630	7,550
Asia, Middle East & Oceania	1,189	1,192	2,381	1,200	1,384	2,584	4,965
<i>of which China</i>	564	548	1,112	557	702	1,259	2,371
<i>excluding China</i>	625	644	1,269	643	682	1,325	2,594
North America	895	857	1,752	732	751	1,483	3,235
South America	89	93	182	93	95	188	370
TOTAL	4,174	4,061	8,235	3,751	4,134	7,885	16,120

(in millions of euros)	Pro forma (restated under IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
Europe & Africa	1,990	1,910	3,900	1,716	1,898	3,614	7,514
Asia, Middle East & Oceania	1,167	1,171	2,338	1,167	1,344	2,511	4,849
<i>of which China</i>	545	529	1,074	526	668	1,194	2,268
<i>excluding China</i>	622	642	1,264	641	676	1,317	2,581
North America	821	786	1,607	672	683	1,355	2,962
South America	89	93	182	93	95	188	370
TOTAL	4,067	3,960	8,027	3,648	4,020	7,668	15,695

(in millions of euros)	Adjustment (restatement under IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
Europe & Africa	-11	-9	-20	-10	-6	-16	-36
Asia, Middle East & Oceania	-22	-21	-43	-33	-40	-73	-116
<i>of which China</i>	-19	-19	-38	-31	-34	-65	-103
<i>excluding China</i>	-3	-2	-5	-2	-6	-8	-13
North America	-74	-71	-145	-60	-68	-128	-273
South America	0	0	0	0	0	0	0
TOTAL	-107	-101	-208	-103	-114	-217	-425

Sales by Business Group (including intersegment sales)

(in millions of euros)	Published (before application of IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
Comfort & Driving Assistance Systems	938	899	1,837	859	894	1,753	3,590
Powertrain Systems	1,105	1,058	2,163	963	1,174	2,137	4,300
Thermal Systems	1,312	1,282	2,594	1,157	1,252	2,409	5,003
Visibility Systems	1,458	1,495	2,953	1,355	1,500	2,855	5,808
TOTAL	4,767	4,697	9,464	4,301	4,785	9,086	18,550

(in millions of euros)	Pro forma (restated under IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
Comfort & Driving Assistance Systems	962	927	1,889	878	932	1,810	3,699
Powertrain Systems	1,117	1,071	2,188	973	1,193	2,166	4,354
Thermal Systems	1,224	1,201	2,425	1,070	1,166	2,236	4,661
Visibility Systems	1,485	1,529	3,014	1,381	1,526	2,907	5,921
TOTAL	4,743	4,690	9,433	4,269	4,782	9,051	18,484

(in millions of euros)	Adjustment (restatement under IFRS 15)						
	Q1 2017	Q2 2017	H1 2017	Q3 2017	Q4 2017	H2 2017	Full-year 2017
Comfort & Driving Assistance Systems	+24	+28	+52	+19	+38	+57	+109
Powertrain Systems	+12	+13	+25	+10	+19	+29	+54
Thermal Systems	-88	-81	-169	-87	-86	-173	-342
Visibility Systems	+27	+34	+61	+26	+26	+52	+113
TOTAL	-24	-7	-31	-32	-3	-35	-66

EBITDA* by Business Group

(in millions of euros) (as a % of sales)	Published (before application of IFRS 15)			Pro forma (restated under IFRS 15)			Adjustment (restatement under IFRS 15)		
	H1 2017	H2 2017	Full-year 2017	H1 2017	H2 2017	Full-year 2017	H1 2017	H2 2017	Full-year 2017
Comfort & Driving Assistance Systems	266 14.5%	256 14.6%	522 14.5%	267 14.1%	258 14.3%	525 14.2%	+1 -0.4 pts	+2 -0.3 pts	+3 -0.3 pts
Powertrain Systems	276 12.8%	290 13.6%	566 13.2%	275 12.6%	289 13.3%	564 13.0%	-1 -0.2 pts	-1 -0.3 pts	-2 -0.2 pts
Thermal Systems	267 10.3%	272 11.3%	539 10.8%	266 11.0%	270 12.1%	536 11.5%	-1 +0.7 pts	-2 +0.8 pts	-3 +0.7 pts
Visibility Systems	392 13.3%	375 13.1%	767 13.2%	391 13.0%	373 12.8%	764 12.9%	-1 -0.3 pts	-2 -0.3 pts	-3 -0.3 pts
TOTAL	1,215 12.8%	1,221 13.4%	2,436 13.1%	1,213 12.9%	1,218 13.5%	2,431 13.2%	-2 +0.1 pts	-3 +0.1 pts	-5 +0.1 pts

* See Financial Glossary, page 6.

Earnings and net debt

(in millions of euros) (as a % of sales)	Published (before application of IFRS 15 and IFRS 9)			Pro forma (restated under IFRS 15 and IFRS 9)			Adjustment (restatement under IFRS 15 and IFRS 9)		
	H1 2017	H2 2017	Full-year 2017	H1 2017	H2 2017	Full-year 2017	H1 2017	H2 2017	Full-year 2017
Sales	9,464	9,086	18,550	9,433	9,051	18,484	-31	-35	-66
Cost of sales	(7,703) -81.4%	(7,373) -81.1%	(15,076) -81.3%	(7,495) -79.5%	(7,156) -79.1%	(14,651) -79.3%	+208 +1.9 pts	+217 +2.0 pts	+425 +2.0 pts
R&D expenditure	(582) -6.1%	(548) -6.0%	(1,130) -6.1%	(761) -8.1%	(733) -8.1%	(1,494) -8.1%	-179 -2.0 pts	-185 -2.1 pts	-364 -2.0 pts
Selling and administrative expenses	(454) -4.8%	(435) -4.8%	(889) -4.8%	(454) -4.8%	(435) -4.8%	(889) -4.8%	0 0.0 pts	0 0.0 pts	0 0.0 pts
Operating margin excluding share in net earnings of equity-accounted companies	725 7.7%	730 8.0%	1,455 7.8%	723 7.7%	727 8.0%	1,450 7.8%	-2 0.0 pts	-3 0.0 pts	-5 0.0 pts
Share in net earnings of equity-accounted companies	29	(7)	22	29	(9)	20	0	-2	-2
Operating margin including share in net earnings of equity-accounted companies*	754 8.0%	723 8.0%	1,477 8.0%	752 8.0%	718 7.9%	1,470 8.0%	-2 0.0 pts	-5 -0.1 pts	-7 0.0 pts
Net attributable income	506 5.3%	380 4.2%	886 4.8%	504 5.3%	374 4.1%	878 4.8%	-2 0.0 pts	-6 -0.1 pts	-8 0.0 pts
Net debt*	1,118	1,852	1,852	1,107	1,842	1,842	-11	-10	-10

* See Financial Glossary, page 6.

Upcoming events

First-half 2018 results: July 25, 2018

Financial Glossary

- **Operating margin including share in net earnings of equity-accounted companies** corresponds to operating income before other income and expenses.
- **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 received from equity accounted companies.
- **Net debt** comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items.

Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO₂ emissions and to the development of intuitive driving. In 2017, the Group generated sales of 18.5 billion euros and invested 12% of its original equipment sales in Research and Development. At March 31, 2018, Valeo has 185 plants, 20 research centers, 35 development centers and 15 distribution platforms, and employs 113,600 people in 33 countries worldwide. Valeo is listed on the Paris stock exchange and is a member of the CAC 40 index.

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