# 16.5.1. REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON BOARD MEMBERSHIP AND GENDER BALANCE, PREPARATION AND ORGANISATION OF SUPERVISORY BOARD MEETINGS, AND INTERNAL CONTROL AND RISK MANAGEMENT

The report of the Chairman of the Supervisory Board on corporate governance and internal control was approved by the Board at its meeting on 27 February 2012.

## 1. CORPORATE GOVERNANCE

### 1.1. MEMBERSHIP OF THE SUPERVISORY BOARD

The Supervisory Board has twelve members plus two non-voting advisers. The members are elected by shareholders for six-year terms.

#### 1.1.1. Independence of Board Members

No member of the Supervisory Board exercises any executive responsibilities or is a salaried employee of a Group company.

The Supervisory Board comprises five members of the Peugeot family and seven members qualified as independent based on the criteria applied by the Group.

As required by the AFEP-MEDEF Code, the Supervisory Board assesses the independence of its members every year. At its meeting of 14 February 2012, the Board examined the position of each of its members with regard to the independence criteria applied by the Group, based on the work done by the Appointments and Governance Committee.

The independence criteria applied by the Group are those set out in the AFEP-MEDEF Code, with two exceptions:

- not being a Director or Supervisory Board member of the corporation for more than twelve years: the Supervisory Board believes that the substantial automotive experience gained by its members is extremely valuable in a business that requires a medium and long-term vision, especially as regards the Board's key mission of determining the Group's long-term development strategy;
- not holding a directorship or equivalent position in another Group company in the past five years: the Board considers that the fact of having recently been a Director of another Group company does not give rise to any risk of the type of conflict of interest that the AFEP-MEDEF independence rules are designed to avoid. In addition, no member of the Supervisory Board exercises any senior executive responsibilities or is a salaried employee of a Group company. Consequently Jean-Louis Silvant is considered to be independent, even though he sits on the Board of Directors of Peugeot Suisse, a company whose operations only represent a very small proportion of the Group's automotive business.

Based on these criteria, the Supervisory Board considers that the following members qualify as independent:

- Pamela Knapp;
- Jean-Paul Parayre
- Henri Philippe Reichstul;
- Geoffroy Roux de Bézieux;
- Ernest-Antoine Seillière
- Jean-Louis Silvant;
- Joseph F. Toot Jr.

Seven out of the twelve members of the Supervisory Board, i.e. 58%, therefore qualify as independent based on these criteria, which is significantly more than the AFEP-MEDEF recommendation of at least one third for controlled companies.

In addition, when selecting new Supervisory Board candidates based on the recommendations of the Appointments and Governance Committee, the Board seeks to increase the number of independent members and to ensure a smooth rotation of its members by staggering their terms of office.

Please refer to section 14.2 above for information on conflicts of interest of members of the Supervisory Board.

#### 1.1.2. Gender Balance

Two of the twelve members of the Supervisory Board are women and ten are men.

The Appointments and Governance Committee is committed to increasing the percentage of women members, in accordance with new legal requirements on gender balance (Act 2011-103 of 27 January 2011) and based on the guidelines set out in the AFEP-MEDEF Corporate Governance Code.

Pamela Knapp was elected to the Supervisory Board at the Annual Shareholders Meeting of 31 May 2011, bringing the percentage of women members up to 16.6%.

In accordance with the legal requirements and the recommendations of the AFEP-MEDEF Code, the Board will continue to appoint women where possible in 2012 and has set a target of at least 40% female membership by the end of the Annual Shareholders Meeting held in 2017.

The Appointments and Governance Committee also pursues a selection policy aimed at increasing the proportion of non-French members and creating a more diverse Board.

## 1.2. PREPARATION AND ORGANISATION OF SUPERVISORY BOARD MEETINGS

### 1.2.1. The Supervisory Board's Roles, Responsibilities and Operating Procedures

#### Internal Rules

The current version of the Supervisory Board's internal rules, which is dated 9 February 2010, defines the Board's roles and responsibilities as follows:

- The Supervisory Board appoints members of the Managing Board, can remove them from office and determines their compensation packages.
- The Supervisory Board sets the amount of compensation for its Chairman and Vice-Chairman or Chairmen and determines the procedures for allocating attendance fees among its members.
- In accordance with the law, the Supervisory Board acts as the oversight body of the Company, which is administered and managed by the Managing Board.

  The Supervisory Board is therefore responsible for:
  - Overseeing the Managing Board's management of the Company by performing any checks and controls it deems appropriate.
  - Carrying out periodic controls of the Company's management (i) on a quarterly basis by reviewing business reports presented by the Managing Board and (ii) within three months of each year-end, by examining and issuing its opinion and comments on the annual financial statements of the Company and Group, as presented by the Managing Board, and on the management report to the Annual Shareholders' Meeting.
- The Supervisory Board ensures that the strategy proposed and applied by the Managing Board fits with the Group's long-term vision as defined by the Supervisory Board.

  The Board reviews the strategic plan and the various multi-year business plans, as well as the capital expenditure plan and the budget.

The internal rules stipulate that the Board is required to authorise in advance the following actions by the Managing Board as provided for in Article 9 of the Company's bylaws:

- shareholder-approved share issues (whether paid up in cash or by capitalising retained earnings) and capital reductions;
- any and all issues of ordinary or convertible bonds;
- the drafting of any merger agreements or agreements for the sale of a business;
- the signature or termination of any manufacturing or sales agreements representing a future commitment for Peugeot S.A., with companies whose corporate purpose is similar or related to that of Peugeot S.A., and generally the execution of any major transaction which substantially alters the scope of the business or the balance sheet structure of the Company or the Group.

The Managing Board may carry out the following actions only with the unanimous backing of all of its members or, failing that, with the prior authorisation of the Supervisory Board:

- the purchase, sale, exchange or transfer of any and all operating real estate and businesses in transactions representing an amount in excess of the ceiling set by the Supervisory Board (currently €50 million);
- the purchase, acquisition or sale of any equity interest in any and all existing or future enterprises directly or indirectly representing an immediate or future investment, expense, debt guarantee or seller's warranty involving an amount in excess of the ceiling set by the Supervisory Board (currently €50 million);
- the signature of loan agreements, other than for bond issues, for a period or an amount in excess of the limits set by the Supervisory Board (currently €100 million).

Lastly, guarantees given on behalf of subsidiaries are submitted for Supervisory Board approval when the amount exceeds a certain level in accordance with the law. In 2011, such approval was required for individual guarantees exceeding €25 million, or when the cumulative amount of guarantees given during the year exceeded €125 million (excluding customs and tax bonds).

The Supervisory Board's internal rules also set out the following:

- Supervisory Board information procedures, practices and guidelines.
- The minimum number of Board meetings that must be held per year (currently five), as well as the procedures to be applied when holding the meetings and preparing the agenda.
- The roles and responsibilities of Supervisory Board Committees.
- The procedures for assessing the Board's performance.
- The obligations of Board members, particularly the requirement to comply with the Stock Market Code of Ethics introduced in 2010, which each Board member has signed.

#### Stock Market Code of Ethics

The Stock Market Code of Ethics sets out the rules on dealings by Supervisory Board members, non-voting advisers and Managing Board members in securities issued by Peugeot S.A., Société Foncière Financière et de Participations (FFP) or Faurecia. The Code provides for preventive measures under which Board members and corporate officers may trade in these securities while complying with market integrity rules.

It was updated by the Supervisory Board at its meeting of 14 February 2012, mainly to take account of the changes introduced in Act 2010-1249 of 22 October 2010 on banking and financial regulation. It has also been extended to cover members of the Executive Committee.

In particular, the people concerned by the Code are now prohibited from carrying out any hedging transactions on the Group's securities, including through the use of options.

#### Operating Procedures

Approximately two weeks before each Supervisory Board meeting all of the Board's members receive the agenda of the forthcoming meeting and the draft minutes of the previous meeting.

In addition, at the end of the week preceding the planned meeting, the Board members are sent an information pack containing a copy of the minutes of the previous meeting, the presentations to be given for each agenda item, the minutes of the meetings of the Board Committees and, where the meeting involves examining a quarterly business review, the Report of the Managing Board. The packs also contain the schedule for the meetings of the Supervisory Board and the Board Committees, an update of the "blackout periods" during which Board members are prohibited from trading in the Company's securities (as specified in the Stock Market Code of Ethics), press articles that have been published about the Group since the last Board meeting, and any external financial analyses that have been released. A copy of the pack is usually also provided in the meeting itself.

Members of the Managing Board attend Supervisory Board meetings and the Statutory Auditors attend the meetings where the annual and interim financial statements are examined.

The schedule for each year's meetings is prepared in April of the preceding year. Ordinary Supervisory Board meetings are systematically preceded by meetings of the Finance and Audit Committee, the Appointments and Governance Committee and the Compensation Committee.

Each ordinary Supervisory Board meeting lasts for a minimum of three and a half hours, but may be longer when required. The Chairman of the Board may call special meetings where necessary.

### Assessment of the Board's Performance

The Supervisory Board's internal rules require the Board *"to perform a regular self-assessment of its operating and control procedures".*

In February 2011 the Supervisory Board carried out a formal assessment of its own work and the work performed by its Committees based on an individual questionnaire completed by each Board member. The key issues addressed by the questionnaire were: (i) Board membership, (ii) quality of Board meetings, (iii) Board Committees, (iv) understanding of the Group.

In summary, the Board members agreed that the Board structure should evolve in line with three principles: increasing the number of women members, increasing the number of non-French members and diversifying the Board's expertise. They considered that Board meetings were organised in a way that enabled them to take decisions, communicate and participate effectively.

They expressed a wish to see employment, ethical and social responsibility issues addressed more regularly by the Board. In this respect, the Board decided that these issues would be addressed by the Appointments and Governance Committee and reviewed at least once a year by the Supervisory Board.

Some members also expressed the wish to have greater resources at their disposal to improve their understanding of the Group and its strategic visions, particularly in the various geographical areas of operation.

Assessments of the Board Committees were positive. Two new independant members joined the committees in 2011: Joseph F. Toot Jr. was appointed to the Compensation Committee in April and Pamela Knapp to the Finance and Audit Committee in July.

A new self-assessment was performed in February 2012.

### 1.2.2. Supervisory Board Meetings in 2011

The Supervisory Board met six times in 2011, with an average attendance rate of 97%.

During five of these meetings - held on 8 February 2011, 19 April 2011, 26 July 2011, 25 October 2011 and 13 December 2011 - the Board reviewed business reports presented by the Managing Board concerning the Group's sales and manufacturing performance, as well as the financial results of its various divisions, and its overall financial situation. During these meetings, the Board was also informed about events affecting employees and quality, and gave its opinion on the Group's strategic growth vision, which it discussed in detail with the Managing Board during the February, April, October and December meetings.

The 8 February meeting was attended by the Statutory Auditors and included presentations of the full-year 2010 financial statements of the Company and the Group. During the meeting, the Board approved the nomination of Pamela Knapp as member of the Supervisory Board to replace Jean-Louis Masurel.

At the 19 April meeting, the Board reviewed the agenda, management report and proposed resolutions for the annual shareholders' meeting due to take place on 31 May 2011 and approved its own report to the meeting. The Board also appointed Joseph Toot Jr. to the Compensation Committee.

At the 26 July meeting, attended by the Statutory Auditors, the Board reviewed the 2011 interim results. It authorised the issuance of a guarantee to the EIB for the €125 million financing package granted to Peugeot Citroën Automobiles SA (PCA). It appointed Pierre Todorov as Group Corporate Secretary, effective 1 September 2011, to replace Jean-Claude Hanus who has retired, and also appointed Pamela Knapp to the Finance and Audit Committee.

At the 16 September meeting, the Board authorised the issuance of notes under Peugeot SA's Euro Medium Term note programme, in accordance with Article 9 of the Company's bylaws.

At the 25 October meeting, the Managing Board presented the Group's draft 2012-2014 medium-term plan. The Supervisory Board renewed the Managing Board's authorisation to give guarantees in an aggregate amount of €125,000,000 and a maximum amount per guarantee of €25,000,000 (except for tax and customs bonds, for which there is no maximum limit). This authorisation is valid from 1 January 2012 to 31 December 2012.

At the December meeting, the Board reviewed the Managing Board's quarterly report, the 2012 budget and Finance and Audit Committee's report. In addition, the Supervisory Board continued to discuss the medium-term plan with the Managing Board.

The Board also authorised the Managing Board to make one or more issues under the Company's Euro Medium Term note programme up to a maximum aggregate amount of €1 billion during the period to 31 December 2012.

### 1.2.3. Supervisory Board Committees

The Supervisory Board is assisted by four specialised committees:

- the Finance and Audit Committee, which has five members, three of whom are independent:
  Jean-Paul Parayre (Chairman), Marc Friedel, Pamela Knapp, Robert Peugeot and Marie-Hélène Roncoroni.
- the Strategy Committee, which has seven members, four of whom are independent:
  Robert Peugeot (Chairman), Jean-Paul Parayre, Jean-Philippe Peugeot, Thierry Peugeot, Philippe Reichstul, Ernest-Antoine Seillière and Jean-Louis Silvant.
- the Appointments and Governance Committee, which has six members, three of whom are independent:
  Jean-Philippe Peugeot (Chairman), Thierry Peugeot, Robert Peugeot, Ernest-Antoine Seillière, Jean-Louis Silvant and Geoffroy Roux de Bézieux.
- the Compensation Committee, which has six members, four of whom are independent:
  Thierry Peugeot (Chairman), Jean-Philippe Peugeot, Geoffroy Roux de Bézieux, Ernest-Antoine Seillière, Jean-Louis Silvant and Joseph Toot Jr.

The role of these Committees is to prepare matters to be discussed at Supervisory Board Meetings. They issue proposals, recommendations and opinions on the areas falling within their terms of reference and submit them to the Supervisory Board at its meetings.

#### 1.2.3.1. Finance and Audit Committee

*Members*

The Finance and Audit Committee comprises five members, who are appointed in their own name and may not be represented by another party.

Three of its members - Jean-Paul Parayre (Chairman), Marc Friedel and Pamela Knapp (appointed in July 2011) - are classified as independent in accordance with the criteria applied by the Group.

Pamela Knapp's appointment was made pursuant to the Report of the Working Group on Audit Committees published by the AMF on 22 July 2010. The Board considers that her experience as Chief Financial Officer first of the Siemens AG Group and then of the GfK SE Group have given her specific expertise in financial and accounting matters.

In addition, the Committee's Chairman, Jean-Paul Parayre, has the accounting and financial expertise required to hold this position, acquired during his service within various French ministries and as a senior executive in major French groups.

Marie-Hélène Roncoroni, who represents the Company's main shareholder, has specific knowledge in financial and accounting matters, and worked for seven years in the Group's Finance Department.

*Roles and Responsibilities*

In accordance with Article L.823-19 of the French Commercial Code and it's internal rules, the Finance and Audit Committee oversees the following matters:

- preparation of financial information;
- effectiveness of the internal control and risk management systems;
- statutory audit of the Company's annual financial statements and the Group's consolidated financial statements;
- independence of the Statutory Auditors.

It is also responsible for informing the Board of its opinion on off-balance sheet commitments and any project requiring prior approval by the Board, notably corporate actions.

As part of its duty to oversee the effectiveness of internal control systems, the Committee issues an opinion on the Internal Audit plan for the coming year and is informed of the findings of the Internal Audits performed in implementing the plan.

The Committee, which enjoys free access to all the information it needs, can meet with the persons responsible for internal control and with the Statutory Auditors, with or without the presence of Managing Board members.

*Finance and Audit Committee Meetings in 2011*

The Finance and Audit Committee met six times in 2009, with a 100% attendance rate.

In 2011, it continued the Statutory Auditor rotation process initiated in 2010, issuing a recommendation on the Statutory Auditors to be nominated for election at the Annual Shareholders Meeting of 31 May 2011.

In January 2011, a meeting dedicated to internal audit was held without the presence of the Chief Financial Officer or the members of the Managing Board. During this meeting, the Committee reviewed the results of the internal audits carried out in 2010 along with the internal auditors' recommendations in each case, and also discussed the 2011 audit programme. The Committee requested that it be given a detailed risk management map for the Group, as well as regular reports on the work of Banque PSA Finance's Audit Committee. It also recommended that the coverage provided by the internal auditors should keep pace with the Group's international expansion. The head of Internal Audit updated the Committee on the internal audit programme and the Committee gave its opinion on the organisation of the Internal Audit function.

In February 2011, the Committee met with the Statutory Auditors to review the 2010 statutory and consolidated financial statements. During the meeting the Chief Financial Officer presented a map of the Group's risks and significant off-balance sheet commitments.

In April 2011, the Committee reviewed and approved the proposed financial resolutions to be put to the Annual Shareholders Meeting. It also examined trends in the Group's short and medium-term debt.

In July 2011, the Committee met with the Statutory Auditors and the Chief Financial Officer, without the presence of Managing Board members, to review the consolidated financial statements for the first half of 2011. It also reviewed the Group's financing and strategic outlook for the second half of the year and examined the risk management system, the structure and operating procedures of the Group's Internal Audit function as well as the findings of the assignments performed by the Internal Audit teams as part of the annual audit plan.

In October and December, the Committee reviewed the Group's financing strategy the draft medium-term plan, its real estate policy and issues relating to the Group's credit rating.

#### 1.2.3.2. The Strategy Committee

*Members*

The Committee comprises seven members, appointed in their own name and not as representatives of corporate Supervisory Board members.

Four of the members - Jean-Paul Parayre, Henri Philippe Reichstul, Ernest-Antoine Seillière and Jean-Louis Silvant - are classified as independent in accordance with the criteria applied by the Group.

*Roles and Responsibilities*

The role of the Strategy Committee is to examine the Group's long-term future, reflect on potential avenues of growth and give its opinion on the Group's broad strategic vision.

In this respect, it makes recommendations on the long-term strategic plans and the medium-term plan presented by the Managing Board.

The Strategy Committee examines all major projects from their outset and is kept informed of the projects' terms and conditions (particularly their financial structure), as well as of any changes and developments.

In particular, the Committee meets to discuss any project that falls within the scope of Article 9 of the Company's bylaws, whereby the Supervisory Board must approve in advance "*the signature or termination of any manufacturing or sales agreements representing a future commitment for Peugeot S.A., with companies whose corporate purpose is similar or related to that of Peugeot S.A. and generally the execution of any major transaction which substantially alters the scope of the business or the balance sheet structure of the Company or the Group*".

*Strategy Committee Meetings in 2011*

The Strategy Committee met three times in 2011, with a 100% attendance rate. The meetings were attended by the members of the Managing Board and Group executives involved in the issues discussed.

In March, the Committee mainly reviewed the Group's strategic growth projects and possible cooperation opportunities.

In June, it looked at the Group's long-term ambitions, as expressed by the Peugeot and Citroën brands.

In October, it reviewed the draft medium-term plan and the proposed asset disposals.

In October, the Committee presented its report to the Supervisory Board on the main strategic plans proposed by the Managing Board.

### 1.2.3.3. The Appointments and Governance Committee

*Members*

The Committee comprises six members, who are appointed in their own name and may not be represented by another party.

Three of its members - Ernest-Antoine Seillière, Jean-Louis Silvant and Geoffroy Roux de Bézieux - are classified as independent in accordance with the criteria applied by the Group.

*Roles and Responsibilities*

The Appointments and Governance Committee prepares Supervisory Board discussions concerning the appointment of new members of the Supervisory Board and Managing Board, by proposing selection criteria, organising the selection process, recommending candidates for appointment or re-appointment, and monitoring succession plans for members of the Managing Board.

It tracks changes in French and European legislation concerning the governance of companies whose shares are traded on a regulated market, as well as all of the recommendations issued by market regulators and representatives of listed companies. It also submits opinions or recommendations to the Supervisory Board concerning governance issues.

*Appointments and Governance Committee Meetings in 2011*

The Appointments and Governance Committee met seven times in 2011, with a roughly 100% attendance rate.

At the beginning of the year, the Committee focused on seeking a new candidate for election to the Supervisory Board to replace Jean-Louis Masurel, who had agreed to stand down. Pamela Knapp was nominated as a result of this process.

The Committee examined the independence of each member of the Board and the way in which the Board membership structure should evolve.

In April, the Committee reviewed the process of succession planning for the Group's key executives. During the meeting, the Committee also discussed the possible creation of a new Ethics Committee, but concluded that there was no immediate need and that social responsibility issues more broadly could be reviewed at least once a year by the Supervisory Board. Note that an Ethics Committee exists within the Group, chaired by the Corporate Secretary (see section 2.4.1 of this report, below).

In July, the Committee continued its work on succession planning for Managing Board members and key executives.

In October, the Committee reviewed the proposed reorganisation of the Brands Department and the proposal to nominate two new independent members for election to the Supervisory Board at the Annual Shareholders Meeting held in 2012.

As each year, the Committee took part in the Board's self-assessment process, finalised the questionnaire given to the members and, in response to the findings, made recommendations on actions designed to meet members' expectations, ensure that the Board continues to function effectively and improve its corporate governance practices.

### 1.2.3.4. The Compensation Committee

*Members*

The Compensation Committee comprises six members, who are appointed in their own name and may not be represented by another party:

Four of the members - Geoffroy Roux de Bézieux, Ernest-Antoine Seillière, Jean-Louis Silvant and Joseph Toot Jr. - are classified as independent in accordance with the criteria applied by the Group.

Joseph Toot Jr. was appointed to the Committee in April 2011 in order to balance up the Committee compared with the Appointments and Governance Committee and to increase the number of independent members.

*Roles and Responsibilities*

The Compensation Committee prepares Supervisory Board discussions regarding all aspects of compensation and benefits for the Chairman, Vice-Chairmen and other members of the Supervisory Board and the Board Committees, as well as the Chairman and other members of the Managing Board.

To fulfil these responsibilities, the Committee stays informed of French and European regulations on executive compensation in listed companies, all market recommendations and practices, levels and forms of compensation of senior executives who are not on the Managing Board, as well as the Managing Board policies for reviewing and updating these compensation packages.

*Compensation Committee Meetings in 2011*

The Compensation Committee met eight times in 2011, with a roughly 100% attendance rate.

At the beginning of the year, the Committee recommended a new rule whereby the base salary of Managing Board members would be reviewed mid-term. It also determined the incentive bonuses for Managing Board members.

The Committee examined, for each member, the maximum percentage of the base salary that the bonus could represent and the applicable Group and personal performance criteria. During the April meeting, the Committee also recommended an increase in the attendance fees paid to the Chairman and Vice-Chairmen of the Board, as well as an increase in the aggregate amount of attendance fees to €1 million.

In July, the Committee made recommendations on the allocation of annual attendance fees to members of the Board and the Committees within the aggregate amount voted at the Annual Shareholders Meeting.

In December, the Committee recommended that, in view of the current climate, the base salary of the Chairman and other members of the Managing Board should not be increased in 2012. It also voted in favour of introducing a requirement for the Managing Board members to hold shares of the Company, effective as of June 2013. The Board agreed to these recommendations.

### 1.3. ADOPTION OF THE AFEP-MEDEF CORPORATE GOVERNANCE CODE

As stated in section 16.4 above, the Company has adopted the AFEP-MEDEF Corporate Governance Code, as applicable to French joint-stock companies with a Managing Board and Supervisory Board.

The table below summarises the recommendations of the AFEP-MEDEF Code which the Company does not apply due to the specific features of its legal structure and operating methods or those of the automotive industry.

| Relevant recommendation | Reasons |
|---|---|
| Independence of Supervisory Board members | The Supervisory Board has elected not to apply two of the AFEP/MEDEF's independence criteria:<br>• Not being a Director or Supervisory Board member of the corporation for more than twelve years: specific features of the automotive industry. Please refer to section 1.1.1. above for more details.<br>• Not holding a directorship or equivalent position in another Group company in the past five years: the Board considers that the fact of having recently been a Director of another Group company does not give rise to any risk of the type of conflict of interest that the AFEP-MEDEF independence rules are designed to avoid. Please refer to section 1.1.1 above for more details. |
| Proportion of independent members on the Finance and Audit Committee | 40% of members are independent compared with the recommendation of at least two thirds: The reason for the shortfall is the presence on the board of representatives of the Group's reference shareholder the Peugeot family. |
| Term of office of Supervisory Board members | Current members of the Supervisory Board are elected for a term of six years rather than four as recommended in the AFEP-MEDEF Code. However:<br>• a supervisory and oversight body needs to be in place for a certain amount of time in order to be able to effectively perform its duties;<br>• members of the Managing Board are appointed for four-year terms; and<br>• the dates on which the current Supervisory Board members are due to retire by rotation range from 2012 to 2017; and<br>• at the next Shareholders Meeting on 25 April 2012, the term of two candidates proposed for election to the Board will be set at two years. |
| Variable component of attendance fees for Board and Committee meetings | There is no justification for introducing variable fees based on attendance for the following reason:<br>• the average attendance rate at Supervisory Board meetings was 97% in 2011;<br>• the average attendance rate at the various Committee meetings ranged from was close to 100% in 2011;<br>• the Chairman of the Supervisory Board frequently consults Board members on issues outside of scheduled meetings, and likewise, Board members regularly take the initiative of informing the Chairman of their opinions and recommendations.<br>Attendance at meetings is therefore not a relevant criterion for assessing the members' involvement. |

### 1.4. SUPERVISORY BOARD AND MANAGING BOARD COMPENSATION POLICIES

#### Supervisory Board

Supervisory Board members and advisers are paid annual attendance fees up to an aggregate amount determined in advance by the Annual Shareholders Meeting. This amount was set at €1,000,000 at the Annual Shareholders Meeting of 31 May 2011.

The Chairman of the Supervisory Board received €425,000 in compensation for 2011, unchanged since 2002. In 2011, the Chairman decided to forego the increase recommended by the Board.

#### Managing Board

##### Employment contract/corporate office

No member of the Managing Board is a salaried employee of the PSA Peugeot Citroën Group.

##### Managing Board Compensation

All Supervisory Board discussions on compensation are prepared by the Compensation Committee.

- In 2011, the Supervisory Board decided that the base salary paid to Managing Board members will be revised mid-term;
- At the beginning of the year, the Supervisory Board determines the amount of the incentive bonus based on how well each member met his or her assigned objectives over the year;
- The incentive bonus payable to the Chairman of the Managing Board may represent up to 150% of his base salary, including 90% based on the achievement of targets set for the Managing Board, 30% for the achievement of personal targets and 30% at the discretion of the Supervisory Board based on his overall performance in managing the Group. The incentive bonus payable to other members of the Managing Board may represent up to 110% of their base salary, including 75% based on targets for the Managing Board as a whole, 25% based on personal targets and 10% at the discretion of the Supervisory Board;
- At the same meeting, the Supervisory Board sets objectives for each Managing Board member for the current year. These objectives – quantified and qualified on the basis of pre-defined criteria – comprise targets set for all members of the Managing Board and specific performance-related targets based on each member's individual executive duties;
- The base salaries set for Managing Board members in 2011 were unchanged from 2010;
- In addition to being covered by government-sponsored basic and supplementary pension plans, Managing Board members are also entitled to pension benefits funded under an insured plan;
- No other commitments have been given to past or present Managing Board members concerning any other benefits to be paid when they cease to be a member;

- The Supervisory Board may also decide to grant stock options and/or performance shares to Managing Board members further to an authorisation granted by shareholders. Where stock options are granted the Supervisory Board determines the lock-up rules that will apply to shares acquired upon the exercise of the options in accordance with the law.

No stock options or performance shares were granted to Managing Board members in 2011. For more information on Managing Board compensation, please refer to section 15 of this Registration Document.

### 1.5. ATTENDANCE AT PEUGEOT S.A. SHAREHOLDERS MEETINGS

Any Peugeot S.A. shareholder may take part in the Company's Shareholders Meetings irrespective of the number of shares held.

Shareholders are advised to obtain an entrance card before the meeting to facilitate their admission. on the day of the meeting shareholders will be asked to provide evidence that they are shareholders of record during the registration process.

A single mail or proxy voting form will be sent to all holders of registered shares before the meeting. Holders of bearer shares wishing to vote by mail or by proxy may obtain the necessary forms from their bank or broker.

In accordance with article R. 225-79 of the French Commercial Code, shareholders may appoint or revoke a proxy (name, first name and address) online at psa-ag-mandataire@mpsa.com, no less than three days before the date of the meeting.

The formalities for attending the Shareholders Meeting to be held on 25 April 2012 will be set out in the Notice of Meeting published at least thirty five days before the date of the meeting in the *Bulletin d'Annonces Légales Obligatoires* and on the Group's website.

### 1.6. DISCLOSURE OF INFORMATION THAT MAY HAVE AN IMPACT IN THE EVENT OF A PUBLIC TENDER OFFER FOR THE COMPANY'S SHARES

This information is provided in this Registration Document as part of the disclosures required under article L. 225-100-3 of the French Commercial Code (see pages 402 and 403).

## 2. RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

### 2.1. OBJECTIVES OF THE PSA PEUGEOT CITROËN INTERNAL CONTROL SYSTEM

As part of its commitment to preventing and limiting the effect of internal and external risks, the Group has set up risk management and internal control systems designed to provide reasonable assurance concerning the achievement of the following objectives:

- compliance with laws and regulations;
- application of the Managing Board's instructions and strategic guidelines;
- efficient internal processes, particularly those that help to safeguard the assets of the Group's companies;
- reliable financial reporting.

More generally, these procedures and processes also contribute to the proficient management of the Group's businesses, the effectiveness of its operations and the efficient use of its resources.

### 2.2. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK USED BY PSA PEUGEOT CITROËN

PSA Peugeot Citroën is committed to ensuring that its risk management and internal control system complies with the Reference Framework for Risk Management and Internal Control Systems issued by French securities regulator AMF in 2007 and updated in 2010. Banque PSA Finance has a specific system that complies with CRBF regulation 97-02 concerning the internal control systems of credit institutions. Faurecia, whose shares are traded on a regulated market and that acts under the responsibility of its own Board of Directors, has a separate internal control system which it applies independently.

GEFCO has an internal control and risk management system that complies with PSA Peugeot Citroën recommendations and is aligned with the specific features of its business and its organisation.

### 2.3. INTERNAL CONTROL PRINCIPLES

PSA Peugeot Citroën's internal control system was designed with five key goals in mind:

- to reflect the Group's strategic objectives, which are to be a global, profitable, independent company that ranks among the world's leading broadline automobile manufacturers:
  - the entire process is designed to proactively identify the risks capable of affecting the Group over the medium to long term,
  - all of the Group's companies are involved in the process, managing risks and ensuring internal control compliance in all of their operations,
  - the process focuses on action plans and outcomes, with a constant view to supporting operating efficiency,
  - the process is underpinned by compliance with applicable laws and regulations, exemplary behaviour and ethical practices, which the Group believes to be essential to responsible growth;
- to integrate a formal system, the Global Risk Management System (GRMS);
- to structure the system in such a way that it enables each department or division to deploy the same risk management and internal control process;
- to deploy the system with the support of dedicated standards and IT resources;
- to make the system auditable based on quality indicators.

### 2.4. PARTICIPANTS AND PROCESSES

#### 2.4.1. At Group Level and in the Automotive Division

There is an overall set of security processes that contribute to the Group's risk management system.

- The Group's organisation and operating procedures, as defined by Senior Management, are set out in a number of reference handbooks that form a working framework applicable to everyone.

They include the Organisation Handbook and the Operating Procedures Handbook, which are expanded and updated regularly. These handbooks describe the procedures to follow, the division of responsibilities and the rules to be applied by all employee, in all of his or her day-to-day business activities.

In addition to these handbooks, each department has its own operating manual describing its operating procedures and processes as well as interfaces with the other departments.

All these general and department-specific guidelines are posted on an intranet site dedicated to the Group's Excellence System. This system is based on lean management principles and a culture of continuous progress. It sets out the framework for procedures, management and working methods, which results in formal standards being established.

- A general framework, which comprises a formal risk management system deployed Groupwide.

Each Division or Department is responsible for managing and controlling its own risk in accordance with the corresponding risk management and control guidelines. As such, each one applies in its remit the iterative five-step process described in the Global Risk Management System: (i) identify, (ii) analyse, (iii) assess, (iv) address and (v) control risks. Deployment of this process is managed by an Executive Risk Controller and by the Site Risk Managers, backed as needed by a network of specialists capable of managing specific risks, such as financial and legal risks, information system risks, and risks to physical assets.

The Risk Management and Control Department, which reports to the Corporate Secretary, designs and maintains the Global Risk Management System and the dedicated information system. In this capacity, it works in close cooperation with the network of Executive Risk Controllers and Site Risk Managers, who submit the information that the Department consolidates and analyses to prepare an updated risk map. Every month, the updated map is sent to the Executive Committee along with comments on any difficulties encountered in managing the identified risks and the action plans to be implemented or enhanced.

- Specific risk management and control procedures to supplement the general framework.

The Group's Code of Ethics was updated and expanded in 2010. It is directly available to all employees through the Intranet portal. All senior executives are required to formally accept the terms of the Code. An Ethics Committee chaired by the Corporate Secretary meets on a quarterly basis. An international network of Chief Ethics Officers deploys the process in every host country and systematically reports to the Ethics Committee any local ethical issues or breaches of compliance.

The Ethics Committee is responsible for overseeing a fraud prevention system and has tasked the Group's Security Department with managing the system, carrying out investigations, monitoring and reporting incidents.

The Security Department, which reports to the Corporate Secretary, is responsible for defining and coordinating on a global basis all actions intended to protect the employees and tangible and intangible assets of the Group (except for Faurecia) against the risks arising from malicious acts of all kinds.

The Legal Affairs Department, which reports to the Corporate Secretary, is responsible for preparing or verifying the Group's contractual commitments and ensuring their legal and regulatory compliance. It is also in charge of organising the Group's defence in the event of disputes with third parties. In this way, it helps to limit and manage the Group's exposure to legal risks as an employer, a designer and distributor of vehicles, a purchaser of components and a provider of services.

The Management Control Department, which reports to the Chief Financial Officer, is responsible for overseeing the Group's business and financial performance and proposes annual and medium-term targets for growth, operating margin and return on capital employed to Senior Management. It oversees the process of preparing the medium-term plan and the budget guidelines. It prepares annual budgets, updated forecasts and monthly estimates in conjunction with the various business divisions in order to measure and track actual performance against targets. It controls the results of the operating departments and the Group's projects, and produces summary reports. In addition, it carries out other financial tasks, particularly for the automotive business, such as product costings, selling price control, project profitability control, financial monitoring of industrial cooperation with other automakers, negotiations for mergers, acquisitions and disposals, and drawing up formal management rules and standards.

- Internal Audit Department's control over the proper application of these general and specific risk management procedures.

The Internal Audit Department, which reports to the Corporate Secretary, ensures that operating procedures are observed and that all general and specific risk management procedures are applied throughout all the Group's departments. It uses the risk map created from the Global Risk Management System as a base for preparing its annual audit plan, which is defined independently and subsequently submitted to Senior Management and the Finance and Audit Committee for review. Internal Audit is also responsible for assessing the degree of maturity of the risk management system and making recommendations for improving its effectiveness. A total of 91 internal audits were carried out in 2011.

- The Supervisory Board's control and oversight role.

The Finance and Audit Committee of the Supervisory Board ensures that the risk management and internal control system operates effectively. The Corporate Secretary reports to the Supervisory Board on the systems in place and their degree of maturity, as well as the risk map, with particular emphasis on risks capable of having an impact on the Company's financial and accounting information.

The Board also reviews the Internal Audit Department's organisational and operating principles, expresses an opinion on the Internal Audit plan and is informed of the findings of (i) the Internal Audits performed as part of the plan and (ii) the follow-up audits to check that the recommendations have been implemented.

As mentioned in section 1.2.3.1 above, a Finance and Audit Committee meeting dedicated to internal audit was held in January 2011.

The Finance and Audit Committee may also be asked by the Managing Board, the head of Internal Audit, the head of Internal Control or the Statutory Auditors to review any event exposing the Group to significant risk.

### 2.4.2. Banque PSA Finance

In line with CRBF regulation 97-02, dealing with internal control systems of credit institutions, the bank's internal control system is organised around two lines of responsibility for recurring controls and periodic controls and the first-tier controls performed by the operating units.

The fundamental principles underpinning the organisation and implementation of internal control are set out in an internal control charter that describes the system's organisation, resources, scope, missions and processes.

#### Recurring Controls

*First-tier Controls, the Lynchpin of the Internal Control System*

First-tier controls are carried out in the operating units. They are either embedded in procedures and performed by all employees in the normal course of their work, or they are performed by dedicated employees within the operating units. They are supervised by the structures responsible for recurring controls.

*Second-tier Controls*

Second-tier controls are performed by three departments and include controls concerning (i) compliance, (ii) operational risks of the finance companies, including insurance entities, and headquarters, (iii) accounting processes and procedures and (iv) the finance, treasury and IT services provided by the PSA Peugeot Citroën Group on the Bank's behalf.

The Compliance unit is responsible for preventing, controlling and overseeing compliance risks. In particular, it verifies that the Bank meets its obligations concerning data protection, the prevention of money laundering and compliance of new or substantially modified products. It ensures that the required systems are put in place and organises compliance training. This unit is also responsible for regulatory oversight and ensuring that the Bank effectively incorporates regulatory changes into its business, particularly into its IT systems.

Controls over operational risks for the finance companies and headquarters include (i) recurring assessments of the effectiveness of the operational risk management systems put in place within the Bank, including for outsourced services, and (ii) specific second-tier controls. This unit is responsible for ensuring that operations staff regularly perform key first-tier controls on risks classified as major.

The department in charge of controlling operational risks associated with accounting, IT, refinancing and treasury processes performs recurring controls in all of these areas. In particular, it has developed a control certification system for the accounting department, whereby the finance managers of the Bank's subsidiaries and branches are required to sign a document after each accounts-closing process confirming that key controls over major accounting risks have been performed and providing the results of these controls.

These departments base their work on a risk map that sets out the main risks to which the Bank is exposed. The risk map helps to ensure the underlying strength of Banque PSA Finance's internal control system, by highlighting identified risks, potential losses that may arise from these risks, first-tier controls and the results of these controls, as well as the results of second-tier controls and any residual risk.

*Risk Management Function*

This regulatory unit, which reports to the Corporate Secretary, was set up in 2010 following a new Autorité de Contrôle Prudentiel requirement. It is responsible for measuring and overseeing all the bank's risks other than compliance risks on a consolidated basis and reports to the Banque PSA Finance's Executive Committee and Audit Committee.

The second pillar of Basel II is currently being incorporated into the Bank's risk management system.

#### Periodic controls

Periodic - or third-tier - controls consist of periodically checking transaction compliance, risk levels, compliance with procedures and the effectiveness of recurring controls.

They are performed by the Internal Auditors, based on an Internal Audit plan that provides for all of the Bank's units and processes (including those that are outsourced) to be audited at least once every three years.

#### Oversight by Executive Management and the Board

The internal control system is overseen by executive management and the Board, supported by various committees.

The Board of Directors verifies that the Bank's main risks are properly managed and obtains assurance about the system's reliability, through the Audit Committee. The Audit Committee reviews the lessons to be learned from risk monitoring activities and from recurring and periodic controls. It meets at least four times a year.

Executive management is responsible for defining and implementing the system of internal control. It oversees the system's efficiency and effectiveness, and ensures that adequate resources are assigned to internal control. In carrying out these duties it draws on the minutes of meetings of the Internal Control Committee, which has front-line responsibility for the operational management of the internal control system.

#### Organisation of Internal Control

The internal control system is built around regular first-tier controls, primarily through delegations of authority applicable to all operating units and Corporate Departments. These delegations of authority determine the levels at which decisions must be made in the areas of banking and financial transactions, loan approvals, lending terms, new products and services and expenditure commitments.

At Group level, committees have been set up to determine and implement Bank policies in the areas of internal control and decision-making processes during regular meetings. These committees are as follows:

- the Credit Risks Committee, which monitors changes in troubled loans and credit losses, analyses the performance of the risk selection systems, and reviews changes in Basel II rules;
- the Lending Margins Committee;
- the Products and Processes Committee;
- the Group Credit Committee, which reviews wholesale and fleet financing applications;

- the Refinancing Committee, which reviews the results of the Bank's refinancing and interest rate risk management policies;
- the IT Security Committee;
- the Compliance Committee.

### 2.4.3. Faurecia

In performing its duties, Faurecia's Board of Directors is supported by an Audit Committee that plays a key role in the internal control process, particularly by reviewing (a) the process used for preparing and controlling financial information, (b) the effectiveness of internal control and risk management systems, and (c) the statutory audit work on the parent company and consolidated financial statements. The Committee also conducts in-depth analyses of material financial transactions and reviews the Group's financial performance indicators.

Faurecia's internal control system is based on a set of resources, behaviours, procedures (available for consultation by all employees via the Faurecia Intranet) and actions geared to the specific features of each company and the Group as a whole. It is intended to:

- contribute to the proficient management of Faurecia's businesses, the effectiveness of its operations and the efficient use of its resources; and
- enable Faurecia to deal effectively with significant operational, financial or compliance risks.

The internal control system aims to provide reasonable assurance about the achievement of the following objectives:

- compliance with laws and regulations;
- application of the instructions and strategic guidelines issued by Senior Management and the Board of Directors;
- efficient internal processes, particularly those that help to safeguard the Company's assets;
- reliable financial reporting.

The procedures also concern programme controls designed to track the performance of contracts to supply complex equipment to automakers – in the acquisition, design and production phases – as well as financial and accounting controls intended to ensure that financial and accounting information is properly processed, thereby ensuring the Group's responsiveness.

The Internal Audit Department is responsible for overseeing the internal accounting and financial control systems and their effectiveness. It makes sure that the overall system is complete, consistent and adequate, and that procedures are followed at all times through audit assignments based on random sampling and investigations. In the event of a breach, it ensures that appropriate corrective plans are implemented and reports on the effectiveness of the internal control system. With a view to continuous progress and spreading identified best practices throughout the Group, the Internal Audit Department strengthened its resources by setting up two new non-European units in 2011, one in the United States and one in China.

### 2.4.4. GEFCO

GEFCO performs appropriate controls at each level of the organisation, covering the financial, accounting and operating aspects of its business.

The basic units in the GEFCO organisation are the agencies, which are structured as profit centres, guaranteeing that each service is properly recorded, invoiced and paid for.

Each subsidiary aggregates the income statement data received from its agencies and ensures that the financial flows comply with prevailing standards. Lastly, headquarters internal control teams check each subsidiary's accounts using the information systems covering most of GEFCO's operations.

Accounting system, financial statement preparation and management review processes are based on the standards and principles used by the PSA Peugeot Citroën Group.

GEFCO's operational internal control system includes a self-assessment process for the business operations aligned with PSA Peugeot Citroën recommendations to identify, analyse and address the main risks involved in GEFCO objectives.

The data reported in 2011 by the Group's 27 subsidiaries and 338 agencies via a dedicated information system were used to define action plans to drive improvements that will contribute to GEFCO's operational excellence. As a result, GEFCO implemented several measures in 2011 designed to reinforce the segregation of tasks and control over payment systems.

The internal control procedures are assessed during audits carried out across the GEFCO group by the PSA Group's Internal Audit team.

## 2.5. PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

The Finance Department is responsible for defining and implementing a specific internal control system for accounting and financial matters, in addition to the Global Risk Management System described above, which also applies to it in the same way as any other department of the PSA Group.

### 2.5.1. Accounting and Financial Organisation

The Finance Department uses a technical and organisational framework called "Nordic", which covers accounting and consolidation standards, best accounting practices, integrated accounting standards, financial management standards, financing and cash management standards and tax-related standards. The framework is accessible to all Group employees to ensure that standards are applied uniformly. Different managers are responsible for updating specific categories of standards in line with their areas of specialisation.

The Group's accounting standards describe the accounting policies applicable to all subsidiaries, based on International Financial Reporting Standards (IFRSs) as approved by the European Union, and taking into account the accounting options selected by the Group and any standards that have been early adopted. They set out the accounting treatment and accounting entry structures for complex and/or new transactions. Specific standards are applied for Banque PSA Finance and Faurecia to reflect the specific nature of their businesses.

The guidelines on best accounting practices prepared by the Automotive Division Accounting Department are accessible by all Automotive Division employees. They help to ensure consistent application across the Group of best practices identified in terms of accounting quality and internal control.

All the Group's accounting, finance and management control units receive an annual Group reporting timetable drawn up by the Corporate Management Control Department, setting out for each monthly period the various accounting close and reporting dates, as well as the dates of performance review meetings. The Consolidation Department also prepares and sends out a standard setting out the timetable for the submission and processing of subsidiaries' consolidation packages.

The accounting and financial information systems developed and/or implemented in the Group by the Information Systems Department meet the needs expressed by users (accounting, consolidation, management control, finance, treasury). Each application is classified in terms of availability, integrity, confidentiality and traceability of information sent or produced. The classification determines the requirements in terms of access clearance (confidentiality and traceability) and business continuity and recovery plans (availability and integrity). Data archiving and backup procedures have been implemented to comply with legal requirements for keeping data and to create audit trails guaranteeing data traceability.

To uphold and improve the quality of accounting and internal control within the Group's Automotive Division, an Accounting Quality Plan has been implemented at the level of each accounting team in the relevant Departments, under the responsibility of the Chief Financial Officer. This plan comprises all internal actions taken to implement the recommendations of the internal and external auditors, as well as those of the teams themselves. A meeting is held every quarter under the Chairmanship of the Group's Chief Financial Officer to monitor the Accounting Quality Plan.

### 2.5.2. Procedures Relating to the Preparation and Processing of Accounting and Financial Information

Published financial information comprises the consolidated financial statements of the PSA Group and the statutory financial statements of Peugeot SA, approved by the Managing Board and presented to the Supervisory Board, as well as analyses of the data included in these financial statements and press releases issued by the Group.

Monthly, half-yearly and annual results are validated jointly by the Accounting units, the Consolidation Department, the Corporate Management Control Department and the Management Control units of each division. Senior Management reviews the full set of consolidated financial statements on a monthly basis.

The consolidated financial statements are prepared by the Consolidation Department, which is also responsible for Group accounting policies. The statements are prepared in accordance with IFRSs as adopted by the European Union, and the individual statutory accounts of the Group's subsidiaries are restated to align them with IFRS, apart from Faurecia and the companies that Faurecia consolidates. The subsidiaries' accounts are prepared under the responsibility of the Accounting and Finance Departments within the various divisions (Automotive, Automotive Equipment, Transportation and Logistics, and Finance). These departments, in liaison with the operating units and the Management Control Department, ensure the accuracy of the individual statutory accounts and the consolidation packages and systematically co-validate them. The Consolidation Department produces a full set of consolidated financial statements each month, both for internal management and external reporting purposes for the half-year and full-year closings. It also prepares the individual statutory accounts and restated IFRS accounts for Peugeot S.A.

The accounts are consolidated by separate dedicated teams for (i) the Group as a whole, (ii) Banque PSA Finance and its subsidiaries and (iii) Faurecia. Each month, all consolidated companies send their dedicated team their detailed financial statements, including their income statement, balance sheet, cash flow statement and analyses, prepared in compliance with Group standards, for integration into the consolidated accounts. Each subsidiary is responsible for preparing regular reconciliations between their statutory equity and equity reported in the consolidation package. These reconciliations are checked by the consolidation team in order to check that deferred taxes are properly stated. All consolidation adjustments are controlled and traced. An overall analysis of changes in the main consolidated income statement, balance sheet and cash flow statement items is communicated each month to Senior Management.

The reliability of data reported by the subsidiaries is verified by their own management control teams, the Division-level Accounting and Finance Departments and the Group Consolidation Department.

The subsidiaries' financial statements are reported via the Magnitude system, which has been set up at all consolidated subsidiaries to guarantee data security and traceability.

Off-balance sheet commitments are identified within each Group company and reported to the consolidation team.

Asset control procedures are based on annual inventories of goods held by PSA Peugeot Citroën as well as inventories of property, plant and equipment held at Group sites, based on cycle counts which ensure that each asset is counted at least once every three years. The inventories are governed by strict procedures concerning segregation of tasks and count controls to ensure that the results are reliable.

Investment and financing strategies and strategies for evaluating counterparty risks arising from financial market transactions are approved by the Finance Department.

The Financial Communications Department, which reports to the Finance Department, is responsible for relations with investors and the financial markets authorities. It coordinates the work done by the various Group entities on preparing the annual Registration Document and ensures that the timetable for its preparation and publication is met. The Management Control Department is responsible for drawing up and presenting summary data used to analyse results and provide forecasts.

### 2.6. PROCEDURES FOR THE PREPARATION OF THIS REPORT

This report was based on the following main procedures:

- identifying all existing practices within the Group operating units and departments concerning procedures, risk analyses and regular updates to those procedures and analyses;
- verifying that Group internal control procedures and processes comply with the general principles of the AMF's Reference Framework for Risk Management and Internal Control Systems;
- obtaining assurance at the level of the Finance Department – with input from the accounting, consolidation, financial communications and management control teams – that processes for the preparation and approval of the consolidated financial statements fulfil the quality criteria defined for each operational category in the application guide included in the above-mentioned Reference Framework.