Half-year financial report

2021

SMART TECHNOLOGY FOR SMARTER MOBILITY

Valeo

Contents

1. GROUP PROFILE AND CORPORATE GOVERNANCE

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 the first half of 2021, the Group generated sales of 9.0 billion euros and invested 9.5% of its sales in Research and Development. At June 30, 2021, Valeo had 184 plants, 20 research centers, 42 development centers and 15 distribution platforms, and employed 104,000 people in 33 countries worldwide.

Valeo is listed on the Paris Stock Exchange.

Board of Directors at June 30, 2021

- **Jacques Aschenbroich**
  Chairman and Chief Executive Officer
- **Gilles Michel**
  Lead Director
- **Éric Poton**
  Director representing employees
- **Grzegorz Szelag**
  Director representing employees
- **Bruno Bézard**
- **Bpifrance Participations,**
  represented by Stéphanie Frachet
- **C. Maury Devine**
- **Fonds Stratégique de Participations,**
  represented by Julie Avrane-Chopard
- **Mari-Noëlle Jégo-Laveissière**
- **Thierry Moulonguet**
- **Christophe Périllat**
- **Olivier Piou***
- **Patrick Sayer**
- **Ulrike Steinhorst**
- **Véronique Weill**

Committees at June 30, 2021

Audit & Risks Committee

- **Thierry Moulonguet**
  Chairman
- **Bpifrance Participations,**
  represented by Stéphanie Frachet
- **Bruno Bézard**
- **Fonds Stratégique de Participations,**
  represented by Julie Avrane-Chopard
- **Mari-Noëlle Jégo-Laveissière**
- **Olivier Piou***
- **Véronique Weill**

Compensation Committee

- **Gilles Michel**
  Chairman
- **Bpifrance Participations,**
  represented by Stéphanie Frachet
- **C. Maury Devine**
- **Patrick Sayer**
- **Ulrike Steinhorst**
- **Véronique Weill**

Governance, Appointments & Corporate Social Responsibility Committee

- **Gilles Michel**
  Chairman
- **Bpifrance Participations,**
  represented by Stéphanie Frachet
- **C. Maury Devine**
- **Patrick Sayer**
- **Ulrike Steinhorst**, *in charge of CSR issues*
- **Véronique Weill**

Strategy Committee

- **Patrick Sayer**
  Chairman
- **Ulrike Steinhorst**
- **Thierry Moulonguet**
- **Olivier Piou***

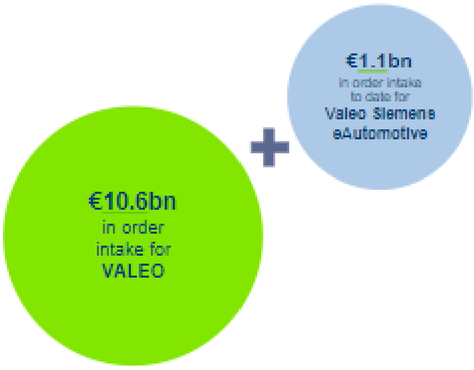
** Olivier Piou stepped down from his position as director on June 30, 2021.*

2.KEY FIGURES

Financial performance

ORDER INTAKE[(1)]

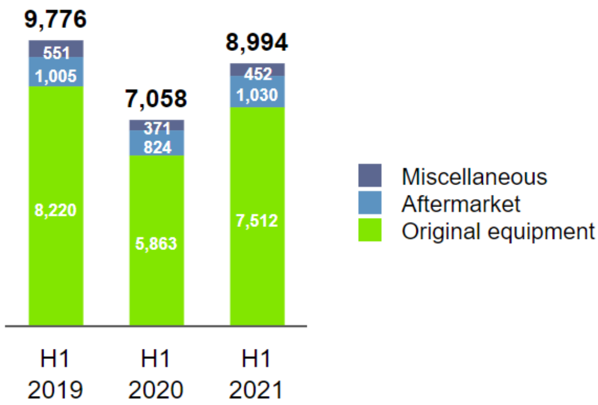
In billions of euros



SALES

Breakdown by type

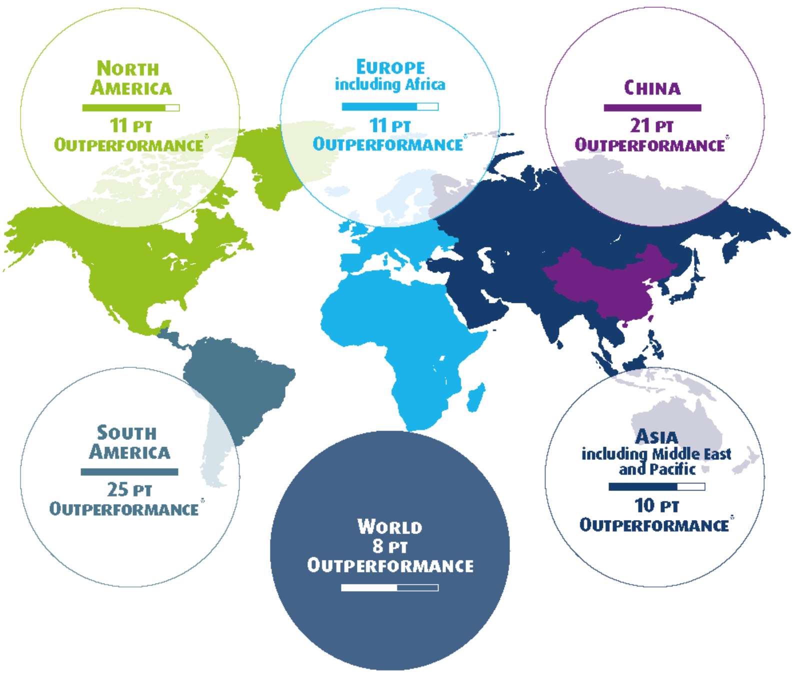
In millions of euros



ORIGINAL EQUIPMENT SALES:

GROWTH, OUTPERFORMANCE* AND BREAKDOWN BY DESTINATION REGION

Like for like[(1)].



NORTH AMERICA
18% of Group sales
Original equipment sales vs. H1 2019:
down 9%

SOUTH AMERICA
2% of Group sales
Original equipment sales vs. H1 2019:
up 4%

EUROPE (including Africa)
48% of Group sales
Original equipment sales vs. H1 2019:
down 10%

CHINA
14% of Group sales
Original equipment sales vs. H1 2019:
up 19%

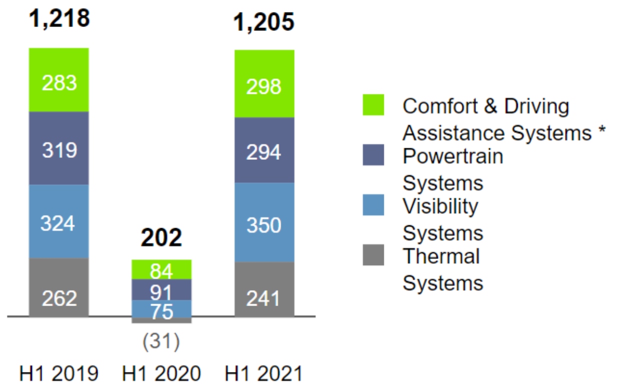
ASIA (including the Middle East)
32% of Group sales
Original equipment sales vs. H1 2019:
up 3%

** Versus the automotive market, based on IHS automotive production estimates released on July 16, 2021/CPCA estimates for China.*

[1] *See financial glossary, page 53.*

TOTAL EBITDA[1] AND EBITDA BY BUSINESS GROUP

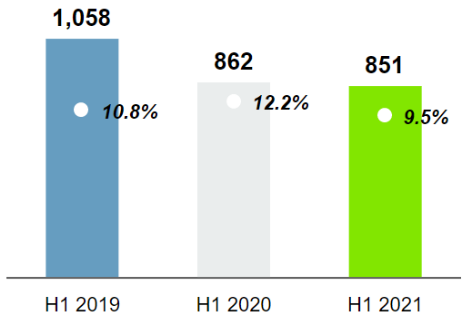
In millions of euros and as a % of each Business Group's sales



** Excluding the TCM business.*

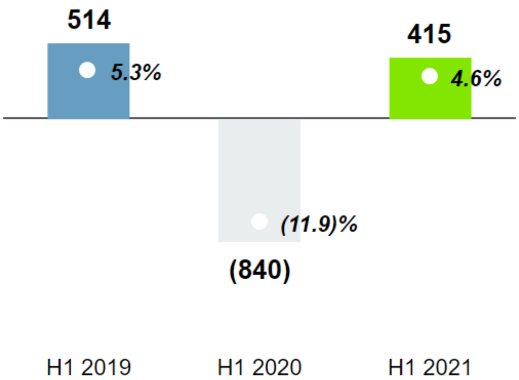
GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

In millions of euros and as a % of sales



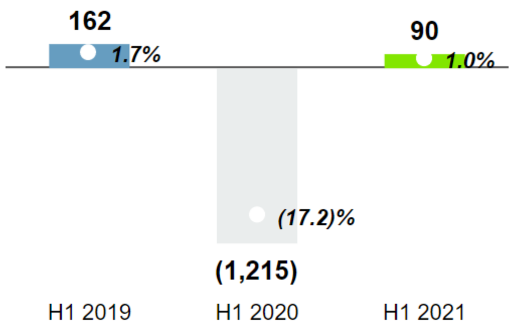
OPERATING MARGIN

Excluding share in net earnings of equity-accounted companies
In millions of euros and as a % of sales



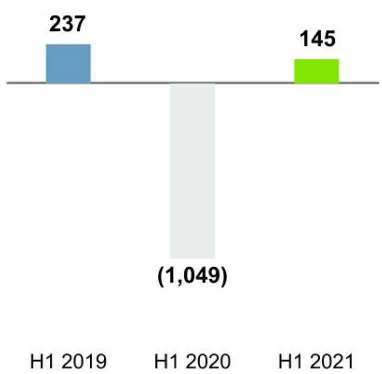
NET ATTRIBUTABLE INCOME (LOSS)

In millions of euros and as a % of sales



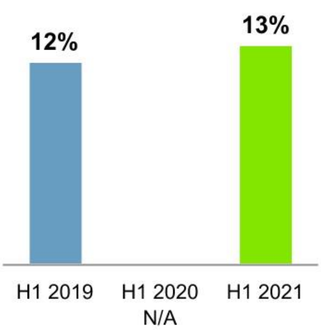
FREE CASH FLOW[1]

In millions of euros



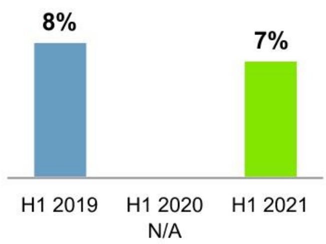
ROCE[1]

(RETURN ON CAPITAL EMPLOYED)



ROA[1]

(RETURN ON ASSETS)



[1] *See financial glossary, page 53.*

3. INTERIM MANAGEMENT REPORT

"I'd like to thank our teams once again for their unrelenting commitment – particularly in managing the shortage of electronic components. Thanks to their efforts, we were able to supply our customers without any interruption and achieve very solid performances in our plants.

Leveraging our unique positioning in electrification and ADAS, we outperformed automotive production by more than 10 percentage points in all regions compared to first-half 2019.

Additionally, the deployment of our technological platforms enables us to structurally reduce our gross Research and Development expenditure by 207 *million euros and capital spending by* 228 *million euros, while offering increasingly innovative solutions to our customers, and to generate free cash flow of* 145 *million euros.*

The EBITDA margin, which is up 90 basis points versus 2019 at 13.4% *of sales, reflects our operating efficiency and strict management of all of our costs.*

In a challenging environment marked by a shortage of electronic components and rising raw material prices, we can confirm our objectives for full-year 2021."

July 22, 2021

Jacques Aschenbroich

Chairman and Chief Executive Officer of Valeo

3.1. Business review

3.1.1. Change in sales

Business in the first half of the year was impacted by the shortage of electronic components, penalizing the supply chain and our customers' production schedules. The second quarter was particularly hard hit by a fall of around 10% in automotive production compared to the first quarter of 2021.

H1 2021 sales *(in millions of euros)*	**As a % of H1 2021 sales**	**2021**	**vs. 2020**			**vs. 2019**		
		H1	**H1 2020**	**LFL* change**	**Change**	**H1 2019**	**LFL* change**	**Change**
Original equipment	84%	**7,512**	**5,863**	+32%	+28%	**8,220**	-6%	-9%
Aftermarket	11%	**1,030**	**824**	+30%	+25%	**1,005**	+8%	+2%
Miscellaneous	5%	**452**	**371**	+25%	+22%	**551**	-15%	-18%
Total H1	**100%**	**8,994**	**7,058**	**+31%**	**+27%**	**9,776**	**-5%**	**-8%**

** Like for like[1].*

Consolidated sales advanced 31% on a like-for-like basis **compared to first-half 2020**, to 8,994 million euros. Changes in exchange rates had a negative 4% impact, primarily due to the appreciation of the euro against the US dollar and the Japanese yen. Changes in Group structure had a negligible impact on sales for the period.

Like-for-like **original equipment** sales grew by 32%, spurred by the good momentum enjoyed by the Group in fast-growing technologies such as front cameras and 48V.

Like-for-like **aftermarket sales** rose 30%, an excellent performance led by customers' stockpiling to meet the upturn in demand and manage the shortage of electronic components.

"**Miscellaneous**" sales rose by 25% on a like-for-like basis, confirming the upturn in business and the forthcoming production launches.

[1] *See financial glossary, page 53.*

Q2 2021 sales *(in millions of euros)*	As a % of Q2 2021 sales	2021	vs. 2020			vs. 2019		
		Q2	Q2 2020	LFL* change	Change	Q2 2019	LFL* change	Change
Original equipment	83%	3,575	2,066	+78%	+73%	4,099	-10%	-13%
Aftermarket	12%	522	333	+63%	+57%	504	+9%	+4%
Miscellaneous	5%	230	171	+37%	+35%	332	-28%	-31%
Total Q2	**100%**	**4,327**	**2,570**	**+73%**	**+68%**	**4,935**	**-9%**	**-12%**

** Like for like[(2)].*

Like-for-like sales **in the second quarter** came in 73% higher year on year at 4,327 million euros, buoyed by a highly favorable comparison basis on account of plant shutdowns in second-quarter 2020.

3.1.2. Change in original equipment sales by destination region

Original equipment sales *(in millions of euros)*	*As a % of 2021 sales*	2021	vs. 2020			vs. 2019		
		H1	H1	LFL* change	Outperf. vs. IHS/CPCA**	H1	LFL* change	Outperf. vs. IHS/CPCA**
Europe & Africa	**48%**	3,606	2,765	**+32%**	**+2 pts**	4,025	**-10%**	**+11 pts**
Asia, Middle East & Oceania	**32%**	2,379	1,925	**+26%**	**-2 pts**	2,381	**+3%**	**+10 pts**
o/w China	***14%***	*1,022*	*797*	*+26%*	*-2 pts*	*861*	*+19%*	*+21 pts*
o/w Japan	***7%***	*548*	*486*	*+22%*	*+7 pts*	*637*	*-10%*	*+6 pts*
o/w South Korea	***8%***	*583*	*498*	*+19%*	*+8 pts*	*651*	*-7%*	*+4 pts*
o/w India	***1%***	*93*	*47*	*+105%*	*+22 pts*	*89*	*+11%*	*+20 pts*
North America	**18%**	1,390	1,070	**+40%**	**+8 pts**	1,624	**-9%**	**+11 pts**
South America	**2%**	137	103	**+57%**	**-5 pts**	190	**+4%**	**+25 pts**
Total H1	**100%**	**7,512**	**5,863**	**+32%**	**+2 pts**	**8,220**	**-6%**	**+8 pts**

** Like for like[(2)].*

*** Based on IHS automotive production estimates released on July 16, 2021/CPCA estimates for data relating to China.*

Compared to first-half 2019, original equipment sales delivered an outperformance of more than 10 percentage points in all production regions, reflecting the Group's strong positioning:

- in Europe and Africa, original equipment sales fell by 10% on a like-for-like basis, outperforming automotive production by 11 percentage points, thanks in particular to the robust performance of the Comfort & Driving Assistance Systems (ADAS) and Powertrain Systems (48V, transmission systems and actuation systems) Business Groups;
- in Asia, original equipment sales grew by 3% on a like-for-like basis, outpacing automotive production by 10 percentage points:
  - in China, original equipment sales were up 19% on a like-for-like basis, outperforming automotive production by 21 percentage points. China is the only region that recorded first-half 2021 sales significantly above pre-Covid-19 levels. All of Valeo's Business Groups contributed to this momentum (more particularly, the Comfort & Driving Assistance Systems, Thermal Systems and Visibility Systems Business Groups) serving both international and Chinese automakers,
  - in Japan, original equipment sales declined by 10% on a like-for-like basis, representing an outperformance of 6 percentage points, driven in particular by the solid performance of the Visibility Systems Business Group for Toyota through its subsidiary Ichikoh,
  - in South Korea, original equipment sales retreated by 7% on a like-for-like basis, outpacing automotive production by 4 percentage points, driven mainly by the ramp-up of new contracts with Hyundai for 48V and actuation systems;
- in North America, original equipment sales dropped by 9% on a like-for-like basis, outperforming automotive production by 11 percentage points, driven mainly by the ramp-up of a number of projects in ADAS and lighting systems for North American customers;
- in South America, original equipment sales expanded by 4% on a like-for-like basis, outperforming automotive production by 25 percentage points.

[2] *See financial glossary, page 53.*

Original equipment sales *(in millions of euros)*	*As a % of 2021 sales*	2021 Q2	vs. 2020 Q2	vs. 2020 LFL* change	vs. 2020 Outperf. vs. IHS/CPCA**	vs. 2019 Q2	vs. 2019 LFL* change	vs. 2019 Outperf. vs. IHS/CPCA**
Europe & Africa	**48%**	**1,710**	**872**	**+99%**	**+9 pts**	**1,996**	**-14%**	**+11 pts**
Asia, Middle East & Oceania	**32%**	**1,143**	**908**	**+29%**	**+5 pts**	**1,181**	**0%**	**+8 pts**
o/w China	***14%***	***504***	*508*	*-3%*	*0 pts*	*433*	*+17%*	*+15 pts*
o/w Japan	***7%***	***254***	*162*	*+75%*	*+23 pts*	*306*	*-11%*	*+9 pts*
o/w South Korea	***8%***	***280***	*208*	*+36%*	*+25 pts*	*330*	*-13%*	*+3 pts*
o/w India	***1%***	***43***	*7*	*+459%*	*+52 pts*	*42*	*+9%*	*+28 pts*
North America	**18%**	**657**	**270**	**+164%**	**+32 pts**	**824**	**-15%**	**+10 pts**
South America	**2%**	**65**	**16**	**+357%**	**+56 pts**	**98**	**-4%**	**+23 pts**
Total Q2	**100%**	**3,575**	**2,066**	**+78%**	**+24 pts**	**4,099**	**-10%**	**+7 pts**

** Like for like[3].*

*** Based on IHS automotive production estimates released on July 16, 2021/CPCA estimates for data relating to China.*

Compared to second-quarter 2019, original equipment sales outperformed in all production regions. On a global level, the outperformance came out at 7 percentage points. Performance was impacted by an unfavorable geographic mix and difficulties related to production disruptions, which were particularly severe during the quarter.

3.1.3. Balanced customer portfolio and geographic positioning

Production regions	H1 2021	H1 2020	H1 2019
Western Europe	33%	32%	32%
Eastern Europe & Africa	16%	16%	17%
China	14%	14%	11%
Asia excluding China	17%	18%	18%
United States	8%	9%	9%
Mexico	11%	10%	11%
South America	1%	1%	2%
Total	**100%**	**100%**	**100%**
Asia and emerging countries	**59%**	**59%**	**59%**

Customers	H1 2021	H1 2020	H1 2019
German	32%	30%	31%
Asian	32%	33%	31%
American	17%	18%	19%
French	14%	13%	14%
Other	5%	6%	5%
Total	**100%**	**100%**	**100%**

[3] *See financial glossary, page 53.*

3.2. Earnings

The EBITDA margin rose by 0.9 percentage points compared to first-half 2019, to stand at 13.4% of sales. EBITDA margin growth reflects the efficiency of our technological platforms and the unwavering commitment of our teams in supplying all of the Group's customers in an environment marked by the shortage of electronic components.

		H1 2021	H1 2020	Change	H1 2019	Change
Sales	(in €m)	8,994	7,058	+27%	9,776	-8%
Gross margin	*(in €m)*	1,586	507	+213%	1,754	-10%
	(as a % of sales)	17.6%	7.2%	+10.4 pts	17.9%	*-0.3 pts*
EBITDA*	(in €m)	1,205	202	+497%	1,218	-1%
	(as a % of sales)	13.4%	2.9%	+10.5 pts	12.5%	+0.9 pts
Operating margin excluding share in net earnings (losses) of equity-accounted companies	(in €m)	415	(840)	-149%	514	-19%
	(as a % of sales)	4.6%	(11.9%)	+16.5 pts	5.3%	-0.7 pts
Share in net earnings (losses) of equity-accounted companies	*(in €m)*	(119)	(166)	-28%	(107)	+11%
	(as a % of sales)	(1.3%)	(2.4%)	+1.1 pts	(1.1%)	-0.2 pts
Operating margin including share in net earnings (losses) of equity-accounted companies*	(in €m)	296	(1,006)	-129%	407	-27%
	(as a % of sales)	3.3%	(14.3%)	+17.6 pts	4.2%	-0.9 pts
Net attributable income (loss)	(in €m)	90	(1,215)	-107%	162	-44%
	(as a % of sales)	1.0%	(17.2%)	+18.2 pts	1.7%	-0.7 pts

** See financial glossary, page 53.*

Compared to first-half 2019

Despite the downturn in business as a result of the shortage of electronic components, the Group's gross margin represented 17.6% of sales, in line with the 17.9% margin recorded for first-half 2019 and reflecting the operating efficiency of the Group's plants.

The change in the gross margin in the first half was attributable to the following factors:

- a decrease in volumes (versus the same period in 2019): negative 0.7 percentage point impact;
- an increase in fixed costs (primarily depreciation and amortization) as a percentage of sales in light of the significant downturn in business: negative 0.7 percentage point impact;

offset by:

- manufacturing efficiencies; positive 0.9 percentage point impact;
- the positive contribution of sales of miscellaneous items: positive 0.1 percentage point impact;
- a positive scope and exchange rate effect: positive 0.1 percentage point impact.

The structural decline in gross **Research and Development expenditure**, which fell by 207 million euros or 20% compared with first-half 2019, to 851 million euros, is linked to the efficiency of our technological platforms and largely offsets the reduction of the IFRS impact (net positive difference between capitalized development expenditure, and amortization and impairment).

		H1 2021	H1 2020	Change	H1 2019	Change
Gross Research and Development expenditure	*(in €m)*	**(851)**	**(862)**	**-1%**	**(1,058)**	**-20%**
	(as a % of sales)	**-9.5%**	**-12.2%**	**+2.7 pts**	**-10.8%**	**+1.3 pts**
IFRS impact	*(in €m)*	39	(113)	-135%	214	-82%
Subsidies and grants, and other income	*(in €m)*	56	47	+19%	59	-5%
Research and Development expenditure	*(in €m)*	**(756)**	**(928)**	**-19%**	**(785)**	**-4%**
	(as a % of sales)	**-8.4%**	**-13.1%**	**+4.7 pts**	**-8.0%**	**-0.4 pts**
IFRS impact	***(in €m)***	39	-113	-135%	214	-82%
	(as a % of sales)	***0.4%***	***-1.6%***	+2.0 pts	***2.2%***	***-1.8 pts***
Capitalized development expenditure	*(in €m)*	291	319	-9%	400	-27%
	(as a % of sales)	*3.2%*	*4.5%*	-1.3 pts	*4.1%*	*-0.9 pts*
Amortization and impairment*	*(in €m)*	(252)	(432)	-42%	(186)	+35%
	(as a % of sales)	*-2.8%*	*-6.1%*	+3.3 pts	*-1.9%*	*-0.9 pts*

** Impairment losses recorded in operating margin only.*

This 1.8 percentage point reduction in the IFRS impact is attributable to:

- the decrease in capitalized development expenditure (0.9 percentage points) owing to the Group's improved R&D efficiencies resulting from the deployment of its new technological platforms;
- the increase in amortization (0.9 percentage points) related to production launches on many innovative new projects.

Research and Development expenditure recorded in the income statement fell 4% to 756 million euros, or 8.4% of sales.

Thanks to tight control over fixed costs, **administrative and selling expenses** fell 9% to 415 million euros, or 4.6% of sales.

Operating margin excluding the share in net earnings (losses) of equity-accounted companies came in at 415 million euros, or 4.6% of sales.

The EBITDA margin rose by 0.9 percentage points compared to first-half 2019, to stand at 13.4% of sales. It takes into account the 1.8 percentage point increase in amortization between first-half 2019 (6.9% of sales) and first-half 2021 (8.7% of sales).

The share in net earnings (losses) from equity-accounted companies represented a loss of 119 million euros, taking into account the share of the 124 million euro loss reported by Valeo Siemens eAutomotive (acceleration in sales relating to new key programs expected in the second half).

Operating margin including share in net earnings (losses) of equity-accounted companies[4] came in at 296 million euros, or 3.3% of sales.

The Group reported **operating income** of 267 million euros for the period, which includes a negative 29 million euros in other income and expenses.

The effective tax rate came out at 31%.

Net attributable income was 90 million euros, or 1.0% of sales after deducting non-controlling interests in an amount of 41 million euros.

Return on capital employed (ROCE[(4)]) and return on assets (ROA[(4)]) stood at 13% and 7%, respectively, for first-half 2021.

[4] *See financial glossary, page 53.*

3.3. Segment reporting

3.3.1. Change in sales by Business Group

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)*	2021	vs. 2020				vs. 2019			
	H1	**H1**	*Change in sales*	*Change in OE sales**	**Outperf. vs. IHS/CPCA****	**H1**	*Change in sales*	*Change in OE sales**	**Outperf. vs. IHS/CPCA****
Comfort & Driving Assistance Systems***	1,779	1,380	+29%	+34%	+4 pts	1,810	-2%	+2%	+16 pts
Powertrain Systems	2,468	1,897	+30%	+34%	+4 pts	2,565	-4%	-2%	+12 pts
Thermal Systems	2,009	1,560	+29%	+34%	+4 pts	2,330	-14%	-10%	+4 pts
Visibility Systems	2,662	2,169	+23%	+28%	-2 pts	3,014	-12%	-10%	+4 pts

** Like for like[5].*

*** Based on IHS automotive production estimates released on July 16, 2021/CPCA estimates for data relating to China.*

**** Excluding the TCM business.*

The Comfort & Driving Assistance Systems Business Group outperformed global automotive production by 16 percentage points compared to the first half of 2019, notably thanks to the launch of new projects in ADAS, in the following main production regions: North America, Europe and China, consolidating the Group's position as world leader in this segment.

The Powertrain Systems Business Group outperformed global automotive production by 12 percentage points compared to the first half of 2019, in particular in Europe and South Korea. Growth was mainly driven by:

- growth in 48V systems; and
- increase in average content per vehicle in transmission systems on the back of the growing use of automated gearboxes and hybrid systems.

The Thermal Systems Business Group outperformed first-half 2019 global automotive production by 4 percentage points, buoyed by accelerating sales in China and technologies related to the thermal management of electrified vehicles (battery cooling systems, dedicated climate control systems for electric vehicles, etc.), which represent new growth opportunities for the Business Group. Thermal technologies dedicated to electrified vehicles accounted for almost 45% of the Business Group's order intake in first-half 2021.

The Visibility Systems Business Group outperformed global automotive production by 4 percentage points compared to the first half of 2019, notably thanks to the robust performance of the lighting business in North America – sustained by the pick-up truck activities of North American customers – and in China.

Sales by Business Group *(in millions of euros)*	2021	vs. 2020				vs. 2019			
	Q2	**Q2**	*Change in sales*	*Change in OE sales**	**Outperf. vs. IHS/CPCA****	**Q2**	*Change in sales*	*Change in OE sales**	**Outperf. vs. IHS/CPCA****
Comfort & Driving Assistance Systems***	861	494	+74%	+85%	+31 pts	909	-5%	-1%	+16 pts
Powertrain Systems	1,177	712	+65%	+73%	+19 pts	1,299	-9%	-9%	+8 pts
Thermal Systems	986	560	+76%	+86%	+32 pts	1,187	-17%	-13%	+4 pts
Visibility Systems	1,265	779	+62%	+71%	+17 pts	1,512	-16%	-15%	+3 pts

** Like for like[8].*

*** Based on IHS automotive production estimates released on July 16, 2021/CPCA estimates for data relating to China.*

**** Excluding the TCM business.*

In the second quarter, all Business Groups outperformed automotive production.

[5] *See financial glossary, page 53.*

3.3.2. EBITDA[6] by Business Group

EBITDA *(in millions of euros and as a % of sales by Business Group)*	H1 2021	H1 2020	Change	H1 2019	Change
Comfort & Driving Assistance Systems	298 *16.8%*	84 *6.1%*	+255% *+10.7 pts*	283 *15.6%*	+5% *+1.2 pts*
Powertrain Systems	294 *11.9%*	91 *4.8%*	+223% *+7.1 pts*	319 *12.4 %*	-8% *-0.5 pts*
Thermal Systems	241 *12.0%*	(31) *(2.0%)*	-877% *+14.0 pts*	262 *11.2%*	-8% *+0.8 pts*
Visibility Systems	350 *13.1%*	75 *3.5%*	+367% *+9.6 pts*	324 *10.7%*	+8% *+2.4 pts*
Other*	22 *N/A*	(17) *N/A*	-229% *N/A*	30 *N/A*	-27% *N/A*
Group	**1,205** ***13.4%***	**202** ***2.9%***	**+497%** ***+10.5 pts***	**1,218** ***12.5%***	**-1%** ***+0.9 pts***

** Including the TCM business.*

In first-half 2021, all Business Groups saw an increase in EBITDA margin compared to the same period in 2019, with the exception of the Powertrain Systems Business Group, whose EBITDA margin was impacted by the 14 million euro decrease in dividends received from equity-accounted Chinese joint ventures.

3.4 Cash flow and financial position

3.4.1 Free cash flow[6] of 145 million euros

(in millions of euros)	H1 2021	H1 2020	H1 2019
EBITDA[6]	**1,205**	**202**	**1,218**
Change in operating working capital	(218)	(574)	230
Restructuring costs	(54)	(30)	(10)
Income tax	(133)	(106)	(152)
Provisions for pensions and other employee benefits	(7)	(16)	(1)
Net payments for the principal portion of lease liabilities	(42)	(43)	(46)
Other operating items	(36)	232	(36)
Investments in property, plant and equipment and intangible assets	(570)	(714)	(966)
Free cash flow[6]	**145**	**(1,049)**	**237**
Net financial expenses	(13)	(62)	(56)
Other financial items	(188)	(161)	(447)
Net cash flow[6]	**(56)**	**(1,272)**	**(266)**

The Group generated free cash flow[6] of 145 million euros in the first half of 2021. This chiefly results from:

- EBITDA of 1,205 million euros, in line with the first-half 2019 figure despite the downturn in business in first-half 2021;
- the 218 million euro negative change in working capital due to an increase in inventories for an amount of 200 million euros in order to guarantee customer deliveries in a difficult environment (global shortage of electronic components);
- the 396 million euro reduction in investments (including a 109 million euro reduction in capitalized development expenditure), resulting from the deployment of new technological platforms.

In first-half 2021, net cash flow[6] amounted to a negative 56 million euros, taking into account 89 million euros in dividend payments and 86 million euros in loans to the Valeo Siemens eAutomotive joint venture.

[6] *See financial glossary, page 5*

3.4.2. Net debt[7] at 3.1 billion euros and a solid liquidity position

Net debt stood at 3,147 million euros at June 30, 2021 versus 2,944 million euros at December 31, 2020.

The leverage ratio (net debt/EBITDA) came out at 1.25 times EBITDA and the gearing ratio (net debt/stockholders' equity) stood at 94% of equity.

Valeo's balanced debt profile and solid liquidity position give it a robust financial structure:

- in February 2021, the European Investment Bank (EIB) approved 600 million euros in financing for Valeo's European Research and Development projects focused on reducing CO_2 emissions and improving vehicle safety. The Group has drawn down an total amount of 600 million euros[8];
- at June 30, 2021, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (stable versus December 31, 2020);
- Valeo has available cash of 2.3 billion euros and a total of 2.3 billion euros in undrawn credit lines;
- the average maturity of gross long-term debt stood at 3.2 years at June 30, 2021, compared with 3 years at December 31, 2020.

3.5. Order intake[7] of 10.6 billion euros for Valeo, plus 1.1 billion euros for Valeo Siemens eAutomotive

Valeo's order intake reached a significant 10.6 billion euros, in line with pre-crisis levels (11.1 billion euros in the same period in 2019), representing 1.4x original equipment sales for the period.

As for Valeo Siemens eAutomotive, the joint venture has secured 1.1 billion euros in new orders to date.

3.6. 2021 outlook confirmed

Our base scenario for the top end of our 2021 guidance range is growth in global automotive production of around 9%.

In this context, we confirm for 2021[9]:

- continued outperformance;
- financial objectives for margin and cash maintained despite the decline in our assumptions for automotive growth in 2021 and the increase in raw material and semiconductor prices:

(reported data)		2021	2020
Sales	*in billions of euros*	17.6 - **18.2**	**16.4**
Original equipment sales	*in billions of euros*	14.9 - **15.5**	**13.8**
EBITDA	*as a % of sales*	12.8% - **13.4%**	**9.2%**
Free cash flow	*in millions of euros*	330 - **550**	**294**

- acceleration in growth for the Valeo Siemens eAutomotive joint venture and a reduction in its negative contribution to "Share in net earnings of equity-accounted companies".

[7] *See financial glossary, page 53.*

[8] *The second drawdown of 300 million euros was signed on July 15, 2021.*

[9] *The Group's guidance for 2021 also includes the following objectives: ROCE of 11.1% (excluding the TCM business (and taking into account the share in net earnings of equity-accounted companies)) and ROA of 5.0% (excluding the TCM business and taking into account the share in net earnings of equity-accounted companies).*

3.7. Reconciliation of Valeo and TCM business data

The Group decided to withdraw from the TCM segment.

The following table reconciles published consolidated data with data excluding the TCM business:

		H1 2021	TCM*	H1 2021 excluding TCM
Sales	(in €m)	8,994	103	8,891
Gross margin	(in €m)	1,586	7	1,579
	(as a % of sales)	*17.6%*	*6.8%*	*17.8%*
R&D expenditure	(in €m)	(756)	(9)	(747)
	(as a % of sales)	*(8.4%)*	*(8.7%)*	*(8.4%)*
Selling and administrative expenses	(in €m)	(415)	(5)	(410)
	(as a % of sales)	*(4.6%)*	*(4.9%)*	*(4.6%)*
Operating margin excluding share in net earnings (losses) of equity-accounted companies	(in €m)	415	(7)	422
	(as a % of sales)	*4.6%*	*(6.8%)*	*4.7%*

** Including intercompany transactions.*

3.8. Highlights

3.8.1. Corporate governance

On March 11, 2021, Valeo announced that its transformation into a European company, as approved by the Board of Directors on February 20, 2020 and the Annual Shareholders' Meeting on June 25, 2020, had taken effect on March 9, 2021.

On May 26, 2021, the Board of Directors appointed Christophe Périllat Deputy Chief Executive Officer of Valeo. Christophe Périllat was also appointed director of Valeo by the Shareholders' Meeting held on the same date. These appointments as Deputy Chief Executive Officer and as director are in line with the succession plan for Jacques Aschenbroich. The succession plan provides that the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer will take place in January 2022, with Jacques Aschenbroich continuing to act as Chairman of the Board of Directors until the end of his current term of office as director, i.e., until May 2023, and being succeeded by Christophe Périllat as Chief Executive Officer from January 2022. In this context, Christophe Périllat was appointed as Associate Chief Executive Officer of Valeo on October 27, 2020.

On July 22, 2021, the Board of Directors noted Olivier Piou's decision to step down as a director for personal reasons, effective June 30, 2021.
The Board of Directors also noted the appointment by the Group Works Council on June 18, 2021 of Eric Poton to replace Eric Chauvirey as director representing employees.

3.8.2. Sustainable development – Carbon Neutrality Plan for 2050

On February 4, 2021, Valeo unveiled its CO_2 emissions reduction plan. By 2030, it commits to reducing:

- 75%[(10)] of CO_2 emissions related to its operating activities (Scopes 1 and 2);

- 15%[(10)] of CO_2 emissions related to its supply chain (upstream Scope 3);

- 15%[(10)] of CO_2 emissions related to the end use of its products (downstream Scope 3); this reduction is expected to rise to 50% when taking into account emissions avoided thanks to the Group's electrification technologies.

By 2050, Valeo will be carbon neutral across all of its operating activities and its entire supply chain worldwide, and will be 100% carbon neutral (including the end use of its products) in Europe.

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[10] *According to the SBTi's (Science Based Targets initiative) calculation methodology. The SBTi provides companies with a clearly-defined path to reduce CO_2 emissions in line with the objective to limit global warming to 2°C.*

On March 23, 2021, Valeo joined the new "CAC 40 ESG" index comprising 40 companies that have demonstrated the best environmental, social and governance practices.

On June 3, 2021, Valeo announced that it had been awarded the Corporate Social Responsibility prize by Stellantis at its inaugural Supplier Awards ceremony. Valeo was recognized for its environmental, social and ethical performance and the management of its subcontracting chain, highlighting the importance of the Group's global carbon neutrality strategy for 2050.

3.8.3. Collaboration and partnership agreements

On June 17, 2021, Valeo and Navya decided to step up their technological and industrial collaboration in the field of autonomous shuttles. The Navya shuttles (180 units sold as at December 31, 2020) which are operated worldwide are already equipped with Valeo technologies. The aim is to ramp up the Research and Development program to build level 4 autonomous driving systems that can be brought to market within the next three years.

On July 2, 2021, Valeo and Omega Seiki Mobility (OSM), part of Anglian Omega Group, announced they had teamed up to accelerate the electrification of two- and three-wheelers in India. Pursuant to the Memorandum of Understanding (MoU), Valeo will provide the electric powertrains for the OSM vehicle range. Valeo's 48V electric powertrain system (reducer, integrated motor and inverter) will be fitted on OSM's cargo three-wheelers "Rage+" and "Rage+ Frost".

3.8.4. Innovation, technology and awards

On March 16, 2021, Valeo announced that the Valeo ClimSpray™ had been named Product of the Year 2021. With a simple spray, Valeo ClimSpray™ disinfects a vehicle cabin in 15 minutes and renders any coronavirus-like viruses, bacteria and fungi inactive. The solution contained in the product has been certified by an independent medical laboratory, demonstrating its compliance with European anti-microbial efficacy standards.

On April 15, 2021, Valeo received the International Busplaner Sustainability Award 2021 for its UV air purifier for buses and coaches. The technology, which is the most powerful in the world, clears the air of more than 95% of its microbes, viruses and bacteria while the vehicle is on the move with passengers on board. Its effectiveness against SARS CoV 2 has been scientifically proven by the Frankfurt University Hospital and the Institute for Laser Technologies in Medicine and Metrology at the University of Ulm (ILM).
On April 21, 2021, the device, which acts as a protective shield against the Covid-19 virus in buses, was also named as the year's top innovation in Germany by the VDA (*Verband der Automobilindustrie* – the German association of automotive manufacturers and suppliers) on World Creativity and Innovation Day 2021.

On April 19, 2021, at the 19th edition of the Shanghai Auto Show, Valeo unveiled six innovations in response to today's major mobility challenges, in which China is now leading the way:

- the new Valeo heat pump and the Valeo FlexHeater, which eliminate the dilemma of having to choose between travel range and in-vehicle thermal comfort;
- its first end-to-end all-electric powertrain system from its joint venture Valeo Siemens eAutomotive based in China. The technology offers 100 kW of power and includes the electric motor, the inverter (the brain of the system) and the reducer (the equivalent of the gearbox) and provides small sedans the world over with the performance they need at a reasonable cost;
- a series of technologies that transform vehicles into a sort of "health shield", providing the driver with a healthy environment;
- the development of a 360° lighting solution, which surrounds the vehicle with a band of light, projecting clear, simple and instantaneous indications that can be seen by nearby road users, thereby enhancing safety; and
- the Valeo Mobility Kit, which consists of sensors – "the vehicle's eyes and ears" – electronic control units and algorithms that can be integrated into new driverless vehicles such as droids and other small delivery robots.

On June 8, 2021, Valeo announced that it was ranked as the world's leading French patent applicant, with 1,913 patents filed in a year[11], of which 53% in France, according to the list published for the first time by France's INPI Intellectual Property Institute. Valeo also came out in third place in the 2020 ranking of patent applicants in France, with 819 patents filed. Its innovations are now protected by a portfolio of almost 35,000 patents worldwide.

On June 22, 2021, Valeo announced that it would be equipping 250 commuter shuttles for employees with its technology that eliminates bacteria and viruses, including Covid-19. The system will ensure that over 25,000 of its employees across 12 countries

[11] *In 2019.*

can complete their daily commute in optimum health and safety conditions.

On June 22, 2021, Valeo announced that it had been awarded the Overdrive prize by General Motors for its Valeo XtraVue™ Trailer technology, the world's first system enabling drivers to "see through" the trailer or caravan they are towing. This 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.

3.8.5. Ratings assigned to Valeo's long- and short-term debt by rating agencies

Moody's: "Baa3/P3" long- and short-term issuer rating, negative outlook.

Standard & Poor's: "BB+/B" long- and short-term issuer rating, stable outlook.

3.8.6. Changes in the scope of consolidation

On December 25, 2020, Ichikoh signed a sales agreement on a portion of its stake in Life Elex, thereby reducing its interest in the company from 59.1% to 14.9%. The sale was completed at end-June 2021. The business represented sales of 15 million euros in first-half 2020, versus 8 million euros in first-half 2021.

At end-April 2021, Valeo sold its Lighting business in Brazil. The business represented sales of 10 million euros in first-half 2020, versus 9 million euros in first-half 2021.

3.9. Subsequent events

On July 15, 2021, a second loan of 300 million euros was contracted from the EIB. As a reminder, the EIB approved 600 million euros in financing for the Valeo Group's research projects in Europe focused on technologies that reduce CO_2 emissions and improve vehicle safety. An initial loan of 300 million euros was signed in February 2021.

3.10. Stock market data

3.10.1. Share performance

During the first half of 2021, the share's average closing price was 29.03 euros, with a high of 33.66 euros on February 5, 2021 and a low of 24.79 euros on May 19, 2021. Over the first six months of the year, the Valeo share price fell 21.4% from 32.28 euros on December 31, 2020 to a closing price of 25.37 euros on June 30, 2021.

The Valeo share (down 21.4%) underperformed the CAC 40 index (down 17.2%) by 4.2 percentage points. The share underperformed the DJSTOXX Auto index (up 23.2%) by 44.6 percentage points.

3.10.2. Changes in ownership structure

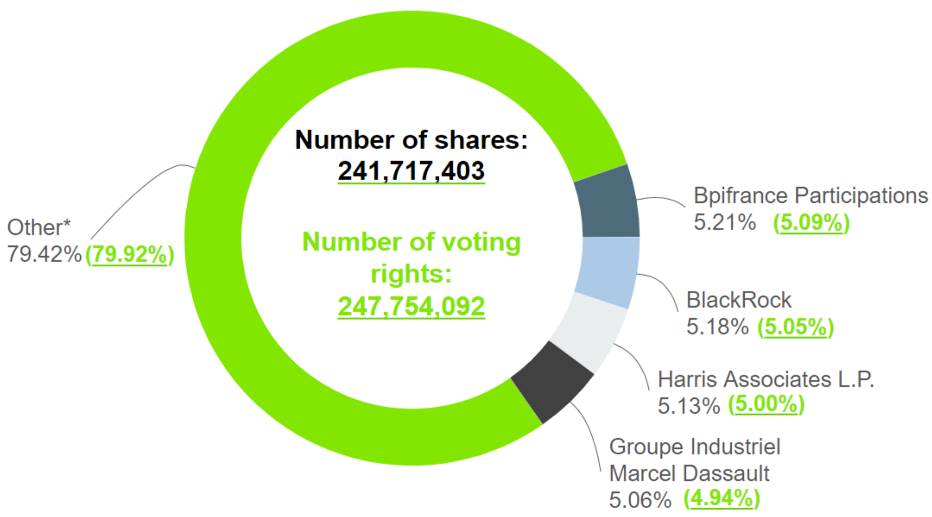
At June 30, 2021, the Company's share capital comprised 241,717,403 shares. In accordance with Article 223-11 *et seq.* of the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF), the number of voting rights declared was 247,754,092. Excluding treasury shares, the number of voting rights came out at 246,857,710.

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at June 30, 2021, other than:

- Bpifrance Participations, which held 12,600,000 shares in the Company, i.e., 5.21% of the share capital and 5.09% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held 12,519,631 shares in the Company, i.e., 5.18% of the share capital and 5.05% of the voting rights.
- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 12,393,566 shares in the Company, i.e., 5.13% of the share capital and 5.00% of the voting rights;
- Groupe Industiel Marcel Dassault, which held 12,227,876 shares, i.e., 5.06% of the Company's share capital and 4.94% of the voting rights.

At June 30, 2021, Valeo held 896,382 treasury shares (i.e., 0.37% of the share capital without voting rights) versus 1,466,685 shares at December 31, 2020 (0.61% of the share capital without voting rights).

OWNERSHIP STRUCTURE AT June 30, 2021



% of share capital
(% of voting rights)
** Including 896,382 treasury shares (0.37% of the share capital).*

3.10.3. Stock market data

	First-half 2021	2020
Market capitalization at period-end *(in billions of euros)*	6.13	7.80
Number of shares	241,717,403	241,717,403
Highest share price *(in euros)*	33.66	34.05
Lowest share price *(in euros)*	24.79	10.51
Average share price *(in euros)*	29.03	24.86
Share price at period-end *(in euros)*	25.37	32.28

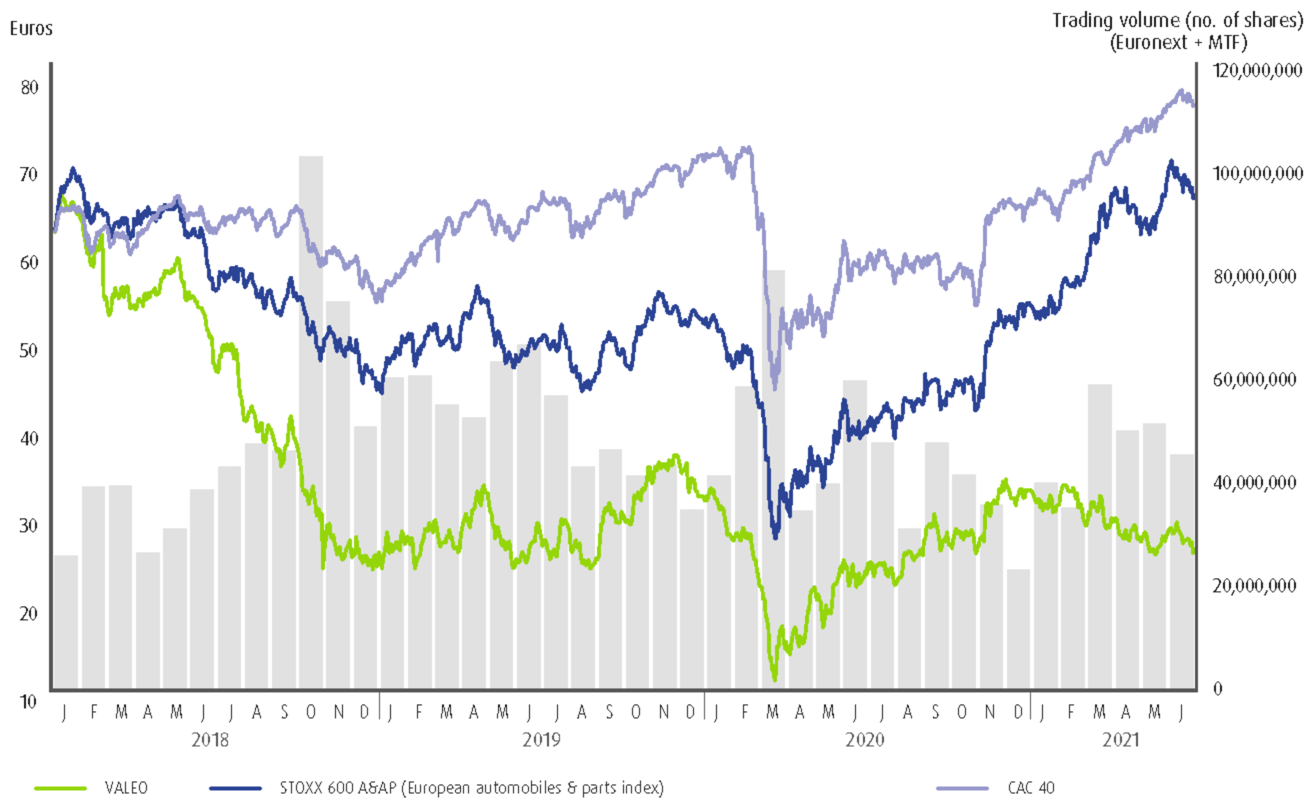
3.10.4. Per share data

(in euros)	First-half 2021	First-half 2020
Basic earnings per share	0.38	(5.08)

(in euros)	2020	2019
Net dividend per share	0.30*	0.20*

* *Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code* (Code général des impôts)*.*

3.10.5. Share price and monthly trading volumes



3.10.6 Investor relations

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Provisional financial publications calendar

- Third-quarter 2021 sales: October 28, 2021
- Full-year 2021 results: second half of February 2022
- First-quarter 2022 sales: second half of April 2022
- First-half 2022 results: second half of July 2022

3.11. Risk factors and related party transactions

3.10.1. Risk factors

The risk factors are identical to those identified in Chapter 2 of the 2020 Universal Registration Document.

3.10.2. Related party transactions

There were no significant changes in related party transactions during the first half of 2021.

4. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

4.1. Consolidated statement of income

(in millions of euros)	*Notes*	First-half 2021	First-half 2020
SALES	*4.1*	**8,994**	**7,058**
Cost of sales	*4.2*	(7,408)	(6,551)
Research and Development expenditure	*4.3.1*	(756)	(928)
Selling expenses		(132)	(134)
Administrative expenses		(283)	(285)
OPERATING MARGIN		**415**	**(840)**
as a % of sales		4.6%	(11,9)%
Share in net earnings (losses) of equity-accounted companies	*4.3.2*	(119)	(166)
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	*4.3*	**296**	**(1,006)**
as a % of sales		3.3%	(14,3)%
Other income and expenses	*4.4.2*	(29)	(135)
OPERATING INCOME (LOSS) INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	*4.4.1*	**267**	**(1,141)**
Cost of net debt	*8.4.1*	(28)	(33)
Other financial income and expenses	*8.4.2*	6	(22)
INCOME (LOSS) BEFORE INCOME TAXES		**245**	**(1,196)**
Income taxes	*9*	(114)	(24)
NET INCOME (LOSS) FOR THE PERIOD		**131**	**(1,220)**
Attributable to:			
■ Owners of the Company		90	(1,215)
■ Non-controlling interests		41	(5)
Attributable earnings per share:			
■ Basic earnings per share *(in euros)*	*10.2*	0.38	(5.08)
■ Diluted earnings per share *(in euros)*	*10.2*	0.37	(5.08)

The Notes are an integral part of the condensed interim consolidated financial statements.

4.2. Consolidated statement of comprehensive income

(in millions of euros)	First-half 2021	First-half 2020
NET INCOME (LOSS) FOR THE PERIOD	**131**	**(1,220)**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	(2)	1
o/w income taxes	—	—
Translation adjustment	90	(118)
Cash flow hedges:		
■ Gains (losses) taken to equity	49	(14)
■ (Gains) losses transferred to income for the period	(36)	19
o/w income taxes	*3*	*2*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**101**	**(112)**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	—	—
o/w income taxes	—	—
Actuarial gains (losses) on defined benefit plans	(2)	(6)
o/w income taxes	*(3)*	*3*
Remeasurement of long-term investments	(5)	(5)
o/w income taxes	—	*2*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**(7)**	**(11)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**94**	**(123)**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**225**	**(1,343)**
Attributable to:		
■ Owners of the Company	182	(1,317)
■ Non-controlling interests	43	(26)

The Notes are an integral part of the condensed interim consolidated financial statements.

4.3. Consolidated statement of financial position

(in millions of euros)	*Notes*	**June 30, 2021**	**December 31, 2020**
ASSETS			
Goodwill	*6.1*	2,515	2,512
Other intangible assets		2,360	2,341
Property, plant and equipment		4,979	4,919
Investments in equity-accounted companies		102	108
Other non-current financial assets		625	641
Assets relating to pensions and other employee benefits	*5.1*	19	19
Deferred tax assets		450	440
NON-CURRENT ASSETS		**11,050**	**10,980**
Inventories, net		1,783	1,582
Accounts and notes receivable, net		2,491	2,674
Other current assets		616	508
Taxes receivable		25	30
Other current financial assets		74	100
Cash and cash equivalents	*8.2.4*	2,280	2,951
Assets held for sale		—	22
CURRENT ASSETS		**7,269**	**7,867**
TOTAL ASSETS		**18,319**	**18,847**
EQUITY AND LIABILITIES			
Share capital		242	242
Additional paid-in capital		1,545	1,545
Translation adjustment		(187)	(271)
Retained earnings		1,748	1,710
STOCKHOLDERS' EQUITY		**3,348**	**3,226**
Non-controlling interests		776	756
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**4,124**	**3,982**
Provisions for pensions and other employee benefits – long-term portion	*5.1*	1,082	1,091
Other provisions – long-term portion	*7.1*	333	369
Long-term portion of long-term debt	*8.2.1*	4,290	3,869
Other financial liabilities – long-term portion		36	42
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.2.3*	19	18
Subsidies and grants – long-term portion		106	101
Deferred tax liabilities		65	67
NON-CURRENT LIABILITIES		**5,931**	**5,557**
Accounts and notes payable		4,649	4,697
Provisions for pensions and other employee benefits – current portion	*5.1*	67	58
Other provisions – current portion	*7.1*	346	369
Subsidies and grants – current portion		20	31
Taxes payable		112	132
Other current liabilities		1,613	1,590
Current portion of long-term debt	*8.2.1*	143	622
Other financial liabilities – current portion		14	90
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.2.3*	47	50
Short-term financing	*8.2.2.5*	1,248	1,631
Bank overdrafts	*8.2.2.5*	5	6
Liabilities held for sale		—	32
CURRENT LIABILITIES		**8,264**	**9,308**
TOTAL EQUITY AND LIABILITIES		**18,319**	**18,847**

The Notes are an integral part of the condensed interim consolidated financial statements.

4.4. Consolidated statement of cash flows

(in millions of euros)	*Notes*	First-half 2021	First-half 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the period		131	(1,220)
Share in net (earnings) losses of equity-accounted companies		119	166
Net dividends received from equity-accounted companies		10	13
Expenses (income) with no cash effect	*11.1*	706	1,372
Cost of net debt		28	33
Income taxes (current and deferred)		114	24
GROSS OPERATING CASH FLOWS		**1,108**	**388**
Income taxes paid		(133)	(106)
Changes in working capital	*11.2*	(160)	(506)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**815**	**(224)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(299)	(332)
Acquisitions of property, plant and equipment		(377)	(430)
Investment subsidies and grants received		11	6
Disposals of property, plant and equipment and intangible assets		44	3
Net change in non-current financial assets		(92)	(143)
Acquisitions of investments with gain of control, net of cash acquired		—	(5)
Disposals of investments with loss of control, net of cash transferred		(9)	(5)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(722)**	**(906)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(72)	—
Dividends paid to non-controlling interests in consolidated subsidiaries		(17)	(34)
Sale (purchase) of treasury stock		(1)	1
Issuance of long-term debt	*11.3*	305	21
Loan issuance costs and premiums		—	—
Interest paid		(70)	(80)
Interest received	*8.2.2.2*	57	18
Repayment of long-term debt	*11.3*	(567)	(94)
Change in short-term financing	*8.2.2.5*	(383)	1,662
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(748)**	**1,494**
CASH AND CASH EQUIVALENTS RELATING TO OPERATIONS HELD FOR SALE		**1**	**—**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(16)**	**(4)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(670)**	**360**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**2,945**	**1,751**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**2,275**	**2,111**
Of which:			
■ Cash and cash equivalents		2,280	2,113
■ Bank overdrafts		(5)	(2)

The Notes are an integral part of the condensed interim consolidated financial statements.

4.5. Consolidated statement of changes in stockholders' equity

Number of shares outstanding	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Total stockholders' equity including non-controlling interests: Stockholders' equity	Non-controlling interests	Total
239,029,111	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2019**	241	1,531	71	2,786	4,629	835	5,464
	Dividends paid[1]	—	—	—	(48)	(48)	(39)	**(87)**
423,441	Treasury shares	—	—	—	1	1	—	**1**
	Share-based payment	—	—	—	4	4	—	**4**
	Put options granted[3]	—	—	—	3	3	7	**10**
	TRANSACTIONS WITH OWNERS	**—**	**—**	**—**	**(40)**	**(40)**	**(32)**	**(72)**
	Net income (loss) for the	—	—	—	(1,215)	(1,215)	(5)	**(1,220)**
	Other comprehensive income (loss), net of tax	—	—	(100)	(2)	(102)	(21)	**(123)**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**—**	**—**	**(100)**	**(1,217)**	**(1,317)**	**(26)**	**(1,343)**
239,452,552	**STOCKHOLDERS' EQUITY AT JUNE 30, 2020**	241	1,531	(29)	1,529	3,272	777	4,049
	Dividends paid	—	—	—	—	—	(36)	**(36)**
117,506	Treasury shares	—	—	—	3	3	—	**3**
680,660	Capital increase[2]	1	14	—	—	15	—	**15**
	Share-based payment	—	—	—	29	29	—	**29**
	Put options granted[3]	—	—	—	3	3	(2)	**1**
	TRANSACTIONS WITH OWNERS	**1**	**14**	**—**	**35**	**50**	**(38)**	**12**
	Net income (loss) for the	—	—	—	126	126	24	**150**
	Other comprehensive income (loss), net of tax	—	—	(242)	20	(222)	(7)	**(229)**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**—**	**—**	**(242)**	**146**	**(96)**	**17**	**(79)**
240,250,718	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2020**	242	1,545	(271)	1,710	3,226	756	3,982
	Dividends paid[1]	—	—	—	(72)	(72)	(16)	**(88)**
570,303	Treasury shares	—	—	—	(1)	(1)	—	**(1)**
	Share-based payment	—	—	—	10	10	—	**10**
	Put options granted[3]	—	—	—	4	4	(2)	**2**
	Other movements	—	—	—	(1)	(1)	(5)	**(6)**
	TRANSACTIONS WITH OWNERS	**—**	**—**	**—**	**(60)**	**(60)**	**(23)**	**(83)**
	Net income (loss) for the	—	—	—	90	90	41	**131**
	Other comprehensive income (loss), net of tax	—	—	84	8	92	2	**94**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**—**	**—**	**84**	**98**	**182**	**43**	**225**
240,821,021	**STOCKHOLDERS' EQUITY AT JUNE 30, 2021**	242	1,545	(187)	1,748	3,348	776	4,124

(1) A dividend of 0.30 euros per share was paid in June 2021, representing a total payout of 72 million euros. The dividend paid in July 2020 was 0.20 euros per share.

(2) The terms and conditions of the November 16, 2020 capital increase reserved for employees are detailed in Note 10.1.

(3) This item includes changes in the fair value of liabilities associated with put options granted to holders of non-controlling interests (see Note 8.2.3).

The Notes are an integral part of the condensed interim consolidated financial statements.

4.6. Notes to the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Valeo Group for the six months ended June 30, 2021 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- Valeo's share in the net assets and earnings of equity-accounted companies (joint ventures and associates).

Valeo is an independent group fully focused on the design, production and sale of components, systems and services for greener, safer and smarter mobility. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO_2 emissions and to the development of driving assistance systems. Valeo is one of the world's leading automotive suppliers and is a partner to all automakers across the globe.

The transformation of Valeo into a European Company, as approved by Valeo's Board of Directors on February 20, 2020 and by the Annual Shareholders' Meeting of June 25, 2020, took effect on March 9, 2021, the date on which Valeo's new corporate form was registered with the Trade and Companies Registry. Valeo remains subject to French legislation, and is listed on the Paris Stock Exchange. Its head office is at 43, rue Bayen, 75017 Paris, France.

Valeo's condensed interim consolidated financial statements were approved for issue by the Board of Directors on July 22, 2021.

NOTE 1 ACCOUNTING POLICIES

1.1 Accounting standards applied

The condensed interim consolidated financial statements for the six months ended June 30, 2021 have been prepared in accordance with IAS 34 – "Interim Financial Reporting" and with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB), as adopted by the European Union and effective at January 1, 2021.

Pursuant to IAS 34, the notes to these condensed interim financial statements are designed to:

- update the accounting and financial information contained in the last published consolidated financial statements at December 31, 2020;
- include new accounting and financial information about significant events and transactions that occurred during the period.

These notes therefore discuss significant events and transactions that occurred in the first six months of 2021 and should be read in conjunction with the information set out in the consolidated financial statements for the year ended December 31, 2020 included in the Group's 2020 Universal Registration Document[1].

The accounting principles used to prepare the condensed interim consolidated financial statements for the six months ended June 30, 2021 are the same as those used to prepare the 2020 annual consolidated financial statements, except as regards the specific accounting treatments described in Notes 5.1 and 9.

(1) *The 2020 Universal Registration Document is available on the Group's website (www.valeo.com) or on the website of the AMF (www.amf-france.org).*

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2021

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations	**Amendments to IFRS 9, IAS 39 and IFRS 7 – Phase 2** Effective as of January 1, 2021
Impacts and application for the Group	The European Union adopted these amendments on January 13, 2021. The objective of the Interest Rate Benchmark Reform – Phase 2 is to clarify the accounting impacts of the effective replacement of interest rate benchmarks. The application of Phase 2 has no impact for the Group, as no interest rate benchmarks had actually been replaced in the Group's contracts at June 30, 2021. Phase 1 of the project, adopted by the Group in 2019, enabled the Group to disregard the uncertainties arising from interest rate benchmark reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present. During the period, the Group continued its analysis work in order to prepare for the transition to the new interest rate benchmarks and anticipate the impacts of the reform. Interest rate derivatives designated as hedges of borrowings indexed to a benchmark rate are presented in Note 8.

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2022 and not early adopted by the Group

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2022	
Annual Improvements to IFRSs 2018-2020 cycle	Various provisions
Amendments to IFRS 3	Updating a Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use

On May 14, 2020, the IASB also published amendments to IAS 37 relating to the costs to include when assessing whether a contract is onerous. These amendments will be effective as of January 1, 2022. A more detailed analysis of the main impacts of these amendments on the Group's consolidated financial statements will be conducted in the coming months to assess any adjustments that may be necessary.

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The IASB has also published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements:

Standards, amendments and interpretations		**Effective date(1)**
Amendments to IFRS 16	Covid-19-Related Rent Concessions	April 1, 2021
Amendments to IAS 1	Presentation of Financial Statements: – Classification of Liabilities as Current or Non-current – Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

(1) Subject to adoption by the European Union.

1.2 Basis of preparation

The condensed interim consolidated financial statements are presented in euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business, such as those relating to quality and safety, as well as more general risks to which the Group is exposed on account of its global presence.

The Group exercises its judgment based on past experience and all other factors considered to be decisive given the environment and the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo's future financial statements may differ from the amounts resulting from these current estimates.

In addition to the main events having a significant impact on the financial statements for the six months ended June 30, 2021, presented in Note 2, the estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the six months ended June 30, 2021 chiefly concern:

- the conditions for capitalizing development expenditure;
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6.2);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.1 and 7);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9).

NOTE 2 SIGNIFICANT EVENTS OF THE PERIOD

Business in the first half of the year was impacted by the shortage of electronic components, penalizing the supply chain and our customers' production schedules. The second quarter was particularly hard hit by a fall of around 10% in automotive production compared to the first quarter of 2021.

Consolidated sales advanced 31.2% on a like-for-like basis compared to first-half 2020, to 8,994 million euros (see Note 4.1). Changes in exchange rates had a negative 4% impact, primarily due to the appreciation of the euro against the US dollar and the Japanese yen. Changes in Group structure had a negligible impact on sales for the period.

The cost reduction plan launched by the Group in first-half 2019 was extended throughout 2020 and continues to have an impact on the Valeo Group's consolidated financial statements (see Note 4.4.2.3).

2.1 Going concern basis and cash management

At June 30, 2021, the Group had 2.3 billion euros available in undrawn credit lines.

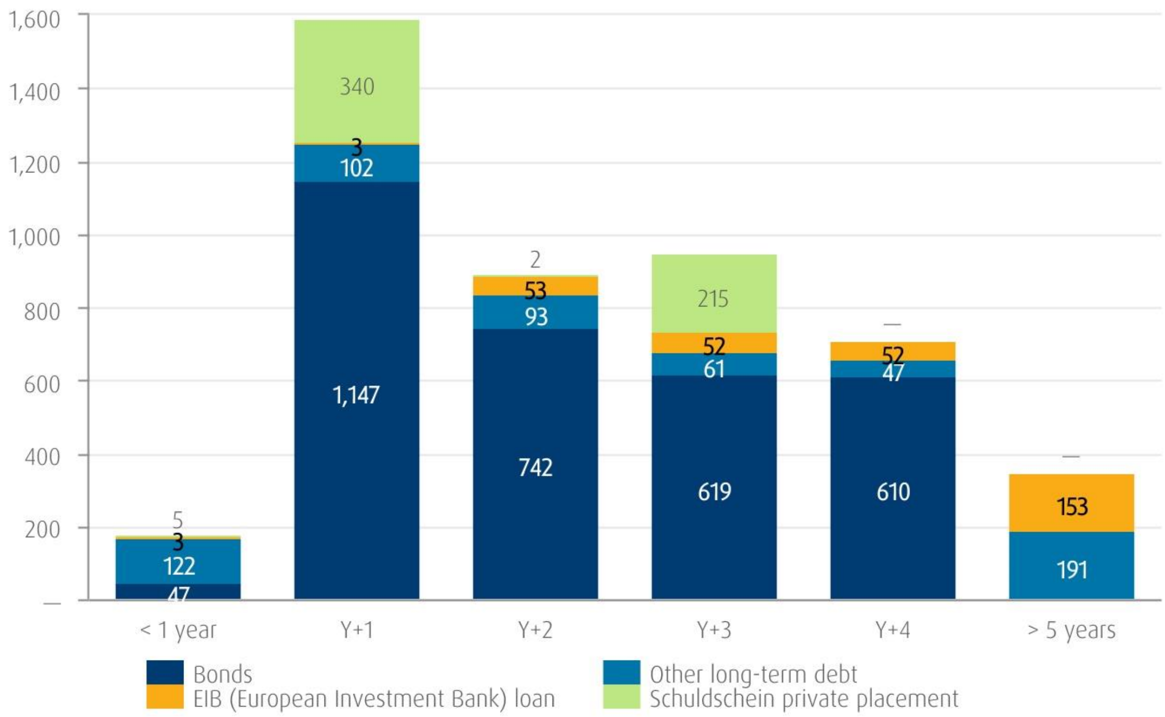
In addition, the Group has a stable financial position:

- net cash and cash equivalents of 2.3 billion euros at June 30, 2021;
- average debt maturity of 3 years;
- net debt to EBITDA ratio (EBITDA calculated over a 12-month rolling period) of 1.25 at June 30, 2021, i.e., below the 3.5 threshold.

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile.

Contractual maturity of long-term debt

(in millions of euros)



The future cash outflows presented above, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at June 30, 2021 was used for variable-rate interest.

Detailed information regarding the changes in and characteristics of the Group's borrowings and debt is presented in Note 8.2.

Based on the above, the use of the going concern basis of accounting was appropriate at the date on which the 2021 condensed interim consolidated financial statements were approved for issue.

2.2 Lease liabilities

At June 30, 2021, the Group's lease liabilities amounted to 519 million euros, compared with 394 million euros at December 31, 2020 (see Note 8.2.2.2). This 125 million euro increase is mainly attributable to two new leases, one for a building to be used as a laboratory and the headquarters for CDA activities in France (liability of 83 million euros at June 30, 2021) and another for a building that will be the future Group headquarters (liability of 57 million euros at June 30, 2021). In addition, the Group made payments of 46 million euros for the principal portion of its lease liabilities during the period.

2.3 Changes in the scope of consolidation

On December 25, 2020, Ichikoh signed a sales agreement on a portion of its stake in Life Elex, thereby reducing its interest in the company from 59.1% to 14.9%. The sale was completed at end-June 2021. The business represented sales of 15 million euros in first-half 2020, versus 8 million euros in first-half 2021.

In addition, Valeo sold its Lighting business in Brazil at end-April 2021. The business represented sales of 10 million euros in first-half 2020, versus 9 million euros in first-half 2021.

These two transactions resulted in an overall capital loss of 16 million euros, of which 7 million euros was recorded in first-half 2021 in other income and expenses (see Note 4.4.2.1).

NOTE 3 SEGMENT REPORTING

In accordance with IFRS 8 "Operating Segments", the Group's segment information below is presented on the basis of internal reports that are reviewed by the Group's General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance, Connected Cars and Intuitive Interior Controls. Drivers now want their car to form an integral part of their digital lives. At the same time, the regulatory environment demands ever safer vehicles, with automated driving now a reality thanks to increasingly affordable technology. The Comfort & Driving Assistance Systems Business Group focuses on intuitive controls, connectivity and automated driving solutions, making mobility safer and more comfortable for all;
- Powertrain Systems, comprising three Product Groups: Powertrain Electrification Systems, Transmission Systems and Powertrain Actuators. This Business Group is at the heart of the vehicle electrification revolution. Combining the expertise of the Business Group's three Product Groups, Valeo manufactures comprehensive, integrated electric powertrain solutions as well as a range of products for cleaner thermal engines;
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Commercial Vehicles. The strategic objectives of the Thermal Systems Business Group address the emerging challenges facing the automotive industry in two fields: intelligent management of thermal systems for all electric vehicles, and passenger health and well-being;
- Visibility Systems, comprising two Product Groups and one Product Line: the Lighting Systems Product Group, the Wiper Systems Product Group and the Electronics for Visibility Systems Product Line. The Visibility Systems Business Group designs and produces innovative, efficient and smart exterior and interior lighting, wiper and sensor cleaning systems to support the driver in all driving situations. These systems enable all vehicles, including automated vehicles, to drive in all conditions and create a highly immersive experience for all vehicle passengers.

Each of these Business Groups is also responsible for production and for some of the distribution of products in the aftermarket segment. A significant portion of income and expenses for Valeo Service, which almost exclusively sells products manufactured by the Group, is reallocated among the Business Groups identified. The external trading operations of Valeo Service and the Top Column Module business are presented within "Other", along with the holding companies and eliminations between the four operating segments.

3.1. Key segment performance indicators

The key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends received from equity-accounted companies;
- Research and Development expenditure;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), investments in equity-accounted companies and inventories.

First-half 2021

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	1,767	2,403	1,980	2,632	212	**8,994**
■ intersegment (Group)	12	65	29	30	(136)	**—**
EBITDA	**298**	**294**	**241**	**350**	**22**	**1,205**
Research and Development expenditure	(268)	(150)	(131)	(191)	(16)	**(756)**
Investments in property, plant and equipment and intangible assets	280	144	131	210	71	**836**
Segment assets	2,678	3,303	2,651	2,828	279	**11,739**

First-half 2020

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	1,371	1,836	1,535	2,143	173	**7,058**
■ intersegment (Group)	9	61	25	26	(121)	**—**
EBITDA	**84**	**91**	**(31)**	**75**	**(17)**	**202**
Research and Development expenditure	(357)	(145)	(168)	(243)	(15)	**(928)**
Investments in property, plant and equipment and intangible assets	204	166	194	214	19	**797**
Segment assets	2,666	3,334	2,701	2,948	247	**11,896**

3.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	First-half 2021	First-half 2020
Operating margin	**415**	**(840)**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[1]	795	1,037
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(15)	(8)
Dividends paid by equity-accounted companies	10	13
EBITDA	**1,205**	**202**
as a % of sales	*13.4%*	*2.9%*

(1) Impairment losses recorded in operating margin only.

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	June 30, 2021	June 30, 2020
Segment assets	**11,739**	**11,896**
Accounts and notes receivable	2,491	2,078
Other current assets	616	552
Taxes receivable	25	49
Financial assets	2,998	2,879
Deferred tax assets	450	444
TOTAL GROUP ASSETS	**18,319**	**17,898**

3.3. Reporting by geographic area

Non-current assets consist of property, plant and equipment, intangible assets (excluding goodwill) and investments in equity-accounted companies. Goodwill balances cannot be broken down by geographic area as they are allocated to Business Groups that operate in several geographic areas.

First-half 2021

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	503	1,411	1,073
Other European countries and Africa	3,894	3,190	2,839
North America	1,588	1,580	1,066
South America	183	139	30
Asia	2,826	2,964	2,436
Eliminations	—	(290)	(3)
TOTAL	**8,994**	**8,994**	**7,441**

First-half 2020

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	410	1,093	898
Other European countries and Africa	2,973	2,442	2,858
North America	1,239	1,307	1,263
South America	134	106	25
Asia	2,302	2,373	2,643
Eliminations	—	(263)	(2)
TOTAL	**7,058**	**7,058**	**7,685**

NOTE 4 OPERATING DATA

4.1 Sales

Group sales rose 27.4% to 8,994 million euros in first-half 2021, from 7,058 million euros in first-half 2020.

Changes in the scope of consolidation had a negligible impact on sales for the period. Like for like (constant Group structure and exchange rates), consolidated sales increased by 31.2% between first-half 2020 and first-half 2021.

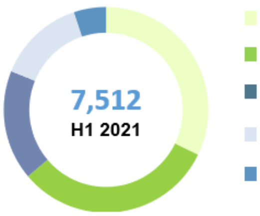
4.1.1 Sales by type

Sales can be analyzed by type as follows:

(in millions of euros)	First-half 2021	First-half 2020
Original equipment	7,512	5,863
Aftermarket	1,030	824
Other	452	371
SALES	**8,994**	**7,058**

4.1.2 Original equipment sales by customer portfolio

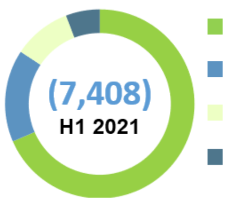
Original equipment sales can be analyzed by customer portfolio as follows:



(in millions of euros)	First-half 2021	First-half 2020
32% - Asian automakers	2,419	1,928
32% - German automakers	2,373	1,783
17% - US automakers	1,303	1,041
14% - French automakers	1,036	750
5% - Other	381	361
ORIGINAL EQUIPMENT SALES	**7,512**	**5,863**

4.2 Cost of sales

Cost of sales can be analyzed as follows:



(in millions of euros)	First-half 2021	First-half 2020
56.5% (1) – Raw materials consumed	(5,075)	(4,202)
13.0% (1) – Labor	(1,171)	(1,061)
8.1% (1) – Direct production costs and production overheads	(732)	(788)
4.8% (1) – Depreciation, amortization and impairment(2)	(430)	(500)
COST OF SALES	**(7,408)**	**(6,551)**

(1) As a % of sales.
(2) This amount does not include amortization and impairment charged against capitalized development expenditure, which is recognized in Research and Development expenditure. It includes the impact of government subsidies and grants on non-current production assets (excluding Research and Development) recognized in the statement of income for the period.

4.3 Operating margin including share in net earnings of equity-accounted companies

In first-half 2021, operating margin including share in net earnings of equity-accounted companies was 296 million euros (or 3.3% of sales), compared with a negative 14.3% of sales in first-half 2020.

Share in net earnings (losses) of equity-accounted companies represented a loss of 119 million euros in first-half 2021, compared with a loss of 166 million euros in first-half 2020. See Note 4.3.2 for more information.

4.3.1 Research and Development expenditure

Research and Development expenditure can be analyzed as follows:

(in millions of euros)	First-half 2021	First-half 2020
Gross Research and Development expenditure	(851)	(862)
Subsidies and grants, and other income[(1)]	56	47
Capitalized development expenditure	291	319
Amortization and impairment of capitalized development expenditure[(2)]	(252)	(432)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(756)**	**(928)**

(1) *This line item includes the impact of the subsidy calculated on the loan taken out with the European Investment Bank (EIB) (see Note 8.2.2.2).*
(2) *Impairment losses recorded in operating margin only.*

In light of the Covid-19 health crisis, in first-half 2020, the Group recognized impairment losses on capitalized development expenditure in the amount of 195 million euros within Research and Development expenditure. The impairment loss mainly reflected the impact of a decline in volumes on the profitability of certain projects under development.

4.3.2. Associates and joint ventures

Share in net earnings of equity-accounted companies can be analyzed as follows:

(in millions of euros)	First-half 2021	First-half 2020
Share in net earnings (losses) of associates	(2)	(2)
Share in net earnings (losses) of joint ventures	(117)	(164)
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**(119)**	**(166)**

All companies consolidated using the equity method, either joint ventures or associates, contribute to the Group's operations and belong to one of its four operating segments. They are included in the Group's internal reporting within the meaning of IFRS 8 and their operating performance is reviewed at the level of the Business Groups to which they belong. Accordingly, the Group considers it appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

In first-half 2021, the 117 million euro loss in respect of the Group's share in net earnings of joint ventures is mainly due to the share in the net losses of Valeo Siemens eAutomotive in an amount of 124 million euros, compared to the share in the net losses of Valeo Siemens eAutomotive in an amount of 134 million euros and an impairment loss of 30 million euros charged against an investment in a joint venture in first-half 2020.

4.4 Operating income (loss) and other income and expenses

4.4.1 Operating income (loss)

In first-half 2021, the Group recorded operating income including share in net earnings of equity-accounted companies of 267 million euros, versus a loss of 1,141 million euros in first-half 2020.

4.4.2 Other income and expenses

Other income and expenses can be analyzed as follows:

(in millions of euros)	*Notes*	First-half 2021	First-half 2020
Transaction costs and capital gains and losses arising on changes in the scope of consolidation	*4.4.2.1*	(7)	1
Claims and litigation	*4.4.2.2*	(7)	(12)
Restructuring plans	*4.4.2.3*	(15)	(26)
Impairment of fixed assets	*4.4.2.4*	—	(98)
OTHER INCOME AND EXPENSES		**(29)**	**(135)**

4.4.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

In particular, this item includes the additional impacts of the sale of (i) the Lighting business in Brazil and (ii) the Life Elex business in Japan (see Note 2.3).

4.4.2.2 Claims and litigation

In first-half 2021, this item includes the impacts of various disputes and the related legal advisory costs.

4.4.2.3 Restructuring plans

Restructuring costs for first-half 2021 primarily include the additional impacts of the Group cost reduction plan launched in first-half 2019 in light of the downturn in the automotive market, and extended throughout 2020 with the Covid-19 health crisis. Restructuring costs also include expenses relating to early retirement plans in Germany.

4.4.2.4 Impairment of fixed assets

In the six months ended June 30, 2020, the Group recognized impairment losses in an amount of 98 million euros, particularly against CGUs and Group assets in Brazil.

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Provisions for pensions and other employee benefits

The provision for pensions and other employee benefits is recognized based on projections made by actuaries using data from the end of the previous reporting period. The discount rates for the countries representing the Group's most significant obligations (United States, eurozone, United Kingdom, Japan and South Korea) are reviewed at June 30. Projections for the most significant plans are adjusted in order to reflect any major changes in assumptions over the period or one-off impacts linked to discount rates, inflation, applicable legislation or the population concerned.

At June 30, the value of the main plan assets is also reviewed and adjusted wherever said value differs significantly from the market value.

Net provisions for pensions and other employee benefits totaled 1,130 million euros at June 30, 2021, stable compared with December 31, 2020.

The discount rates used at end-June 2021 in the countries representing the Group's most significant obligations were as follows:

Country	June 30, 2021	December 31, 2020
Eurozone	1.00	1.00
United Kingdom	1.70	1.70
United States	2.45	2.45
Japan	1.05	1.05
South Korea	2.55	2.55

At June 30, 2021, the Group reviewed its financial assumptions (discount and inflation rates) and the market value of the assets relating to its most significant plans:

- changes in the inflation rates used by the Group in first-half 2021 led to a 5 million euro increase in its obligations in the United Kingdom. This adjustment was included in actuarial gains (losses) on defined benefit plans in the statement of other comprehensive income;
- the actual return on the Group's main plan assets in the United States and Japan gave rise to an actuarial gain of 6 million euros in first-half 2021 (recognized in other comprehensive income) and a corresponding reduction in the provision.

Excluding this positive 1 million euro impact, changes in provisions for pensions and other employee benefits chiefly reflect:

- utilizations in an amount of 41 million euros and reversals of unutilized provisions in an amount of 3 million euros;
- a net expense of 45 million euros during the period, of which 6 million euros was recorded in other financial income and expenses (see Note 8.4.2);
- changes in foreign exchange rates did not have a material impact over the period.

5.2 Free share and performance share plans

On May 26, 2021, the Board of Directors approved a free share and performance share plan involving up to 2,070,829 shares. The plan will see the allotment of 1,166,490 free shares not subject to performance criteria and 904,339 shares subject to performance criteria, with a three-year vesting period for all employees. Only performance shares allotted to the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer are subject to a two-year holding period. Additionally, the number of free shares not subject to performance criteria includes 632,000 shares that may be allotted following the implementation of the 2021 Shares4U employee share ownership plan. In most countries, these shares will be subject to a vesting period in line with the lock-up period for subscribed shares.

In accordance with IFRS 2 and based on the fair value of the equity instruments at the authorization date, Valeo has estimated the fair value of the free shares allotted under the plan over the period at 26 million euros (versus 22 million euros for the plan awarded in 2020). It will be recognized in personnel expenses over the vesting period, mainly with an offsetting entry to equity.

NOTE 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

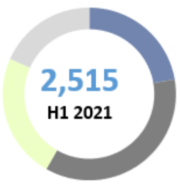
6.1 Goodwill

Changes in goodwill in first-half 2021 and full-year 2020 are analyzed below:

(in millions of euros)	June 30, 2021	December 31, 2020
NET CARRYING AMOUNT AT JANUARY 1	**2,512**	**2,571**
Acquisitions during the year	—	—
Translation adjustment	3	(59)
NET CARRYING AMOUNT	**2,515**	**2,512**
Including accumulated impairment losses	—	—

The decrease in goodwill in 2020 mainly reflected the depreciation of the US dollar (30 million euros) and the Japanese yen (11 million euros) against the euro.

Goodwill can be broken down by Business Group as follows:



(in millions of euros)		June 30, 2021	December 31, 2020
22%	– Comfort & Driving Assistance Systems	559	563
36%	– Powertrain Systems	902	901
23%	– Thermal Systems	587	590
18%	– Visibility Systems	460	451
1%	– Other	7	7
	GOODWILL	**2,515**	**2,512**

6.2 Impairment of fixed assets

6.2.1. Impairment testing

Property, plant and equipment and intangible assets whose recoverable amount cannot be estimated on a stand-alone basis are grouped together into cash-generating units (CGUs). There were 22 CGUs at end-June 2021.

The net carrying amount of goodwill is monitored at the level of the Business Groups and is reviewed at least once a year and whenever there are indicators that it may be impaired.

To prepare the medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill at December 31, 2020, the Group based itself on projected data for the automotive market, as well as its order intake and its development prospects on emerging markets. The assumptions applied at the end of 2020 were still considered appropriate overall at the date on which the condensed interim consolidated financial statements for the six months ended June 30, 2021 were approved for issue.

The main impairment indicators used to identify the CGUs to be tested were a negative operating margin in first-half 2021, a fall of more than 20% in first-half 2021 sales compared to first-half 2020, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans. Any CGUs experiencing strong growth and whose value in use was significantly above their capital employed were excluded from the scope of the impairment tests.

The tests were performed using the same assumptions and the same method as those used to determine impairment for the year ended December 31, 2020, including a discount rate (WACC) of 9.5%.

6.2.2. Property, plant and equipment and intangible assets (excluding goodwill)

Based on the above, seven CGUs were tested for impairment at June 30, 2021:

- the Air Charging Systems Product Line (part of the Powertrain Systems Business Group);
- the Powertrain Actuator Systems Product Group (part of the Powertrain Systems Business Group);
- the Valeo Telematics & Acoustics Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Switches and Smart Controls Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Top Column Module Product Line, which has formed a separate CGU since 2019, when the Group decided to withdraw from this business;
- the Thermal Powertrain Product Group (part of the Thermal Systems Business Group);
- the Thermal Compressor Product Group (part of the Thermal Systems Business Group).

The CGU impairment tests did not lead to the recognition of any additional impairment losses at June 30, 2021.

6.2.3. Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests assuming an infinite time period (Powertrain Actuator Systems Product Group CGU, Valeo Telematics & Acoustics Product Line CGU, Switches and Smart Controls Product Line CGU, Thermal Powertrain Product Group CGU and Thermal Compressor Product Group CGU):

- 1-point increase in the discount rate;
- 0.5-point decrease in the perpetuity growth rate;
- 0.7-point decrease in the rate of operating income over sales used to calculate the terminal value.

The headroom of the tests represents the difference between value in use and net carrying amount. The headroom of the tests and the impacts of changes in key assumptions on this headroom for the CGUs not tested at end-December 2020, i.e., the Powertrain Actuator Systems Product Group CGU, the Switches and Smart Controls Product Line CGU and the Thermal Powertrain Product Group CGU, are presented in the table below:

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on end-June 2021 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pt)	0.7-pt decrease in the rate of operating income used to calculate the terminal value	Combination of all three factors
Powertrain Actuator Systems Product Group CGU	95	(60)	(23)	(44)	(113)
Switches and Smart Controls Product Line CGU	297	(50)	(24)	(32)	(94)
Thermal Powertrain Product Group CGU	731	(129)	(57)	(91)	(246)

Since the impairment tests on the Air Charging Systems Product Line CGU and the Top Column Module Product Line CGU assume a finite time period, their sensitivity to changes in the following assumptions was verified:

- 1-point increase in the discount rate;
- 5% fall in sales for each year of the plan, with no variabilization of fixed costs;
- 0.5-point decrease in the materials consumption rate for each year of the plan.

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on end-June 2021 assumptions	WACC of 10.5% (+1 pt)	5% fall in sales for each year	0.5-point decrease in the materials consumption rate	Combination of all three factors
Air Charging Systems Product Line CGU	—	—	(1)	—	(1)
Top Column Module Product Line CGU	—	(1)	(8)	(3)	(10)

6.2.4 Goodwill

The impairment tests performed in the last quarter of 2020 did not lead to the recognition of any goodwill impairment at the end of the year.

At June 30, 2021, the Group considered that there had been no change in the assumptions used to determine the recoverable amount of goodwill at December 31, 2020 that would justify performing further impairment tests in the period.

6.2.5 Impairment of the Brazilian assets

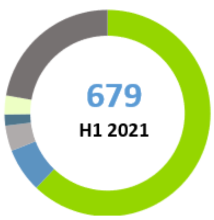
The Group faces a particularly adverse environment in Brazil, which has led to significant operating losses for its businesses in the region. Production forecasts were also revised drastically downwards in 2020. The amount of cash flows generated by the continuing use of the South American assets is considered minimal.

In response to this situation, the Group recognized a 49 million euro impairment loss in 2020. The impairment loss was allocated to fixed assets, except those with a recoverable amount such as land, buildings and other machinery.

Since cash flow forecasts remain very weak and the environment is uncertain in this region, the Group has maintained the impairment losses it recognized against its Brazilian assets which had been included in other income and expenses in the 2020 consolidated statement of income (see Note 4.4.2.4).

NOTE 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES

7.1 Other provisions



(in millions of euros)		June 30, 2021	December 31, 2020
62%	– Provisions for product warranties	422	410
7%	– Provisions for restructuring costs	47	66
4%	– Provisions for tax-related disputes	27	27
2%	– Provisions for environmental risks	12	13
3%	– Provisions for onerous contracts	20	39
22%	– Provisions for employee-related and other disputes	151	183
	PROVISIONS FOR OTHER CONTINGENCIES	**679**	**738**

A number of Group companies are involved in legal proceedings in the ordinary course of their operations. Each known dispute was reviewed at the date on which the condensed interim consolidated financial statements were approved for issue. Based on the advice of the Group's legal counsel, where appropriate, the provisions deemed necessary were set aside to cover the estimated outflows of resources. They take into account any compensation agreements signed between the various stakeholders.

Provisions for employee-related and other disputes, which totaled 151 million euros at June 30, 2021, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations and proceedings.

At December 31, 2020, the Group recognized a material accrued income item with respect to product warranties. In 2021, the Group did not recognize any other individually material income items offsetting expected outflows of resources in respect of the other provisions mentioned above.

The estimates underpinning these provisions are made based on information available at the date on which the condensed interim consolidated financial statements were approved for issue. The amounts reported in Valeo's future financial statements may differ from the amounts resulting from these estimates.

7.2 Antitrust investigations

At the end of July 2011, antitrust investigations were initiated against several automotive suppliers (including Valeo) by the US and European antitrust authorities related to components and systems supplied to the automotive industry.

In the United States, the Department of Justice and Valeo's Japanese subsidiary, Valeo Japan Co. Ltd, reached a settlement of the Department of Justice's investigation into conduct involving climate control products on September 20, 2013 as part of which Valeo Japan Co. Ltd agreed to pay a fine of 13.6 million US dollars. This settlement agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations. Separately, the Department of Justice investigated conduct involving access mechanism products, but granted Valeo amnesty and so did not fine Valeo for this conduct.

Also in the United States, three class actions were filed by automotive dealers, direct purchasers, and automotive end-payers against Valeo Group companies with the United States District Court for the Eastern District of Michigan, for alleged antitrust violations involving the sale of climate control products. Each of these class actions was settled with court approval. Separately, Valeo reached court-approved settlement agreements in connection with two prospective actions relating to access mechanisms over which automotive dealers and end customers were threatening to file claims. Certain customers opted out of the aforementioned US settlement agreements, and Valeo has reached settlements with some of these customers.

In Europe, the European Commission issued a decision on March 8, 2017, fining certain automotive air conditioning and engine cooling suppliers for conduct involving thermal systems products. Valeo was fined a total of 26.8 million euros. On June 21, 2017, the European Commission issued a further decision fining automotive lighting system suppliers and marking an end to all its investigations involving Valeo. Valeo was among those identified by the Commission in the automotive lighting systems case, but was granted immunity and was therefore not fined.

Valeo is in contact with a number of European automakers regarding claims for damages resulting from the European Commission's proceedings. One of those, BMW on November 25, 2019, filed a complaint with the Munich Regional Court in Germany naming Denso and Valeo and seeking compensation for alleged damages based, in Valeo's view, on unfounded claims related to conduct identified in the European Commission's March 2017 Thermal Systems decision.

There were no developments in the ongoing class actions in Canada. At the present time, the Group is not aware of any findings or conclusions that could have adverse consequences for Valeo.

Additional actions for damages can or may be brought further to the aforementioned antitrust investigations. The Group sets aside provisions whenever the payment of compensation is likely and can be quantified.

7.3 Contingent liabilities

The Group has contingent liabilities relating to legal, arbitration or regulatory proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving Valeo or its subsidiaries were reviewed at the date on which the condensed interim consolidated financial statements were approved for issue. Based on the advice of legal counsel, all provisions deemed necessary have been made to cover the related risks.

NOTE 8 FINANCING AND FINANCIAL INSTRUMENTS

8.1 Fair value of financial assets and liabilities

	2021 carrying amount under IFRS 9			June 30, 2021	December 31, 2020
(in millions of euros)	Amortized cost	Fair value through OCI	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
■ Long-term investments	—	38	181	**219**	216
■ Long-term loans and receivables (including accrued interest)	306	—	—	**306**	327
■ Deposits and guarantees	32	—	—	**32**	31
■ Other non-current financial assets	6	—	—	**6**	6
■ Hedging derivatives	—	29	—	**29**	19
■ Trading derivatives	—	—	33	**33**	42
Assets relating to pensions and other employee benefits	—	19	—	**19**	19
Accounts and notes receivable	2,491	—	—	**2,491**	2,674
Other current financial assets:					
■ Hedging derivatives	—	42	—	**42**	83
■ Trading derivatives	—	—	29	**29**	15
■ Accrued interest and other current financial assets	—	—	3	**3**	2
Cash and cash equivalents	—	—	2,280	**2,280**	2,951
LIABILITIES					
Non-current financial liabilities:					
■ Hedging derivatives	—	5	—	**5**	11
■ Trading derivatives	—	—	31	**31**	31
Bonds	2,956	—	—	**2,956**	3,413
Schuldschein loan (German private placement)	547	—	—	**547**	547
EIB (European Investment Bank) loan	293	—	—	**293**	—
Other long-term debt	637	—	—	**637**	531
Liabilities associated with put options granted to holders of non-controlling interests	—	66	—	**66**	68
Accounts and notes payable	4,649	—	—	**4,649**	4,697
Other current financial liabilities:					
■ Hedging derivatives	—	5	—	**5**	45
■ Trading derivatives	—	—	9	**9**	45
Short-term financing	1,248	—	—	**1,248**	1,631
Bank overdrafts	—	—	5	**5**	6

The main terms and conditions of borrowings (in particular bonds) are set out in Note 8.2.2.

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments based on the following categories:

- Level 1: inputs directly based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy.

For the *Schuldschein* private placement and the European Investment Bank loan, fair value is measured by discounting future cash flows at the market interest rate at the reporting date. This method corresponds to Level 2 in the fair value hierarchy.

The fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is equal to their carrying amount.

	June 30, 2021			December 31, 2020		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,280	2,280	1-2	2,951	2,951	1-2
Derivative financial instruments[1]	133	133	2-3	159	159	2-3
LIABILITIES						
Bonds	2,956	3,102	1	3,413	3,330	1
Schuldschein loan (German private placement)	547	538	2	547	555	2
EIB (European Investment Bank) loan	293	294	2	—	—	N/A
Other long-term debt	637	637	2	531	531	2
LOANS RECOGNIZED AT AMORTIZED COST	**4,433**	**4,571**		**4,491**	**4,416**	
Short-term financing	1,248	1,248	1-2	1,631	1,631	1-2
Bank overdrafts	5	5	1-2	6	6	1-2
Derivative financial instruments[1]	50	50	2-3	132	132	2-3
Put options granted to holders of non-controlling interests	66	66	3	68	68	3

(1) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks. The method used to estimate the fair value of other derivative financial instruments corresponds to Level 2 or Level 3 in the fair value hierarchy.

IFRS 13 prescribes the methods for assessing fair value and for taking into account the credit risk on uncollateralized derivatives, through:

- a Credit Value Adjustment (CVA), which is a component of the market value of a derivative financial instrument that reflects the exposure in the event of counterparty default;
- a Debit Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The credit risk on derivatives is calculated according to historical probabilities of default and a recovery rate, as observed on the market.

At June 30, 2021 and December 31, 2020, this has only a minimal impact on the Group.

8.2 Debt

8.2.1 Net debt

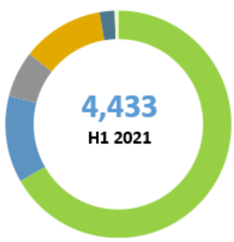
Net debt comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests (see Note 8.2.3), short-term financing and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, short-term investments not included in cash and cash equivalents, and the fair value of derivative instruments hedging interest rate and currency risks associated with these items.

	June 30, 2021			December 31, 2020		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	4,290	143	**4,433**	3,869	622	**4,491**
Put options granted to holders of non-controlling interests	19	47	**66**	18	50	**68**
Short-term financing	—	1,248	**1,248**	—	1,631	**1,631**
Bank overdrafts	—	5	**5**	—	6	**6**
GROSS DEBT	**4,309**	**1,443**	**5,752**	**3,887**	**2,309**	**6,196**
Long-term loans and receivables (including accrued interest)	(240)	(66)	**(306)**	(277)	(50)	**(327)**
Accrued interest	—	(1)	**(1)**	—	(1)	**(1)**
Cash and cash equivalents	—	(2,280)	**(2,280)**	—	(2,951)	**(2,951)**
Derivative instruments associated with interest rate and foreign currency risks(1)	**4**	**(22)**	**(18)**	**1**	**26**	**27**
NET DEBT	**4,073**	**(926)**	**3,147**	**3,611**	**(667)**	**2,944**

(1) *At end-June 2021 and end-December 2020, the fair value of derivative instruments associated with an item of net debt comprises the fair value of derivatives hedging financial currency risk and the fair value of derivatives hedging interest rate risk.*

8.2.2 Long-term debt

8.2.2.1 Breakdown of long-term debt



(in millions of euros)	June 30, 2021	December 31, 2020
67% - Bonds	2,956	3,413
12% - *Schuldschein* loan (German private placement)	547	547
6% - EIB (European Investment Bank) loan	293	—
12% - Lease liabilities	519	394
2% - Other borrowings	95	92
1% - Accrued interest	23	45
LONG-TERM DEBT	**4,433**	**4,491**

8.2.2.2 Change in and characteristics of long-term debt

(in millions of euros)	Bonds	*Schuldschein* loan (German private placement)	EIB (European Investment Bank) loan	Lease liabilities	Other borrowings	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2021	**3,413**	**547**	**—**	**394**	**92**	**45**	**4,491**
Increases/Subscriptions	—	—	293	2	10	—	**305**
New leases/Renewals/Modifications	—	—	—	165	—	—	**165**
Redemptions/Repayments	(515)	—	—	(46)	(6)	—	**(567)**
Value adjustments	13	—	—	—	—	—	**13**
Translation adjustment	45	—	—	3	(1)	—	**47**
Other movements	—	—	—	1	—	(22)	**(21)**
CARRYING AMOUNT AT JUNE 30, 2021	**2,956**	**547**	**293**	**519**	**95**	**23**	**4,433**

In June 2021, the Group redeemed the 575 million US dollar non-dilutive bond issued in 2016. The euro/dollar cross currency swaps set up to hedge the bond matured at the same date, resulting in a cash inflow of 41 million euros, classified under interest received in the consolidated statement of cash flows.

In February 2021, the EIB approved 600 million euros in financing for Valeo's research and development projects focused on technologies that reduce CO_2 emissions and improve active vehicle safety. The funds are to be allocated to Valeo's Europe-based R&D projects, primarily in France, but also in Germany, the Czech Republic and Ireland.

In June 2021, the Group contracted an initial loan for a total of 300 million euros. The eight-year loan carries fixed-rate interest of 0.885%, repayable in six equal annual installments as from June 2024.

In accordance with IAS 20, when the Group receives public financing at lower-than-market interest rates, a subsidy is calculated as the difference between the market interest rate for a similar loan at the date the loan was granted, and the interest rate granted by the lender. The amount of the subsidy is recognized in liabilities in the statement of financial position. It is subsequently taken to income as a deduction from the costs financed by the subsidy as and when the costs are themselves recognized in the consolidated statement of income.

The amount of the subsidy for the initial 300 million euro loan contracted from the EIB was measured at 7 million euros. The impact of the subsidy on the statement of income for the six-month period ended June 30, 2021 totaled 1 million euros, recognized in Research and Development expenditure (see note 4.3.1).

At June 30, 2021, the key terms and conditions of long-term debt were as follows:

Type	Outstanding at June 30, 2021 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Bond (EMTN program)	599	September 2017	September 2022	600	600	EUR	0.3752%	-
Bond (EMTN program)	499	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	666	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	597	June 2018	June 2025	600	600	EUR	1.5%	-
Bond (EMTN program)	595	March 2016	March 2026	600	600	EUR	1.625%	-
Schuldschein loan (German private placement)								
Tranche 1	115	April 2019	April 2023	115	115	EUR	0.95%	-
Tranche 2	220	April 2019	April 2023	221	221	EUR	6-month Euribor +0.95%	Swap exchanging the variable coupon with 6-month Euribor for a fixed rate of -0.041%
Tranche 3	90	April 2019	April 2025	90	90	EUR	1.291%	-
Tranche 4	122	April 2019	April 2025	122	122	EUR	6-month Euribor +1.15%	Swap exchanging the variable coupon with 6-month Euribor for a fixed rate of 0.145%
EIB (European Investment Bank) loan	293	June 2021	June 2029	300	300	EUR	0.885%	Reduced-rate loan repayable in six annual installments of 50 million euros as from June 2024
Lease liabilities	519	-	-	—	519	—	—	
Other long-term debt(1)	118	-	-	—	118	—	—	
LONG-TERM DEBT	**4,433**							

(1) *Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 53 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.*

At June 30, 2021, the Group had drawn an amount of 3 billion euros (stable compared with December 31, 2020) under its Euro Medium Term Note financing program capped at 5 billion euros.

The Group also has confirmed credit lines with an average maturity of 1.4 years (versus 1.7 years at December 31, 2020), representing an aggregate amount of 2.3 billion euros. None of these credit lines had been drawn down at June 30, 2021. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A1 from Moody's.

Subsequent events

A second loan of 300 million euros was contracted from the EIB on July 15, 2021. As a reminder, the EIB approved 600 million euros in financing for the Valeo Group's research and development projects in Europe focused on technologies that reduce CO_2 emissions and improve active vehicle safety. An initial loan of 300 million euros was signed in February 2021.

8.2.2.3. Contractual maturity of long-term debt

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile. At June 30, 2021, the average maturity of Valeo's (the parent company) debt was 3 years, unchanged from December 31, 2020.

The future cash outflows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at June 30, 2021 was used for variable-rate interest.

		Contractual cash flows						
			≥1 year and ≤5 years					
(in millions of euros)	Carrying amount	<1 year	Y+1	Y+2	Y+3	Y+4	>5 years	Total
Bonds	2,956	47	1,147	742	619	610	—	**3,165**
Schuldschein loan (German private placement)	547	5	340	2	215	—	—	**562**
EIB (European Investment Bank) loan	293	3	3	53	52	52	153	**316**
Other long-term debt	637	122	102	93	61	47	191	**616**
LONG-TERM DEBT	**4,433**	**177**	**1,592**	**890**	**947**	**709**	**344**	**4,659**

8.2.2.4. Off-balance sheet commitments relating to Group financing

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenant:

Financing agreements	Ratios	Thresholds	Ratio at June 30, 2021(1)
EIB (European Investment Bank) loan Credit lines	Consolidated net debt/consolidated EBITDA	<3.5	1.25

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note (EMTN) financing program and most bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

The *Schuldschein* loan and the European Investment Bank loan also include a change of control clause under which investors can request early repayment.

The credit lines set up by the Group's subsidiaries include early repayment clauses in the event of failure to comply with specified financial ratios. Based on the due diligence performed, the Group believes that the subsidiaries concerned complied with these covenants at June 30, 2021.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date on which these condensed interim consolidated financial statements were approved for issue, the Group expects to comply with all debt covenants over the next few months.

8.2.2.5. Short-term financing and bank overdrafts

(in millions of euros)	June 30, 2021	December 31, 2020
Negotiable European Commercial Paper	1,200	1,588
Other short-term financing	48	43
Bank overdrafts	5	6
SHORT-TERM FINANCING AND BANK OVERDRAFTS	**1,253**	**1,637**

Valeo has a short-term Negotiable European Commercial Paper (NEU CP) financing program for a maximum amount of 2.5 billion euros. At June 30, 2021, a total of 1,200 million euros had been drawn on this program, compared with 1,588 million euros at December 31, 2020.

8.2.2.6. Group credit ratings

The Group is rated by several credit rating agencies. Moody's rating confirms Valeo's investment grade status.

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	July 31, 2020	BB+	Stable	B
Moody's	June 11, 2020	Baa3	Negative	P-3

8.2.3. Liabilities associated with put options granted to holders of non-controlling interests

(in millions of euros)	Total	Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	Spheros Climatização do Brasil SA
LIABILITIES AT JANUARY 1, 2020	**79**	**59**	**20**
Fair value adjustments recognized against non-controlling interests	**(5)**	(2)	(3)
Fair value adjustments recognized in retained earnings	**(6)**	(7)	1
LIABILITIES AT DECEMBER 31, 2020	**68**	**50**	**18**
Fair value adjustments recognized against non-controlling interests	**2**	2	—
Fair value adjustments recognized in retained earnings	**(4)**	(5)	1
LIABILITIES AT JUNE 30, 2021	**66**	**47**	**19**

At June 30, 2021, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. On December 16, 2020, STEC notified Valeo of its decision to exercise its put option on its entire stake in the company. The exercise price of the option will be determined jointly by Valeo and STEC based on a valuation report as contractually agreed.

At June 30, 2021, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. Marco Polo has been granted a put option which it may exercise at any time following an agreed period of one year.

8.2.4. Cash and cash equivalents

(in millions of euros)	June 30, 2021	December 31, 2020
Marketable securities	939	1,401
Cash	1,341	1,550
CASH AND CASH EQUIVALENTS	**2,280**	**2,951**

Cash and cash equivalents totaled 2,280 million euros at June 30, 2021, consisting of 939 million euros of marketable securities with a low price volatility risk, and 1,341 million euros in cash. Marketable securities consist solely of money market mutual funds (FCP).

These items were measured using Level 1-2 inputs of the fair value hierarchy.

8.3 Long-term investments

Long-term investments totaled 219 million euros at end-June 2021 and can be analyzed as follows:

(in millions of euros)	June 30, 2021	December 31, 2020
LONG-TERM INVESTMENTS AT JANUARY 1	**216**	**232**
Acquisitions	1	—
Disposals	—	(35)
Changes in fair value recognized in equity	(5)	14
Changes in fair value recognized in income	5	24
Dividends paid by Company mutual funds	(1)	(16)
Translation adjustment	3	(3)
LONG-TERM INVESTMENTS	**219**	**216**

They mainly comprise investments in the following companies:

(in millions of euros)	June 30, 2021	December 31, 2020
Hubei Cathay China	52	49
Sino-French Innovation Fund (Cathay)	57	56
Sino-French Innovation Fund II (Cathay)	25	24
Other long-term investments[1]	85	87
LONG-TERM INVESTMENTS	**219**	**216**

(1) Other investments for less than 25 million euros in investment funds and in listed companies over which Valeo exercises neither control nor significant influence.

8.4 Financial income and expenses

8.4.1. Cost of net debt

The cost of net debt totaled 28 million euros at June 30, 2021, down on first-half 2020 primarily due to interest income from loans to non-Group companies.

(in millions of euros)	First-half 2021	First-half 2020
Interest expense	(59)	(60)
Interest income	31	27
COST OF NET DEBT	**(28)**	**(33)**

The cost of net debt also includes 4 million euros in finance costs relating to undrawn credit lines, as well as 1 million euros in expenses arising on sales of receivables.

8.4.2. Other financial income and expenses

(in millions of euros)	First-half 2021	First-half 2020
Net interest cost on provisions for pensions and other employee benefits[1]	(6)	(8)
Currency gains (losses)	6	(8)
Gains (losses) on commodity derivatives (trading and ineffective portion)	—	(5)
Gains (losses) on interest rate derivatives (ineffective portion)	1	(2)
Gains (losses) on long-term investments held for trading	5	—
Other	–	1
OTHER FINANCIAL INCOME AND EXPENSES	**6**	**(22)**

(1) See Note 5.1.

NOTE 9 INCOME TAXES

In accordance with IAS 34 – "Interim Financial Reporting", the Group's income tax expense was calculated based on an estimated average tax rate for 2021. This estimated average rate was calculated on the basis of the tax rates likely to apply and on pre-tax earnings forecasts for the Group's tax entities.

In first-half 2021, income tax expense amounts to 114 million euros, reflecting an effective tax rate of 31.3%.

The income tax expense for first-half 2020 was calculated based on an effective tax rate of 2.4% and amounted to 24 million euros.

NOTE 10 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Change in the number of shares outstanding

The number of shares outstanding and the number of treasury shares held at June 30, 2021 can be analyzed as follows:

	June 30, 2021	December 31, 2020
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**240,250,718**	**239,029,111**
Number of treasury shares purchased/sold under the liquidity agreement(3) or delivered following the exercise of stock options or free shares granted	570,303	540,947
Number of shares issued under employee stock ownership plans: Shares4U(2)	—	680,660
NUMBER OF SHARES OUTSTANDING	**240,821,021**	**240,250,718**
Number of treasury shares held by the Group	896,382	1,466,685
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL(1)	**241,717,403**	**241,717,403**

(1) *At June 30, 2021 and December 31, 2020, each share had a par value of 1 euro and was fully paid up.*

(2) *As part of the Shares4U 2020 plan, a 15 million euro capital increase reserved for employees took place on November 16, 2020, issuing 680,660 new shares, each with a par value of 1 euro. This standard plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on September 21, 2020, at 21.61 euros. This gave rise to 14 million euros in additional paid-in capital.*

(3) *The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as employee stock ownership plans and the liquidity agreement. The liquidity agreement, which is consistent with the Code of Ethics published by the French Association of Investment Firms* (Association Française des Entreprises d'Investissement *– AFEI), was signed with an investment services provider on March 25, 2019, replacing the previous liquidity agreement signed on April 22, 2004. At June 30, 2021, 43,500 shares and 2,116,665 euros had been allocated to the liquidity agreement compared with 17,361,776 euros at December 31, 2020.*

10.2 Earnings per share

	First-half 2021	First-half 2020
Net income (loss) attributable to owners of the Company *(in millions of euros)*	90	(1,215)
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	240,536	239,241
ATTRIBUTABLE BASIC EARNINGS PER SHARE *(IN EUROS)*	**0.38**	**(5.08)**

	First-half 2021	First-half 2020
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	240,536	239,241
Potential dilutive effect from(1) *(in thousands)*:		
■ Stock options	–	5
■ Free shares	2,925	1,267
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**243,461**	**239,241**
ATTRIBUTABLE DILUTED EARNINGS PER SHARE *(IN EUROS)*	**0.37**	**(5.08)**

(1) *Stock options and free shares are excluded from the calculation of diluted earnings per share for first-half 2020 as they are anti-dilutive.*

NOTE 11 BREAKDOWN OF CASH FLOWS

11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows:

(in millions of euros)	First-half 2021	First-half 2020
Depreciation, amortization and impairment of fixed assets	780	1,127
Net additions to (reversals from) provisions	(66)	229
Losses (gains) on sales of fixed assets	(19)	6
Expenses related to share-based payment	10	4
Losses (gains) on long-term investments	(5)	—
Losses (gains) on previously held interests	(2)	—
Other losses (gains) with no cash effect	8	6
TOTAL	**706**	**1,372**

11.2 Changes in working capital

(in millions of euros)	First-half 2021	First-half 2020
Inventories	(182)	204
Accounts and notes receivable	220	705
Accounts and notes payable	(105)	(1,374)
Other receivables and payables	(93)	(41)
TOTAL	**(160)**	**(506)**

Accounts and notes receivable falling due after June 30, 2021, for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, break down as follows:

(in millions of euros)	June 30, 2021	December 31, 2020
Receivables sold:		
■ Recurring sales of receivables	87	118
■ Non-recurring sales of receivables	186	179
ACCOUNTS AND NOTES RECEIVABLE SOLD	**273**	**297**
Financial cost	1	3

At June 30, 2021, amounts receivable in respect of the CICE tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi*) for 2018 and the French research tax credit for 2018, 2019 and 2020 are no longer carried in the consolidated statement of financial position.

These derecognized receivables were transferred as follows:

- the 2018 CICE tax credit receivable on December 19, 2018 for 16 million euros;
- the 2018 research tax credit receivable on June 25, 2019 for 63 million euros;
- the prospective 2019 research tax credit receivable on December 17, 2019 for 60 million euros, and in June 2020 for the remaining 4 million euros;
- the prospective 2020 research tax credit receivable on December 16, 2020 for 48 million euros, and in June 2021 for the remaining 5 million euros.

At June 30, 2021 and December 31, 2020, receivables in respect of the VAT credit in France were sold and, as a result, are no longer recorded in the consolidated statement of financial position. Said receivables represented an amount of 19 million euros at June 30, 2021 versus 22 million euros at December 31, 2020.

The cost of these transfers is shown under cost of net debt in the consolidated statement of income (see Note 8.4.1).

11.3 Issuance and repayment of long-term debt

In first-half 2021, the Group contracted a loan from the European Investment Bank for a nominal amount of 300 million euros, from which an amount of 7 million euros, corresponding to the subsidy, was deducted (see Note 8.2.2.2). Repayments made on long-term borrowings primarily concerned the redemption of the 575 million US dollar non-dilutive convertible bond issued in 2016 (see Note 8.2.2.2) and net payments for the principal portion of lease liabilities recognized in accordance with IFRS 16 – “Leases” in an amount of 42 million euros.

In first-half 2020, net payments for the principal portion of lease liabilities amounted to 43 million euros.

5. STATUTORY AUDITORS' REVIEW REPORT ON THE 2021 INTERIM FINANCIAL INFORMATION

Mazars	Ernst & Young et Autres
61, rue Henri Regnault 92400 Courbevoie S.A. à directoire et conseil de surveillance au capital de € 8.320.000 784 824 153 R.C.S. Nanterre	Tour First TSA 14444 92037 Paris-La Défense Cedex S.A.S à capital variable 438 476 913 R.C.S. Nanterre
Commissaire aux Comptes Membre de la compagnie régionale de Versailles	Commissaire aux Comptes Membre de la compagnie régionale de Versailles

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Valeo, for the period from January 1 to June 30, 2021;
- the verification of the information presented in the half-yearly management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-yearly consolidated financial statements of this period have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our procedures.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

5.1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

5.2. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Courbevoie and Paris-La Défense, July 22, 2021

The Statutory Auditors

MAZARS		ERNST & YOUNG et Autres	
Jean-Marc Deslandes	Gonzague Senlis	Jean-François Ginies	Guillaume Rouger

6. STATEMENT BY THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

"I hereby declare that, to the best of my knowledge, the condensed interim consolidated financial statements for the six-month period ended June 30, 2021 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and of all the companies included in the consolidation scope, and that the accompanying interim management report gives a fair description of the material events that occurred in the first six months of the year and their impact on the financial statements, the main transactions with related parties as well as a description of the principal risks and uncertainties for the remaining six months of the year."

Paris, July 22, 2021

Jacques Aschenbroich

Chairman and Chief Executive Officer

7. FINANCIAL GLOSSARY

Free cash flow	corresponds to net cash from operating activities (excluding changes in non-recurring sales of receivables and net payments for the principal portion of lease liabilities) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
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.
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 noncurrent assets, and (ii) net dividends 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.
Operating margin including share in net earnings of equity-accounted companies	corresponds to operating income before other income and expenses.
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, and (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.
Valeo order intake	corresponds to business awarded by automakers during the period to Valeo, and to joint ventures and associates based on Valeo's share in net equity (except Valeo Siemens eAutomotive, for which 100% of orders are taken into account), less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Unaudited indicator.
ROA	or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.
ROCE	or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.

8. 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. It is also exposed to environmental and industrial risks, risks associated with the Covid-19 epidemic, including risks related to the Group’s supply of electronic components and the rise in raw material prices, 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 2020 Universal Registration Document registered with the AMF on April 6, 2021 (under number D.21-0260).

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

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