

PSA PEUGEOT CITROËN
IN CHINA

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**PSA Peugeot Citroën Expands Manufacturing Base in China
to Increase Production Capacity to 300,000 Vehicles a Year**

Jean-Martin Folz, Chairman of PSA Peugeot Citroën, and Miao Wei, Chairman of Dong Feng Motors, today announced that production capacity for the Dong Feng Peugeot Citroën Automobiles (DPCA) joint venture will be increased to 300,000 vehicles a year. The company's ambitious product plan will also be pursued, with a new Peugeot vehicle to be built on the 307 platform scheduled for launch on September 1 and the Peugeot 206 to be introduced in 2005. The total cost of the project, which includes doubling the size of the production facility and launching the new vehicles, amounts to roughly €600 million, to be financed entirely out of DPCA's own funds.

Mr. Folz and Mr. Miao will lay the cornerstone for the extension of the DPCA plant in Wuhan on January 7. The plant's current output of 150,000 vehicles a year will be increased to 300,000 beginning in second-half 2006.

DPCA is committed to pursuing its product strategy of introducing new Citroën and Peugeot vehicles every year. Following the successful launches of the Citroën Xsara Picasso (2001), Elysée (2002) and Xsara (2003), the first Peugeot vehicle—a new model based on the 307 platform—will be produced in Wuhan this year. This will bring the total number of models manufactured at the plant to six, in line with the objective announced at the agreement signing on October 25, 2002.

The Peugeot 206, Europe's best-selling car in 2001, 2002 and 2003, will also be produced locally beginning in 2005, to be followed shortly by other new model launches.

These investments will enable DPCA to continue to increase its local sales, which practically doubled between 2001 and 2003. The joint venture's 2004 unit sales target is 140,000 vehicles. In late 2004, the Wuhan plant will reach its design capacity of 150,000 vehicles a year in two shifts.

MILESTONES IN THE GROUP'S DEVELOPMENT IN CHINA

PSA Peugeot Citroën is present in China through Citroën vehicles manufactured and marketed by Dong Feng Peugeot Citroën Automobile (DPCA), a joint venture created in 1992 with Dong Feng Motors.

- **Sept. 26, 1985:** Formation of the Guangzhou Peugeot Automobile (GPAC) joint venture.
- **1985-1997:** GPAC produces around 100,000 vehicles (505 sedans and station wagons, 504 pick-ups).
- **1987:** Citroën initiates discussions with Second Automobile Works (SAW), subsequently renamed Dong Feng Motors, China's second largest truck manufacturer.
- **1988:** Citroën submits an offer and conducts local road tests. A feasibility study is launched.
- **1989:** The Chinese authorities give the go-ahead for the Citroën/SAW joint venture.
- **Dec. 1990:** Joint venture agreement signed with SAW.
- **May 18, 1992:** The **Dong Feng Citroën Automobile Company (DCAC) joint venture is officially set up** by Automobiles Citroën and Dong Feng Motor Corporation to produce and sell the Fukang in China.
- **1992-1996:** Two production plants are built at Wuhan and Xiang Fan, in Hubei province.
- **March 1997:** Peugeot sells its stake in GPAC.
- **Sept. 8, 1998:** The Citroën Fukang 988 notchback is launched.
- **2000:** DCAC receives a capital injection. The company's capital stock of CNY 6 billion is held as follows:
 - Chinese partners: Dong Feng Motor Corporation (31%)
Chinese banks (39%)
 - French partners: Citroën (26.9%)
French banks (3.1%)
- **Nov. 2001:** The Citroën Xsara Picasso is launched.
- **Nov. 14, 2001:** PSA Peugeot Citroën and Dong Feng Motors enter a new phase in their cooperation.
Jean-Martin Folz, Chairman of PSA Peugeot Citroën, and Miao Wei, Chairman of Dong Feng Motors, sign a memorandum of understanding outlining plans to deepen and accelerate their cooperation. The entire PSA Peugeot Citroën Group will now work alongside its Chinese partner in a drive to significantly increase production and sales of Citroën and Peugeot vehicles in China.
- **June 2002:** Launch of the Citroën Elysée.
- **June 2002:** DCAC's tenth anniversary. A total of 300,000 vehicles have been produced in China since 1992.

One Group, two Marques

- **Oct. 25, 2002:** The signing ceremony is held in Beijing for the agreement covering the new phase in the cooperation between PSA Peugeot Citroën and Dong Feng Motors. DCAC changes its name to **Dong Feng Peugeot Citroën Automobiles (DPCA)** and increases its capital by CNY 1 billion to CNY 7 billion, bringing each partner to an equal 32% stake in the venture.
- **May 2003:** Launch of the Citroën Xsara, the fifth model to be produced in China.
- **January 6, 2004:** A major €600-million capital program is committed to increase DPCA's production capacity to 300,000 vehicles a year and support the introduction of new models.
- **April 21, 2004** Production start-up of the Peugeot 307 sedan.
- **2nd half 2004** Market launch of the Peugeot 307 sedan.

DPCA PRODUCTION FACILITIES IN CHINA

DPCA has an aggregate production capacity of 150,000 vehicles a year, with an assembly plant in Wuhan and a mechanical components plant in Xiang Fan that together employ nearly 4,500 employees. As of second-half 2006, the annual capacity of the Wuhan plant will be doubled to 300,000 vehicles.

I. The Wuhan Assembly Plant

- **Size and organization**

The Wuhan assembly plant, which came on stream in 1996, includes a stamping line, a body-in-white unit, a paint shop and an assembly line. With a developed surface area of 252,000 square meters on a 126-hectare site, the Wuhan facility is roughly the same size as the PSA Peugeot Citroën plant in Aulnay, France.

Wuhan was designed and built according to the same standards as the other PSA Peugeot Citroën plants and complies fully with global automobile industry standards. In September 1998, the Wuhan plant—along with all of DPCA's other operations—earned ISO 9000 certification.

- **Production**

The first models produced at Wuhan were the Fukang compact and notchback. Manufacturing of the Xsara Picasso began in November 2001, followed by the Elysée in June 2002, the Xsara in May 2003 and the Peugeot 307 in April 2004. More than 100,000 units rolled off the assembly line in 2003, compared with 84,700 in 2002. The production rate is currently around 500 vehicles a day. The design capacity is 150,000 vehicles a year in two shifts (200,000 in three shifts). This will be doubled to 300,000 vehicles a year in second-half 2006.

This year, Wuhan began producing models based on the Group's new Platform 2, first used in Europe to launch the Peugeot 307, followed in 2005 by another platform for smaller vehicles.

- **Employees**

The Wuhan facility currently employs 3,300 people. Since September 1, 2002, the plant has been operating on a two-shift basis.

- **Suppliers**

The average local content of the ZX Fukang currently exceeds 90%. The other vehicles produced at the Wuhan plant were introduced more recently, so their local content averages around 40%. The objective is to reach 80% by 2006.

- **Location**

The Wuhan assembly plant is located in Hubei province, which has a population of 58 million. Wuhan is the provincial capital, with 7 million inhabitants. It has a large commercial port on China's longest river, the Yangtze, which runs through the city. It is also one of China's largest industrial centers.

II. The Xiang Fan Mechanical Components Plant

- **Size and organization**

The Xiang Fan mechanical components plant is equipped with machining and assembly shops for engines, transmissions and chassis.

- **Production**

Around 470 engines (1.4-liter, 1.6-liter and 2.0-liter), 440 chassis and 400 manual transmissions are produced per day.

- **Employees**

The 88,000-square-meter plant directly employs 1,250 persons.

- **Location**

Xiang Fan is a city of 700,000 inhabitants located around 400 kilometers from Wuhan in northeastern Hubei province.

III. DPCA Technical Resources in China

Three upstream departments provide DPCA's Wuhan facility with the necessary technical capabilities for development:

- An Engineering Department with 550 engineers and technicians.
- A Quality Department with 100 employees.
- A Purchasing Department with 120 employees.

In close cooperation with PSA Peugeot Citroën, these departments:

- Provide process engineering for vehicles and components at the joint venture's two plants, in particular by conducting design studies specific to Chinese production facilities and methods.
- Increase local vehicle and component content through active partnerships with local contractors.
- Integrate into Chinese models the changes designed to improve quality or reduce costs of Citroën and Peugeot vehicles sold in other countries.
- Design and implement product modifications specific to the Chinese market so that new vehicles correspond as closely as possible to local customer tastes and expectations.

MODELS PRODUCED IN CHINA

- **The product plan: regular additions to the line**

Under DPCA's ambitious product plan, new Citroën and Peugeot models are being introduced every year. The launches reflect the company's strategic commitment to regularly adding to the lineup, in order to compete successfully in a market where car-buyers show a marked preference for new models incorporating the latest technology. The goal is to raise annual output at Wuhan to 127,000 vehicles this year, based on a six-model offering. There are currently more than 400,000 Citroëns on the road in China.

- **The Citroën Fukang: a popular model, appreciated by Chinese car-buyers**

To kick off its operations in China, DCAC chose a modern vehicle for introduction in January 1992. At a time when the competition was building cars for China that were near the end of their model lives in Europe, DCAC focused on launching the Citroën ZX, the first vehicle to be simultaneously marketed in China and Europe. The model had to be adapted to deal with Chinese road conditions, by increasing the ground clearance, tightening the suspension, protecting the gearbox and adjusting for Chinese fuel grades. It was the first car in China to comply with the anti-pollution standards in force in Beijing. Known as the Fukang ("prosperity and good health"), the car has earned a strong reputation for quality and reliability.

- **The Citroën Fukang 988, specially developed for the Chinese market**

Launched on September 8, 1998, the Fukang 988 notchback has enjoyed steady strong sales ever since.

The Fukang 988 was specially designed for Chinese car-buyers looking for a vehicle with a trunk. Certain technical features were modified—for example, ground clearance was increased—to adapt the vehicle to road conditions in rural areas.

The Fukang and Fukang 988 are both equipped with numerous safety and enhanced driving features, including a catalytic converter, air bag, air conditioning, leather seats and interior and the AL4 automatic transmission (the only self-acting automatic available in China). They are available with a 1.4-liter or 1.6-liter (88 hp) engine, manufactured at Xiang Fan.

- **The Citroën Xsara Picasso: continuing to innovate and surprise**

In early 2000, DCAC added the Xsara Picasso to its product plan. Unveiled at the Beijing Auto Show in June 2000, the Xsara Picasso has been assembled at Wuhan since November 2001. No significant modifications were required to adapt the Fukang assembly line to the new model. In 2003, DPCA invested in a new body-in-white line for the Picasso.

The model is available in two powerplants, the 1.6-liter (assembled at Xiang Fan) or the 2.0-liter. A new 2.0-liter version equipped with an automatic transmission was introduced in first-half 2004.

The Xsara Picasso's refinement, spaciousness and modern design make it a highly innovative car in China. Intended for personal use by higher income car owners, the model is carving a niche in the new, high-potential MPV market.

- **The Citroën Elysée, a notchback sedan designed for the Chinese market**

Designed in China based on experience gained from the Fukang and recent developments by Citroën, the new Elysée notchback has been a strong seller since its launch in June 2002. In 2003, the line was expanded with new versions powered by the 1.6-liter 16V engine. Today, the Elysée is positioned as Citroën's flagship model, enhancing the line-up in the compact segment by standing out from the older generation vehicles offered by the competition.

- **Citroën Xsara: a new executive sedan**

Positioned in the Chinese executive segment, the new Citroën Xsara offers a spacious, functional interior. Its refinement and unrivalled safety features make it one of the best sedans in its class, driving the model's sustained worldwide success and the sale of nearly 1,500,000 units since launch. In response to Chinese demand for large, powerful engines, the Xsara has been marketed since May 2003 in four versions equipped with the 2.0-liter 16V 138 hp powerplant.

- **The Peugeot 307, a new sedan concept**

With its "three-box" architecture, the Peugeot 307 expresses a strong personality that completely rewrites the rules in the compact sedan segment. Measuring 4.47 meters long and 1.76 meters wide, the model marks a new phase in Peugeot's evolutionary development, shaped by such stunning innovations as the 406 Coupe, the 206, the 607, the 307 range, the 206CC and the 307CC. The car's high-roof architecture and large, radically sloped windshield give it a "fast while standing still" appearance and a quiet, bright interior, but the real breakthrough in its technological content. Equipped with features normally found in executive sedans, it adds generous technological benefits to the marque's other competitive advantages.

CITROËN'S MARKETING PRESENCE

I. The Dong Feng Citroën Sales Network

- **Market coverage**

To consolidate Citroën's presence in China, an in-depth project was undertaken, involving the creation of an extremely dense sales network to offer full market coverage of this immense country. The network markets Citroën vehicles and provides customer service through more than 360 contact points in over 250 cities nationwide. It is run by the DCAD Sales Department's 20 regional offices.

- **Methods and training**

Since 1996, DCAC has built a comprehensive sales and service network applying Citroën-recommended methods. Today, the network is continuing to expand and to enhance its professionalism with a disciplined focus on service quality. By year-end 2003, 190 customer contact points had complied with the "3S" standards (sales, services, spare-parts) applied to dealerships in Europe. The year also saw sustained improvement in this quality process, with the rollout of the new "Gold Dragon" guidelines corresponding to the quality standards recommended by Citroën's International Division. Today, 83 dealerships have already earned certification under this program.

Particular emphasis is being placed on the quality of customer service. In 1999, a Citroën technical training center was set up in Beijing, with the backing of the French Ministry of Education and the Beijing municipal authorities. Today, 1,200 workshop supervisors, specialist technicians, customer service staff and skilled production workers are trained every year at the Beijing and Wuhan training centers, with courses in customer reception skills, managing a production shop or spare parts warehouse, product technologies, identifying vehicle problems, and repairing and maintaining the models sold by the network.

II. Sales Performance

- Steady sales growth

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales of locally manufactured cars	360,600	381,800	475,600	509,300	571,300	610,600	717,600	1,209,000	2,037,000
Citroën sales	4,092	7,200	28,000	33,400	44,300	52,000	53,200	85,100	104,000
% Growth		75.9%	288.9%	19.3%	29.6%	17.4%	2.3%	59.9%	22.2%

III. Imported Vehicles

Citroën has been importing the XM and the Xantia into the Chinese market for many years. The C5 range is currently available in 2.0 and 3.0-liter versions, selling 700 units in 2003. Vehicle imports are coordinated by the Citroën sales office in Beijing.

PEUGEOT'S MARKETING PRESENCE

I. History of Peugeot in China

Peugeot was present in China from 1985 to 1997 through GPAC, a joint venture with the Guangzhou municipal authorities. Total production from 1985 to 1998 amounted to 101,000 units, around 35,000 of which are still on the road.

- **Peugeot importers**

Peugeot returned to China in April 2001 through five non-exclusive importers appointed between April 2001 and January 2002.

- **Current range and sales performance**

The current Peugeot line-up comprises the 206CC coupé-cabriolet, the 307 SW and the 607. Billings totalled 500 units in 2003.

II. DPCA: a New Phase for Peugeot

In October 2002, a new cooperation agreement paved the way for Peugeot to once again manufacture cars locally, as part of a broader partnership between PSA Peugeot Citroën and Dong Feng Motor. The first result of the new agreement was the world-premiere production start-up in April 2004 of a new version of the 307 for the Chinese market.

III. The Dong Feng Peugeot Sales Network

The future Dong Feng Peugeot network is being created in accordance with the Blue Box concept, which expresses the marque's international merchandising standards.

- By year-end 2003, 700 applications had been reviewed.
- By the time the 307 is brought to market, the development plan calls for the opening of 80 outlets covering China's 40 largest cities.

In first-half 2004, major training programs in technical and marketing skills were offered in two centers created in Wuhan and Beijing in partnership with the French national education system.

STRENGTHENING PSA PEUGEOT CITROËN'S PRESENCE IN CHINA

PSA Peugeot Citroën recently launched four important initiatives to consolidate its presence in China.

1/ Banque PSA Finance (BPF)

On November 28, 2003, Banque PSA Finance was authorized by the China Banking Regulatory Commission to open a representative office in Beijing. A PSA Peugeot Citroën subsidiary, Banque PSA Finance provides retail financing for purchasers of Peugeot and Citroën automobiles and wholesale financing for the two marques' dealers around the world. Worldwide, it financed more than 850,000 new vehicles in 2003, with loans outstanding totalling €19.6 billion at year-end.

2/ Gefco

Gefco, the Group's logistics subsidiary with sales of €2.7 billion in 2003, has signed a memorandum of understanding for the creation of a new joint venture with DTW, a Chinese transportation and logistics company. Known as Gefco-DTW Logistics Co. Ltd, the new company will offer its extensive know-how in both inbound and outbound automotive logistics to the Chinese auto industry, with such services as sequenced deliveries, forward logistics platforms, pre-assembly operations and vehicle and spare parts distribution. It also plans to expand its business with other Chinese customers, offering its full range of expertise as a tier-one logistics integrator.

3/ Faurecia

Faurecia, a member of the PSA Peugeot Citroën Group and Europe's second largest auto-equipment manufacturer with sales of €10.1 billion in 2003, has signed an agreement with the Wuxi New District authorities for the construction of a new plant in the city of Wuxi (Jiangsu province). Spanning 23,000 square meters, the €25 million facility will produce automotive seat mechanisms and components for Faurecia clients operating in the Chinese and Asian markets. Construction work on an initial 7,500 square-meter building began in December 2003, with the entire project scheduled for completion in October 2004. By year-end 2004, the plant will employ 150 people.

Faurecia is active in China through five joint ventures that manufacture seat frames in Changchun, complete seat units and exhaust systems in Wuhan and catalytic converters in Shanghai.

4/ Partnership with Tsinghua University

A partnership agreement has been signed with Tsinghua University to develop automobile-related training programs and research projects.

In liaison with France's leading engineering schools, the partners are planning to create a special Master's degree in applied automotive engineering sciences at Tsinghua University. The Group will also take part in special Environment and Energy Master's programs at the Franco-Chinese Environment and Energy Center (CEFCEET), created in December 2001 at Tsinghua University by the Ministry of Youth, National Education and Research and a consortium of French companies and training organizations.

In addition, as part of its research and development commitment, PSA Peugeot Citroën will define research programs with Tsinghua University to be pursued through university contracts on topics such as the clean car.

Lastly, as part of its commitment to recruiting skilled Chinese engineers and managers with proficiency in French, PSA Peugeot Citroën has agreed to offer internships in France and China to Tsinghua University students enrolled in engineer training or Master's programs.