

Frankfurt, September 12, 2005

**Meeting with the German media in Frankfurt**  
**Remarks by Jean-Martin Folz**

It's a great pleasure to be with you today at the Frankfurt Motor Show, a major event for the European automobile industry.

With Frédéric Saint-Geours and Claude Satinet, chief executives of the Peugeot and Citroën marques, I want to discuss recent auto industry news with you but first I'd like to briefly review PSA Peugeot Citroën's current situation.

As you know, the automobile industry is going through a difficult period at present. The overall economic environment in Europe, exchange rate fluctuations and the increase in raw material prices—especially the rise in oil prices—have combined to create greater uncertainty for the car industry.

Against this backdrop, I feel that PSA Peugeot Citroën is performing well, that our finances are solid and healthy, and that we are equipped to meet new challenges that are emerging. To support my views, I will discuss four key points:

- A sound business performance and healthy finances
- An extensive, exciting product portfolio
- Strong potential for growth outside Europe
- Leadership in fuel-efficient vehicles

## **1. A sound business performance and healthy finances**

I believe that our greatest strength is the solidity of our business and finances. Because of our financial results, we're able to pursue our strategy while remaining fully independent.

The following highlights illustrate our sustained growth:

### **⇒ Sales volumes continue to increase even if the pace has slowed somewhat**

- In 2004, we sold 1.1 million more vehicles than in 1998 (*2.28 million → 3.38 million*), an increase of nearly 48%.
- Our worldwide sales rose for the tenth consecutive year in 2004, with 3,375,000 vehicles sold, a 2.7% increase over the previous year. As of mid-2005, worldwide sales were up 0.6% and as forecast we expect moderate growth in sales volumes for the full year.
- Between 1998 and 2004, our share of the Western European car and light commercial vehicle market—considered the world's most competitive—widened by 2.5 points, from

12% to 14.5%. We have confirmed our ranking as Western Europe's second largest carmaker, maintaining our 14.5% market share through the first eight months of the year.

- Elsewhere, our sales have nearly tripled since 1998 (*358,500 units* → *951,000 units in 2004*). Sales outside Western Europe are continuing to increase and, at mid-2005, represented nearly 30% of total sales.

#### ⇒ Our sound finances are getting stronger every year

- Sales rose 4.7% to €56.8 billion in 2004 and have increased more than 68% (68.2%) since 1998 (€33.7 billion → €56.8 billion).
- During this period, operating margin doubled, rising from €1.1 billion to €2.2 billion, and net income nearly tripled (€0.5 billion → €1.4 billion).
- The 4.1% increase in first half 2005 operating margin confirms that we are on track to reach our target of a 4 to 4.5% increase in consolidated operating margin for the full year.
- The Group has no debt. Last year, we generated €1,248 million in free cash flow, while pursuing a sizeable capital spending program that totaled nearly €3 billion.

These results reflect the ambitious product lineup that represents the source of our past and future success.

## 2. An extensive, exciting product portfolio

Our second core strength is an extensive, exciting, innovative product portfolio. It is the focal point of our commitment to responding faster and more effectively to changing customer expectations.

Here are a few key components of our product strategy:

⇒ Our “one Group, two marques” **organization** enables us to produce two extensive, strategically related vehicle lineups that effectively cover the market's needs.

⇒ Our **platform strategy** is playing an increasingly important role and gaining in efficiency. It provides a crucial advantage by allowing us to provide customers with a deeper offering through the sharing of costs among different models. This in turn enables us to focus our innovation, styling, design and technological capabilities.

- The deployment of our three main platforms is being actively pursued and began producing results in 2004, with the production of the Peugeot 407 and Citroën C5 on Platform 3 in Rennes, the restyled Peugeot 307 and the Citroën C4 on Platform 2 in Mulhouse, and four very different models—the Citroën C2, C3 and C3 Pluriel and Peugeot 1007—on Platform 1. Other major vehicle launches will be forthcoming.
- The number of vehicles produced on the new platforms is increasing rapidly. In 2006, some 2.4 million vehicles will roll off the three platforms, compared with 0.9 million in 2002 and 1.45 million in 2004.

⇒ **Our strategy of creating specific cooperation agreements** sets us apart and provides major support for our product policy. We have chosen to forge long-term, focused partnerships with other carmakers that allow us to maintain our independence. By enabling us to work closely with carmakers around the world, notably Toyota, Ford, Fiat, BMW and Mitsubishi, this innovative strategy strengthens our growth potential, increases volume output while controlling costs, and allows us to deliver more technological solutions and a wide range of models for the benefit of our customers.

⇒ Thanks to the deployment of these strategies, **the Peugeot and Citroën lineups are expanding at a faster pace.**

- 2004 represented the beginning of an expansion phase for the vehicle portfolio with two major launches: the Peugeot 407, introduced in a sedan version in the spring and as a station wagon in the fall, and the Citroën C4, with both the sedan and the coupe introduced late in the year. Other launches included a four-door sedan version of the Peugeot 307, which made its worldwide premier in China, and a revamped version of the Citroën C5.
- We have reached our 2005 mid-year targets, with 135,000 Peugeot 407s and 130,000 Citroën C4s sold.
- 2005 represents a new phase in our assertive vehicle launch program, and we have high hopes for the new models. For Peugeot, these include the 1007, a small, premium MPV introduced in April; the 107, developed in cooperation with Toyota and rolled out in June, which revitalizes the marque's entry-level lineup; and the 407 coupe, unveiled here at the Frankfurt Motor Show for launch this fall. For Citroën, I would mention the C1, a small, entry-level model also developed in cooperation with Toyota that has already been launched, and the new C6 executive sedan to be introduced later in the year.

This sustained pace of product launches means that both marques' ranges are being thoroughly revamped.

- Between mid-2004 and mid-2005, ten new models were introduced, representing potential full-year sales of more than one million cars and renewing one-third of our lineup.
- The mid-2005/mid-2006 period will see another wave of new models representing a comparable overhaul of the portfolio.

The average age of Peugeot and Citroën vehicles in operation will decline from 4.5 years in 2005 to 3.3 years in 2008, thanks to the ongoing revitalization of our offering through an accelerated, broad-based program that will strengthen our competitive positions.

### 3. Strong potential for growth outside Europe

The third success factor is our potential for expansion outside Europe. We are again enjoying rapid growth in our two major development regions—China and the Mercosur countries.

⇒ **China** is a strategic development region for PSA Peugeot Citroën, in which we enjoy three advantages:

- A long-established presence through a partnership with Dong Feng Motors that dates to 1992.
- A “one group, two marques” strategy that gives us the advantage of being both a traditional player with Citroën (long-standing, far-reaching network with 350 sales outlets) and a new entry with Peugeot (80 dealerships).
- Two plants (Wuhan and XianFan) whose production capacity is being doubled.

Following a period of rapid growth between 2001 and 2003 when sales doubled and a more challenging year in 2004, the DPCA partnership has returned to growth and is increasing market share. At June 30, the Group's share stood at 5.1% in a market that expanded by 13.8%. Our target is to sell 145,000 vehicles in 2005, an increase of more than 60% over 2004.

⇒ **In the Mercosur countries**, in an economic environment that has reverted to growth, we also consolidated our position in the first half, which is based on manufacturing operations in both Argentina and Brazil. First-half sales rose 55.7% in Argentina, where the Group serves 13.4% of a market that expanded by 42.6%. Our goal is to produce 65,000 vehicles in Argentina this year. In Brazil, our volume sales were up 21.4% during the period and for the first time our share topped 5%, in a market that grew by 10.9%. Our full-year target is to produce 90,000 vehicles locally.

From a business perspective, our financial results in the Mercosur countries and in China have improved considerably.

This year, we expect to sell nearly one million vehicles outside Western Europe for the first time.

### 4. Leadership in fuel-efficient vehicles

Our fourth and final advantage is our leadership in fuel-efficient vehicles, which today is a key driver of future growth.

The current rise in oil prices is clearly a major challenge for the world's economies and in particular for the automobile industry. As a result of dramatic increases in the price of a barrel of crude, customers are expected to take a harder look at their car's fuel efficiency. At PSA Peugeot Citroën, our ongoing strategic focus in recent years has been to find solutions to reduce consumption that are affordable to as many consumers as possible.

That's why we feel we're especially well equipped to confront the current crisis.

Our achievements in producing the most fuel-efficient cars in the market position us as the undisputed leader in Europe, where we hold a 32% market share in the segment of vehicles emitting fewer than 120 grams de CO<sub>2</sub> per km. In addition, we sell more than 60% of the cars that emit fewer than 110 grams of CO<sub>2</sub> per km (bearing in mind that hybrid vehicles represent only 10% of the segment). So, we are by far the carmaker with the lowest emissions level and we are pursuing initiatives in this area. I'd like to present some of the ways we're working to decrease fuel consumption:

- ⇒ First, we believe that we must steadfastly continue to develop the diesel engine, which delivers the best energy performance. Each time a gasoline engine is replaced by a diesel engine, consumption at equivalent performance is reduced by 20%. And, as you know, diesel engines are now entirely clean thanks to the particulate filter system, a major PSA Peugeot Citroën innovation that currently equips most of our diesel-powered models.
- ⇒ Second, as part of our cooperation agreement with BMW, we are going to revitalize our gasoline engine lineup to develop engines that will set new standards, not only for fuel consumption and CO<sub>2</sub> emissions but also for driving performance and comfort.
- ⇒ Third, we need to encourage the use of biofuels. No changes to fuel distribution systems, pumps or engines are required for diesel fuel containing up to 30% vegetable oil methyl ester and gasoline containing 10% ethanol. These biofuels have the advantage of being renewable energy sources that can be used immediately in all cars, not just in a small percentage of new vehicles.
- ⇒ Fourth, following the 2004 introduction of the Citroën C3 Stop & Start, the first stage in hybridization, which involves combining an electric and a thermal engine, we are working on a hybrid solution with the development of a very fuel-efficient hybrid diesel/electric car.

I feel we should be clear that hybridization is interesting from a technological perspective, but it is and will remain very expensive, so its environmental benefits need to be studied closely. If hybridization involves combining a gasoline and an electric engine, the benefits are comparable to those provided by substituting diesel engines for gasoline engines, except that one of these solutions is much less costly than the other. That's why I believe there is no real advantage in developing hybrid gasoline engines in those parts of the world where diesel engines are well established. Only a hybrid diesel engine is attractive because it offers both benefits.

This concludes my introductory remarks on a number of topics that we feel are important. Frédéric Saint-Geours, Claude Satinet and I will now answer your questions.

Thank you for your attention.