Company Name: Peugeot
Company Ticker: UG FP
Date: 2013-07-31
Event Description: Q2 2013 Earnings Call

Market Cap: 3,513.00
Current PX: 9.90
YTD Change($): +4.429
YTD Change(%): +80.954

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: -2.217
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 54490.500

Q2 2013 Earnings Call

Company Participants

- Carole Dupont-Pietri
- Philippe Varin
- Jean-Baptiste Chasseloup de Chatillon

Other Participants

- François Maury
- Thomas Besson
- Rabih R. Freiha
- Horst Schneider
- Laura I. Lembke
- Philip R. Watkins
- Gaëtan Toulemonde
- Paul R. Hartley
- Stefan A. Burgstaller

MANAGEMENT DISCUSSION SECTION

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Carole Dupont-Pietri

Good morning, ladies and gentlemen. Thank you for joining us this morning. Welcome to PSA Peugeot Citroën's Conference Call on the H1 2013 Results Presentation.

Joining me today are Philippe Varin, Chairman of the Managing Board; and Jean-Baptiste de Chatillon, CFO and Member of the Managing Board. As usual, you can follow the webcast and download the slides from our website.

Let me now hand you over to Mr. Varin.

Philippe Varin

So, good morning. Thank you for joining us this morning. And we faced on the first half recently tough environment in Europe with markets down by 7%. But the Group has shown very strong resistance with some real progress on our turnaround plans. We're executing the measures and commitments we announced, and this enable us to say that on the financial, industrial and social level, the turnaround of the Group is on track.

Group recurring operating income was a loss limited to minus €65 million with minus €510 million on the Automotive division. Operational free cash flow was positive at €203 million. Financial security has been strengthened to €11.8 billion and the State guarantee for Banque PSA Finance was approved by the European Commission yesterday.

As far as our operations are concerned, the Group has successfully launched the Peugeot 2008 in May, four weeks ahead of schedule. It has already over 36,000 orders, resulting in an increase in production as well. The 208 XY and the

208 GTi have also been successfully launched at the second quarter, as well as the Peugeot 301.

For the Citroën brands, the new C4 Picasso, the C4 L and the DS3 Cabrio models have completed the strong rollout of new products, which will provide the Group with real commercial momentum in the second half of this year.

Rebound plan, we are delivering on all aspects of this plan that we announced in July last year, and further steps are under negotiation. China performed very well with sales increasing by 33%. And as you can see, we've increased the dividend of DPCA. GM Alliance, it is in the execution phase with the first purchasing savings on the first half.

Jean-Baptiste will now present you with the first half financial results. Jean-Baptiste?

Jean-Baptiste Chasseloup de Chatillon

Thank you, Philippe. Good morning. Let's start with the income statement. Revenues amounted to €27.7 billion, down 3.8%. Group recurring operating income at minus €65 million is at a similar level as in H1 2012.

Non-recurring operating results amounted to €30 million for the first half, including an adjustment on our contract in Yen, a positive adjustment, for plus €114 million, and restructuring charges for €134 million.

Net financial expenses amounted to €246 million, resulting from the increase of financial expenses related to bonds issuance, but also exceptional financial income with BNP stocks disposal for €89 million in March, 2013.

Income tax amounted to a negative €211 million. Income from equity affiliates plus €96 million, mainly due to our shares in the growing profit of our Chinese joint venture, DPCA. Net income Group share was negative to minus €426 million.

Automotive division recurring operating income amounted to minus €510 million. Our non-Automotive businesses, Faurecia and Banque PSA Finance, made a positive contribution to the recurring operating income, Faurecia at €256 million and Banque PSA Finance at €205 million.

Let's now take a look at worldwide unit sales. Total assembled vehicles were stable in H1 at plus 1.1% – sorry, at minus 1.1% to 1,460,000 units with a positive trend in Q2, which enables us to think that the low point of the market has been reached.

Growing sales in developing markets partially offset the 12.8% decrease in Europe with sales up plus 19.7% in Latin America, 20.2% in the rest of the world, including plus 59% in Algeria and 20% in Turkey, thanks to the success of Peugeot 301 and Citroën C-Elysée.

Europe was impacted by decreasing markets and unfavorable country mix with 57% of our European volumes in Southern Europe. European markets reached an historical load basis on H1 2013, the lowest since 1993 with 7.2 million cars sold.

Russia's performance was strongly impacted by downward market trend and adverse product mix on the market, especially on C segment. China's performance was very good. Sales up 33%, double the market growth.

The European market decreased by 7% year-on-year after a 10% decrease in Q1, in line with our forecast for the full year of minus 5%. Southern Europe represents 57% of our European sales. And at the end of June, France, Italy and Spain remained particularly weak, declining respectively by minus 11%, minus 11% and minus 5%.

Markets outside Europe were up, with plus 16% in China, plus 6% in Latin America, and with a strong slowdown of minus 6% in Russia. Automotive market share, our European market share stood at 12.2% versus 12.9% in H1 2012.

Has the country mix been the same as in H1 2012, our market share would have been 12.3%. That leaves us with 0.6 point decrease, half of this decrease is due to Citroën C3 manufacturing disruptions on H1, on the other half, result from our decision to stabilize pricing, avoiding low profitability distribution channel.

We remain market leader in LCVs with a market share of 21%. In China, our market share improved to 3.8% compared to 3.4% in H1 2012. In Latin America, market share is improving to 5.1%. And in Russia, the market share stood at 2.4% in a difficult market slowing down.

New car revenue for the Auto division, H1 2013 revenues, sales fell 10.9%, essentially due to a sharp drop in volumes. So product mix remains a strong driver of revenue, confirming the contribution of moving our brands up market. ForEx up minus 2.3% is mainly due to the pound, the Argentinian peso and Brazilian real. Others with minus 0.9% relates essentially to suspension of Iran operations.

The automotive recurring operating income is improving at minus €510 million. Operating environment remains a strong negative at minus €396 million, mostly driven by market demand at minus €197 million, negative ForEx at minus €113 million.

The Automotive division performance is clearly on a completely different trend compared with last year. The addition of the product mix, price and product enrichment and the market share effect is a clear positive and it was around minus €1 billion last year. This shows our capacity to maintain our margins, especially avoiding low profitability distribution channel.

Performance was also boosted by production and procurement, with half of it due to production and the other to procurement. R&D also improved to €82 million in recurring operating income and plus €154 million in cash. Bear in mind, the impact of IAS 36 for the first half is plus €309 million.

Faurecia's cash is improving and PSA will continue to accompany the development. The accounts have been published, so I won't comment any further.

Let's move to inventories. Our inventories at the end of June 2013 stood at 436,000 units, a 32,000-unit decrease compared to H1 2012. This is fully in line with our commitments, and the decrease is evenly achieved between dealer stocks and company stock. So management of our inventories will remain very strict.

In H1 2013, CapEx and capitalized R&D reduced by €764 million versus H1 2012. We have already outperformed our 2013 guidance for the full year of €600 million. This trend of course will not be repeated on the second half.

Cash, the Group was almost cash neutral in H1 with minus €51 million, excluding restructuring for €177 million and exceptional for €77 million. The operational free cash flow amounted to a positive €203 million. The €253 million positive change in working capital requirement was mainly due to payables with a plus €986 million. Receivables are in line as inventories with the usual Q2 increase before the summer.

At €1.2 billion, CapEx and capitalized R&D versus €2 billion in H1 2012 is fully on line with our objective. Dividend received from BPF amounted €281 million. As you can see, our net debt went from €3.1 billion to €3.3 billion with the stable net debt for Faurecia. We are thus fully in line for at least [ph] halving (12:47) the operational cash flow consumptions compared with last year.

Financial security, it was reinforced in H1 at €11.8 billion versus €10.6 billion at end of December, made up of cash and financial assets for €8.6 billion on an undrawn committed credit line for €3.2 billion. We had a successful €1 billion bond issue of five years at the beginning of the year.

Loans increased in Brazil and Spain for around €200 million on almost no cash consumption in H1. So this financial structure is with an average maturity of 3.9 years. Next bond redemption in October, and we have also obtained the EIB agreement for €300 million loan that could be drawn in H2. So we have more than achieved our 2013 program.

Well, thank you very much for your attention, and I hand over to Philippe for the strategic update.

Philippe Varin

Thank you, Jean-Baptiste. Despite strong headwinds from our operating environments, as Jean-Baptiste just told you, we delivered on our commitments that underpin our strategic priorities. One, moving our brands up markets with strong distinct brands arising differentiated customers and the successful launches that are here illustrated this period.

Two, we restructure our European operations with a Rebound plan that we announced in July last year, which is on track in all its elements; globalization with China performing very well; and the GM Alliance with the first purchasing synergies this year.

So let me now focus on these four pillars. First, the successful new product launches that illustrate our up market strategy. This year, for Peugeot, there will be eight launches and those that have already taken place are delivering strong success. Peugeot 208, it is now on number two on hatchback B segment in Europe, 180,000 units sold on the first half, and mix which is strong with the expansion of the range to the GTi and XY versions and 30% of the sales are on level 3 and 4. Launch of 208 is Russia, Brazil with a promising start and Argentina on the second quarter of this year.

Peugeot 2008, well above our target. It was launched four weeks ahead of schedule. 36,000 units already ordered. It's about 31% above our targets and second team in production has been added in Mulhouse. Strong mix, 73% of orders are currently at level 3 and 4, and it will be launched in China in 2014 and in Brazil in 2015.

Peugeot 301 is also a success. It was launched in developing countries. It exceeded targets by 40%. And finally, the Hybrid 4; the Hybrid 4 accounts for 16% of the 508 sales. This launch will be completed by the new Peugeot 308 in September, and as you have probably seen, a very promising initial reaction to the new car.

Now, for the Citroën brands. There will be nine launches this year. For the C Line, the new Citroën C4 Picasso, which is a first model which is built on our EMP2 platform, which means Efficient Modular Platform, with an improved competitiveness, is 140 kilogram weight savings, 22% reduction in CO2 consumption and it is a best-in-class standard for car in this segment.

It has been launched in June, already 12,000 orders of which 80% are on the upper version. And it will be completed by the Grand C4 Picasso in the second half of this year. The C-Elysée is also a success. It exceeds target by 30% and it will be launched in China this month.

Now, for the DS Line, the conquest rate is above 50%. DS sales have increased by 3.6% worldwide in the first half. In Europe, we have launched the DS3 Cabrio in February, and it is now the leader in its segment in France. The DS5 pursues its worldwide expansion, and it will be locally produced in Shenzhen in China in the second half of this year. And for the DS5, there is also a clear success of the hybrid version, which now accounts for 35% of the mix. So this is it for the first pillar, our launches.

The second one, the Rebound plan. We have started to implement this plan as it was presented to you last July with a target on a full year 2015 basis of €1.5 billion in an additional cash amount. And I would remind you that this target is built on three initiatives. First, restructuring project for €600 million, and I'm going to update you on this one; a CapEx reduction of €550 million and Jean-Baptiste has presented to you CapEx reduction which is above this level already on the first half of this year, and we should be slightly better than our projection – this projection for the full year in 2013.

And as far as the production cost, reduction of production cost of €350 million that includes the benefit of GM Alliance, we are on track for reaching this target. So let's come back on the first part, which is the restructuring project.

It has been a difficult decision but a necessary one. It's been now approved by the Central Works Council on the last April 29. We committed ourselves from the very beginning to finding an employment solution for all our employees and to put in place alternative jobs in Aulnay and Rennes. So where are we today?

You remember, 8,000 positions were concerned, of which on our corporate headcounts 3,600 positions. Today, 2,500 files are open, and we have an estimated effective departure number of 1,800 by the end of December and the full impact will be next year.

In Aulnay, we confirm that the end of the activity of the plans will be in 2014. Today, 2,000 employment solutions have been proposed compared to the 3,000 positions that are concerned. So it means two-thirds of the target is already achieved. We have 700 internal solutions and 1,300 external. In Peugeot, in Aulnay, the industrial revitalization plan is on track with around 1,000 jobs identified or agreements signed.

In Rennes, we're half way with 600 employment solutions proposed for 1,400 positions concerned, 91 internal and 523 external. Here also the industrial revitalization process is starting in line with the targets. So, globally 5,000 solutions on 8,000 have been proposed. And at the end of the year we estimate that 3,500 people will have left the company.

Beyond this project, we have now started new step with the negotiation to further increase the Group competiveness with what you call a New Social Contract built around a strengthened social dialogue. And solutions that we will find will enable us to maintain solid industrial footprint in France.

We target indeed in Europe a utilization rate of capacities of 100%, I mean, the Harbour rate in two shifts, within the next three years compared to a business which would be around 73% this year. This will be reached with an optimization of our manufacturing resources whilst we secure employment with an increased mobility with part time working.

In parallel, we will negotiate a competitiveness agreement that will contribute to the Group's turnaround. And it will be based on wage restraints and simplification and adaptation of reduced workweek days. It will include crédit d'impôt pour la compétitivité et l'emploi, CICE, to be implemented in 2013. It will provide this year about €50 million of savings and €80 million next year. And finally, we'll anticipate this structural transformation and take steps to secure jobs and skills.

Now the third pillar, our globalization priority. 41% of the sales of this first half were done outside of Europe. So, the Group is on track to reach the target of 50% in 2015. Globalization accelerated in China where the performance, I would say, is very strong.

At DPCA, our first joint venture on the first half, our sales had increased by 33%, doubling the market growth with 278,000 units. And we are on track for delivering at least 550,000 units this year. This was supported by strong success of the Peugeot 3008, of the Citroën C4L, and yet to come on the second half the launches of the Peugeot 301 and Citroën C-Elysée.

The network is progressing very well with 768 dealerships at the end of June. And on the production side, I was in Wuhan with the Chairman of the Supervisory Board to launch our third plant in July for a total capacity that will be 750,000 units by 2015.

Also on the second joint venture, CAPSA, we are on track with the DS Line launch. We are progressively importing the DS5 and we will locally produce the car on the second half of this year, and we will have the inauguration of the new plant in Shenzhen in September.

The network is progressing well. We have today 28 dealerships and we will double the number by the end of the year. And the concept car, Wild Rubis, it was presented in Shanghai Motor Show, was a great success. And it anticipates a future extension of the range in China.

On the global scene, the Group was also successful in other areas. In Argentina, where we are now the second car maker with a market share of 15.2% versus 12.9% last year, our sales are up 44% on the first half. The Peugeot 208 will be launched in the second half in Argentina with XY and GTi versions and the mid-size sedan C4 Lounge will be produced in Palomar.

On the Mediterranean countries, we are now seeing some real success with the Peugeot 301 and the C-Elysée with 60,000 sales on the first half. And these cars are produced in Vigo in Spain. We are increasing the production to match the demand. And just to name a few, Algeria with 58,400 registration in the first half, we are up 59% on the first half of the year. And in Turkey, sales were up 20%.

But unfortunately, there remain some areas for improvement. First, in Brazil, because here we were impacted by negative impact of the real on the foreign exchange. But we have experienced 61,300 sales that will benefit to come from the launch of 3008 and the Citroën C4 that should boost our market share on the second half. And we have now seen the good start with a strong mix for the Peugeot 208.

In Russia, with 31,500 sales where the market slows down, we benefit from our strong position of LCVs, but we have seen a reduction of our market share.

The fourth pillar is reaching the scale effects through the alliance with General Motors. Here we are also on track and now we see the first purchasing savings on the first half of this year, and about €60 million will be recorded during the year 2013. The joint purchasing organization is now in the execution phase since the February 25. We have common sourcing tables for purchasing since March. We're improving our purchasing power and the first negotiation on commodities like steel has started.

First, joint purchases were realized with significant savings and we're progressively implementing common policies and working standards. We expect these savings to be, as I told you, €60 million this year. In addition, joint product developments and platforms are ongoing with decisions to come on the second half. And, as you know, we're reviewing further initiatives, especially with the new generation of our small fuel-efficient three-cylinder engine gasoline and opportunities in some growth markets are being looked at.

So now, let's conclude with the outlook. The European markets should decrease by minus 5% this year and we maintain previous forecast. Russia should decrease at minus 5%. Other markets should continue to grow with China at 10% and Latin America at around 2%.

Operational free cash flow; the Group is now targeting to reduce its consumption at least by half in 2013 and we confirm the announced trends of very significant reduction throughout 2014.

These are elements that we wish to present to you this morning. As you can see, the first half of the year has seen the first tangible green shoots of recovery for the Group. We have taken clear, sometimes difficult measures, to get back on the road to the recovery. Our international development is progressing. All our recent vehicle launches had exceeded their initial sales objective and we will feel the benefits in the second half of the year.

Finally, our strategic alliance with General Motors delivers its first results. We must now mention our efforts to confirm the industrial and commercial recovery of the Group.

Thank you for your attention and I'm ready now with Jean-Baptiste to take your questions.

Q&A

<A - Carole Dupont-Pietri>: Thank you very much. As we move now into the Q&A section of the call, can I please ask you to limit yourselves to just three questions and tell us your name and affiliation? So let's start now by the first question.

So we have the first question from here. So, please, François Maury, go ahead.

<Q - François Maury>: François Maury from Oddo. Thank you very much. I have two questions. The first one is regarding Brazil and Russia, so you are experiencing there some problem for a long time. You have new plants. You have launched new products, new plants for increased capacity – sorry, new products. So could you explain a little bit more in detail, what is going wrong there, because you're losing market share? What is the magnitude of the losses you are experiencing there? And what could be the timing of the recovery?

My second question is regarding the CapEx. There is a strong decline in H1, higher than the target you have given us for the full year. Could you explain us what could be the magnitude of the CapEx reduction you are expecting for 2013? And if it is as sustainable in the future, given that with more stringent emissions regulation, you should need more CapEx and R&D costs.

<A - Philippe Varin>: So I'll take the first one and Jean-Baptiste will answer the second one. Just that we are clear, in Latin America, our sales on the first half increased by close to 20% – 20%, if I add Argentina and Brazil, and you said that we lose market share, I think it's not true, we are increasing by 0.1%, we are at 5.1%.

Now, is it satisfactory? The answer is no. Why? On the first half of this year, we will – we are loss making in Brazil, but improving compared to last year where we had problems in the start-up of Porto Real. We are faced with a ForEx situation, which is negative. And on the second half, if we were to put aside this ForEx impact, we would probably break even or close to break even. So the question is really our local integration, which we have to develop in the future.

In Russia, the situation is slightly different there. You see that the market is under a very strong pressure and we target for the year a reduction of minus 5%. And our models are on the C segment, sedan with a 408 and the C4 Lounge to be produced in Kaluga. And we are not for historical reasons on the 4x4 segments or the low-cost segments which are currently developing. And the pressure in the market is stronger on the segment where we are. So that's the reason why we are losing money in Russia.

<A - Jean-Baptiste Chasseloup de Chatillon>: Regarding our CapEx reduction for – CapEx on R&D capitalized for the full year, as we said, we were targeting €600 million for the full year. We are in advance on this first half, but we might exceed a bit this target. And you remember that in H2 2012, we were still at a very high level and we committed to make this sharp drop and we did it.

Three aspects about R&D on CapEx; first, we come from a very high level for the two previous years with the EB engine development and capacity investment. Second, we are increasing very significantly the efficiency of our R&D teams and we are developing more projects for less cost. And third, we are sharing cost with GM but also with our other partners regarding engines or regarding new vehicle projects, so sharing cost is also the way we are pursuing to have a sustainable growth with a product line-up which will remain very good on a very strong as we are experiencing this year with many launches.

<A - Carole Dupont-Pietri>: Thank you. Next question, please. So here on the first row, Thomas Besson.

<Q - Thomas Besson>: Thank you. Good morning. Thomas Besson at Kepler Cheuvreux. I have three questions, please. And unusually I'll allow myself to ask question to the main shareholder, if it's possible. Regarding several press reports suggesting that your main shareholder, the Peugeot family, is considering changing its position regarding the company. I think it's a material element for the development of your share price. Would it be possible to ask a representative of the family to give an official stance on the topic, please? That would be my first question.

Second would be on the cash consumption and the operating performance of the company. We see a significant improvement in free cash flow in the first half, quite impressive, I must say, despite losses in the Automotive division that remain very, very high. Could you just clarify on what you intend to do in terms of sale of receivables on one hand that have gone up very meaningfully in the first half, you're at 145% of last year in the first half. And on CapEx, can you put a figure on where we should expect CapEx for the full year and for 2014?

And finally, can you remind us or repeat the 2014 cash breakeven target or is it – you say you want to confirm the fact that it could be significantly reduced, but you don't talk anymore about cash breakeven. Is it still on the agenda or is it postponed? Thank you very much.

<A - Philippe Varin>: I'm going to take your first point, and Jean-Baptiste will take the cash consumption and the guidance that we confirmed in 2014. Just to make it clear, there has been a number of rumors about capital increase, that's what you referred to. We have a financial security, which has increased, which is, as you have seen, €11.8 billion by the end of June. So there is no matter of financial emergency in the situation where we are.

The second point I would like to say is that our priority to develop the sustainable position of our brands worldwide, Peugeot and Citroën. I've mentioned to you that we have three priorities. One, we have to turn around Europe. Second, we have to globalize the company. And third, we have to reach the critical size by the alliance and our different partnerships. This is the first priority and this is the focus of the management and to take the Peugeot brands first that we have launched and to go further. And it's about devising for the long-term or the medium term a project of growth and profitability for the company building on these different elements.

To the question of the financing, it's a good question. But you can only address such a question when you are clear and where you want to go and what are your long-term projects. So, the question is not on the table. Today, it's not a question of financing. We've to develop our industrial project.

<A - Jean-Baptiste Chasseloup de Chatillon>: On cash consumption, we're – on the trade receivable, we're exactly at the same level of assignments of factoring that we were last year, so there is no difference on that position. You know that our receivables are mainly due to sales to leasers, short-term lease and long-term lease. And as I mentioned before, we're reducing our level of sales to a short-term leasers which reduces our level of receivables. So this is the first aspect.

On CapEx, on full year, we're coming from this high point of almost €4 billion last year. And we said we would commit to reduce at least €600 million and we're well on track. So there is nothing new on that aspect. We're effectively uplifting our guidance for 2013, because I think we will do at least this halving of the cash consumption. And we're fully on our trajectory for 2014.

<A - Carole Dupont-Pietri>: Next question, please. Here on the second row, please?

<Q - Rabih R. Freiha>: Good morning. Rabih Freiha from Exane. I have two questions please. If we come back to this cash consumption question looking back at your previous guidance, you had €1.5 billion of reduction, €600 million coming from CapEx, €500 million from Faurecia, and if I'm not wrong €400 million from working cap and operating profit.

Looking at your H1 performance, you're obviously much ahead in CapEx; Faurecia also looks ahead of plans. Can you explain to us a bit to the underlying improvement in cash consumption that you're seeing for this year on the operating profit side and the working cap side?

And my second question would be on your financing arm. We saw some rumors in the press – quite detailed rumors, rumors about maybe a deal with Banco Santander. Can you explain to us a bit how open you are to such possibility if this is something that's on the table or if you can exclude it from now? Thank you.

<A - Philippe Varin>: I'll take the second one and leave the first one to Jean-Baptiste on the cash flow just to be clear. Second – on the second question on the Banque, there have rumors, okay, but in terms of partnerships for the Banque, we are already in partnership. Be aware that we're with SocGen in partnership in Russia, that we have a joint venture with Santander in Brazil. So we don't exclude appropriate partnerships when it makes sense, okay, and all the rest is rumors. First point?

<A - Jean-Baptiste Chasseloup de Chatillon>: Yeah. First point, you know that within the year, our first half and second half are very different cash wise for the same last year. To make it simple, we have €500 million which are linked to dividends from the Banque and from affiliate companies and also from credit impot recherche.

We have a €500 million package first half, which is purely linked to the first half. And you know that our working capital requirement has a bigger swing of, you see plus €250 million, minus €250 million and the second half with €600 million. So you have €500 million on items which are linked to the first half only, €600 million which are linked to working capital requirements, and €300 million which are linked to CapEx and R&D capitalized, which have been saved on the first half in anticipation of second half. So if you put it altogether, you will see that we have the swing in second half.

<A - Philippe Varin>: Just to build on your question on the Banque, you could say where we are with the EU Commission and what it means for us.

<A - Jean-Baptiste Chasseloup de Chatillon>: Yeah, especially.

<A - Philippe Varin>: Probably more important than the other bit.

<A - Jean-Baptiste Chasseloup de Chatillon>: Yeah, I skip the Banque before, but of course it's a very good news for us. We were expecting it, as I said before, and it was a long process, but a fairly normal one. We are now fully secured for several years, for the next three years. We also have diversified – we are diversifying our refinancing with the launch of the Distingo [ph] d'épargne (45:21), which is working very well. We are almost working now with €1 billion deposits. So Banque is completely secure.

On the EU aspect, there are three criterias which have been published. The first one is at we need to be on track with our recovery plan, which is quite common sense on that we fully agree with. The second lever is that we must not widely increase our penetration rate during this period, which is not in our – which is fairly standard close in these kind of operation. There's the small penalty which become a very high penalty if we increase massively our penetration rate. So this is not a major issue. And also an acquisition ban for the Group, which is also fairly standard issue. We need to ask for authorization before making a major acquisition. So it's fairly standard. So I think it's a very good outcome and very positive one for the Group, and that's good.

<A - Carole Dupont-Pietri>: Thank you. We will take our next question from the call, please.

Operator

We have a question from Mr. Horst Schneider from HSBC. Please go ahead.

<Q - Horst Schneider>: Yeah. Good morning and thanks for taking my question. I have got three questions, please. The first one refers to earnings. When I look at your earnings walk-down, you show here a good improvement in production and procurement costs, and also a relatively low burden from negative pricing. And I want to know if I can extrapolate this trend also in the second half, so meaning that I can just multiply the number for production and procurement times two, and then I can assume roughly flat pricing in H2 given the fact that you launch more models.

Then the second question that I have refers to this EU Commission aspect that you just mentioned. You say in the release here that if your net debt exceeds certain threshold, you will take appropriate measures to reduce it. I want to know what do you mean here by certain threshold, could you please quantify that? And the third question refers basically to unit sales. I think already your unit sales in H1 were relatively strong. I want to know if you can confirm that your unit sales will show positive growth year-on-year in H2. Thank you.

<A - Philippe Varin>: I will take the first one and Jean-Baptiste will take the EU Commission and the unit sales. Your question on the earnings bridge; two parts, one, you asked for the magnitude of cost reduction. The significant improvements in performance in procurement and manufacturing savings that we have seen on the bridge, part of it is clearly linked to the impact of the impairments that we had last year. If you look at the underlying performance, if you take out the impact of the impairment which is about €309 million, and so if you take out the impact of the level of activation of our R&D expenditure.

If you look on the cash basis, we have had an improvement of about €300 million on the first half. So, €300 million I think it's wise to think that we continue with this momentum on the second half. This would give indeed on the year €600 million improvement, which is lower than what we had last year, which was €1 billion of cost improvements but this is linked to the fact that our restructuring plan is not yet in the figures; will be limit bit on the second part of the year. So this is for your first question on the cost.

And on the pricing, Jean-Baptiste told you, we have with the heads of the branch very clear policy to optimize the value for the Group. You have seen on the bridge that the balance of the product mix improvement, the net price and our market share erosion, all this together is a positive impact and indeed you can take the assumption that it should be better on the second half with the launches. EU?

<A - Jean-Baptiste Chasseloup de Chatillon>: Well, on the EU, threshold remain very simple, it's – we have a net debt, we have given then a king of net debt which is exactly our projection on the recovery and the Rebound plan. And we are going to stick to this and if we were astray from this trend, we would of course take new measures that what we would do anyway, of course, to be on track with our recovery plan. So those thresholds are not public, of course, but they are very consistent with its Rebound plan we are communicating to you.

Unit sales growth in H2, well, I think the best way to do it is to refer to as a Q2 trend, which is a slight positive with our progress in China, I think it will be a positive in H2, yes.

<A - Carole Dupont-Pietri>: Thank you. Next question from the call, please.

Operator

A next question from Laura Lembke from Morgan Stanley. Please go ahead.

<Q - Laura I. Lembke>: Yes, good morning and thank you for taking my questions. I also have three, please. The first one is a follow-up to Horst's questions. Maybe I just missed it here, but did you actually quantify what the net debt threshold is that you have for the – to meet basically the requirements of the French State loan? And also when you talk about taking new measures, I mean, when we look at the alternative between potential further asset sales or raising capital, what would you say, at least from today's perspective, would be your preference here? So that's my first question.

And the second one is on restructuring. I mean, in an ideal situation, how much further restructuring would you think is necessary to do in Europe and actually to achieve a breakeven here? And what do you think is the government's position? I mean, obviously the awareness of your situation there is now very high. Do you think this would be actually possible going forward or would you expect there to be a lot of resistance again? And then my last question. Can you just comment on your current order book and also what your plans are for production in the second half? Thank you very much.

<A - Philippe Varin>: I'll take the last one.

<A - Jean-Baptiste Chasseloup de Chatillon>: Well, so on the net debt threshold, you ask us if this level is quantified, the answer is, yes it is. Is it public? And the answer is no. Now, what measure we would take? Just to tell you that it's a level which would be very significantly different on the level that we have in our business plans. So I think it will not be the case, but if it were we would see in due course, it's too early to say whatever on this matter.

On the second question, which is about the ideal structure of our manufacturing footprint in Europe, it's clear that if we have to have this European business profitable, you need two things; one is to have on the brand side and our products the success of our up market strategy within Peugeot and differentiation with Citroën or what we do. And the green shoots that we see on the market show that we are on the right track. It's absolutely necessary.

The other part of the equation, it's about our competitive position, and when we're at 73% in two shifts of utilization rate of our capacities which will be case in 2013, we have to make an improvement and to improve this position up to a level that I fix at 100%, our plant had to work on a two-shift basis.

So this is the work we have started, and we do it with the unions in a way which is, I must say, pretty transparent, and you mentioned the government position. We have now in France a new law about employment, securitization of employment, and I think we have an avenue here. We're discussing the question with our employee representatives and see the best way in terms of industrial flexibility to reach this target. It's too early to say before we have ended the negotiation, how we will do it. But we will come back to you at the end of this year. Order book?

<A - Philippe Varin>: Well, order book in Europe is 1.2 months of sales, which is pretty normal and in line with our target. Manufacturing, if you take – if you include China, it will be a clear growth. But without China, it will be flat on last year, in line with our market projections.

<A - Carole Dupont-Pietri>: Thank you. The next question is from the call.

Operator

A question from Philip Watkins from Citi. Please go ahead.

<Q - Philip R. Watkins>: Hello. Good morning and thanks for taking my question. I just wanted to ask on this net debt threshold, why it isn't in the public domain? Is that your decision or the EU's decision because it does seem very material to the investment case?

And secondly, actually completely unrelated, but it was on the currency. What you are thinking about the impact of emerging market currency devaluation for the second half? Thank you.

<A - Philippe Varin>: Well, again, on this net debt threshold, it's purely in our relationship with the EU and it's covered by our discussions and it's not public. And as I said, it is completely consistent with the recovery plan that we communicated to you. So it's a normal trigger that will not been disclosed.

On the currency – on the ForEx on emerging markets, yes, it is certainly pretty worrying, especially on the real in Brazil, because it's harming our results. The volatility is high. We are not making any specific forecasts for H2 at this stage, but it is a headwind that we will have to face if it goes on where it is right now.

<A - Jean-Baptiste Chasseloup de Chatillon>: You have seen the impact on the first half, which was about €100 million negative, at least this figure for the second half.

<A - Carole Dupont-Pietri>: Thank you. So now the last two or three questions, please? One here on the second row, please Gaëtan?

<Q - Gaëtan Toulemonde>: Good morning. Gaëtan Toulemonde, Deutsche Bank. I have three questions. The first one concerning Aulnay, can you give us an idea about the losses this year because you pay the people, they don't produce any car, what's the order of magnitude? Thanks. Pretty simple question.

The second one, can you help us to get an idea, when I look at the automotive losses €500 million, what is the spread between Europe and non-European operation. I know that China is not in those numbers, but can you give us an idea about the losses in Europe in this number?

And the third point, I want go back a little bit on this utilization rate, capacity utilization rate, you mentioned 100% in three years' time, 73% today. I think next year we're going to go back to 85% with the closure of Aulnay and part of Rennes. That underlined a pretty strong volume increase to get you 100%, can you explain that a little bit.

And I remember a couple of years ago, you mentioned that one percentage point was approximately €30 million at the operating level. Can you update on that number, because I think the fixed cost base has changed a little bit? Thank you.

<A - Philippe Varin>: On the Aulnay loss?

<A - Jean-Baptiste Chasseloup de Chatillon>: The Aulnay loss, as I mentioned, it's 0.3 point of market share in Europe, just because of it, so it's a pretty heavy impact with around 24,000 cars and it's around €100 million loss. Yes, for the first half – so first half disruption was a very high impacted.

<A - Philippe Varin>: And the Aulnay situation has impacted our market share. If you look at the balance between the first half of last year and this year, we are at 12.2% of European market share, last year we were at 12.9%. It's about 0.3% linked to the C3 losses.

On the split, I'm sorry, Gaëtan, but we don't give the split of our automotive negative income between Europe and – but you can make your own assumptions. And we have some significant loss in Latin America and Russia. And if you compare the implied European loss that we have per car in Europe compared to competition with the announced results, you will see that the performance of PSA compares pretty well, which mean that the strategy that we have starts to deliver some results.

On the roadmap to growth to the utilization rate of 100%, I think your figures are right. If you take the Aulnay capacity, it's about six to seven points of Harbour rate. So we have indeed in terms of managing our capacity to do more.

And we don't – we have some cautious assumptions on the next few years in terms of growth. So we should not rely on the growth to make what is necessary to come to closed one.

There will be a little bit of growth in the next three years but we're not relying on a very significant improvement in the European market situation.

<A - Jean-Baptiste Chasseloup de Chatillon>: [indiscernible] (60:39)

<A - Philippe Varin>: We've done in the past some shrinking of capacities. You recall in France a compactage of some sites, we have done it, so we know how to do it.

<A - Carole Dupont-Pietri>: Thank you. We will take the next question from the call.

Operator

We have a question from Paul Hartley from Bank of America Merrill Lynch. Please go ahead.

<Q - Paul R. Hartley>: Hello. Thanks for taking my question. Just one from me. I was looking at the EBIT bridge, so I was just wondering where lower depreciation costs come into that.

<A - Philippe Varin>: Could you repeat the question?

<Q - Paul R. Hartley>: On the EBIT bridge for the Automotive division, I was just wondering where within that we might see lower depreciation costs occurring?

<A - Philippe Varin>: If you take our earning bridge, you will see the IAS impact of lesser depreciation with the €309 million. We are doing the bridge well. They are spread between production and procurement, R&D because that's where amortization shows up and a bit in input cost for a very small impact. So that's where the little stars are marked, €309 million spread between those three items.

<A - Carole Dupont-Pietri>: You have all the reconciliation table on the Appendix 39. So the next question from the call and it will be the last question.

Operator

A question from Stefan Burgstaller from Goldman Sachs. Please go ahead.

<Q - Stefan A. Burgstaller>: Yes, good morning. Stefan Burgstaller from Goldman Sachs. You've talked earlier about the decision by the European Commission. I've just looked at the release from the European Commission and that's added something which you hadn't talked about. The release says finally the Peugeot Group will contribute to the costs of its restructuring through the setting up of a major plan for the sale of assets. Could you comment on that please?

<A - Philippe Varin>: Yes. Yes, I can. Well, I don't know what is a tense. If it is a past tense or the actual tense, but what it means is that effectively with the sales of assets like real estate and our participation into Gefco, we exceeded the requirements of the European Commission in contribution to the cost of our turnaround. So that's what it means. Nothing looking forward.

<Q - Stefan A. Burgstaller>: Okay.

Carole Dupont-Pietri

And many thanks for your attention. So, thank you very much for attending today's conference call. So enjoy the rest of the day. Good bye.

Philippe Varin

Thank you.