

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

The report of the Chairman of the Supervisory Board has been approved by the Supervisory Board at its meeting on 18 February 2014.

### 1. CORPORATE GOVERNANCE

#### 1.1. Composition of the Supervisory Board

The Supervisory Board has fifteen members elected by shareholders' general meeting for a term of office which has been reduced to four years for appointments made since the 25 April 2012 (terms of office in progress on that date run for six years), to comply with the AFEP-MEDEF Code.

##### Employee representatives

Members include one employee representative, Jean-François Kondratiuk, who was appointed in 2013 to fulfil the aim of the Supervisory Boards to involve employees more closely in defining the corporate strategy. The clause in the Articles of association introducing this representation restricted this member's term of office to two years, in order to avoid any conflict with the French Employment Protection Act, passed in June 2013. This approach will be extended by proposing to the Annual Shareholders' Meeting on 25 April 2014 that the Articles of association be changed in order to establish the arrangements for employee representation defined in the new legislative provisions (See Chapter 21.4 of this Registration document).

Since April 2013, a representative of employee shareholders has also sat on the Supervisory Board.

##### Vice-Chairmen

The Board has two Vice-Chairmen who may exercise the powers of the Chairman of the Board should he be unable or fail to do so.

##### Advisors

The Board's meetings are also attended by three non-voting advisors. This is a long-standing Group practice enabling the Board to benefit from their expertise and experience in the automotive industry. They are seasoned professionals and offer a long-term perspective on the Group's strategic objectives. Non-voting advisors are appointed by the Supervisory Board for a four-year term.

##### Senior Independent Supervisory Board Member

The Supervisory Board co-opted Louis Gallois as lead independent Director on February 2013 by agreement between the French government and the Group as part of the support granted by the French government in the form of guarantees for certain market issues of debt securities to be carried out by Banque PSA Finance.

The fact that Louis Gallois is the General Commissioner for Investment (Commissaire Général à l'Investissement), does not affect his independence insofar as his duties have nothing to do with the guarantee granted by the French government on Banque PSA Finance's bond issues. It should be remembered that currently, the Group is not eligible for state aid, which may be granted by the Commissioner for Investment.

As an independent member, Louis Gallois chairs the State guarantee monitoring committee, which was instituted at the inception of the guarantee. This committee comprises a total of five members. Two persons appointed by the concerned ministers represent the French government in the Monitoring Committee. The Chairman of the Supervisory Board's Finance and Audit Committee and the Chief Financial Officer complete the Monitoring Committee.

Mr Gallois' assignments as Senior Independent Member are:

- > call and chair meetings of the independent members of the Supervisory Board at least once a year;
- > offer the Chairman of the Supervisory Board suggestions and recommendations concerning the Board's practices after consulting with the other Board members;
- > inform the Chairman of the Board of any conflicts of interest he may have identified;
- > take note of the significant governance concerns of shareholders not represented on the Supervisory Board and ensure that they are addressed;
- > oversee the assessment of the Board's performance, in coordination with the Chairman of the Appointments, Remuneration and Governance Committee;
- > report on the performance of his duties to the Supervisory Board and, where applicable, to the Annual Shareholders' Meeting.

Mr Gallois organised several meetings with independent members of the Supervisory Board during 2013.

In accordance with the law, meetings of the Supervisory Board are also attended by two non-voting members of the Peugeot S.A. Works Council.

#### 1.1.1. INDEPENDENCE OF BOARD MEMBERS

As required by the AFEP-MEDEF Code, the Supervisory Board assesses the independence of its members every year. Following preparatory work by the Appointments, Remuneration and Governance Committee, the Board reviewed the position of each of its members with regard to the Group's independence criteria at its meeting on 18 February 2014.

The Supervisory Board has nine members qualified as independent based on the criteria applied by the Group. Members of the Supervisory Board belonging to the Peugeot family (Marie-Hélène Roncoroni, Thierry Peugeot, Jean-Philippe Peugeot and Robert Peugeot), the employee representative (Jean-François Kondratiuk) and the member representing the shareholder employees (Anne Valleron) cannot be considered as being independent.

Members of the Supervisory Board	Independent according to the Company's criteria	Independent according to the AFEP-MEDEF Code
Thierry Peugeot		
Jean-Philippe Peugeot		
Jean-Louis Silvant	✓	
Patricia Barbizet	✓	✓
Louis Gallois	✓	✓
Pamela Knapp	✓	✓
Jean-François Kondratiuk		
Jean-Paul Parayre	✓	
Robert Peugeot		
Thierry Pilenko	✓	✓
Henri Philippe Reichstul	✓	✓
Dominique Reiniche	✓	✓
Marie-Hélène Roncoroni		
Geoffroy Roux de Bézieux	✓	✓
Anne Valleron		
<b>TOTAL</b>	<b>9</b>	<b>7</b>
Percentage of total assets	69.2%*	53.84%*

\* Members of the Board representing employees or employee shareholders are not included in the calculation of percentages in accordance with the AFEP-MEDEF Code.

The AFEP-MEDEF recommendation on the proportion of independent members is thus followed, whether the criteria used are those adopted by the Company or those of the AFEP-MEDEF Code.

The Company uses the independence criteria defined in the AFEP-MEDEF Code. However, the Group does not follow certain AFEP-MEDEF criteria for the following members:

- > the limiting of successive terms to 12 years, in respect of Jean-Paul Parayre: The Group believes that his successive terms amounting to more than twelve years do not interfere with his independence and enable the Group to benefit from, and build on, his extensive experience of cyclical industries, particularly in times of crisis;
- > the restriction on having held a directorship or equivalent position in another Group company within the past five years, in respect of Jean-Louis Silvant: Holding a directorship of another Group company (Peugeot Suisse) does not, given the nature of his office, involve any risk of the conflicts of interest that the independence rules are designed to avoid.

When nominating candidates for election or re-election, based on the recommendations of the Appointments, Remuneration and Governance Committee, the Board seeks to refresh its membership and enhance its independence, as well as to ensure a smooth rotation of its members by staggering their terms of office.

Please refer to Chapter 14.2 of the Registration Document for further developments about the Supervisory Board's composition (performed terms, statements on conflicted interest, familial links...).

### 1.1.2. GENDER BALANCE

There are five women and ten men on the Supervisory Board.

The Annual Shareholders' Meeting appointed Pamela Knapp as a Board member in 2011, followed by Dominique Reiniche in 2012, and Patricia Barbizet and Anne Valleron in 2013. This brings the percentage of women on the Board to 33.33%, and thus satisfies both the legislation and the recommendations of the AFEP-MEDEF Code before their mandatory compliance dates.

The Board will continue to appoint women with a target of at least 40% female membership by the end of the Annual Shareholders' Meeting held in 2016, in accordance with the AFEP-MEDEF's recommendations concerning the representation of women on Boards of Directors.

The Appointments, Remuneration and Governance Committee will continue to pursue a selection process that enhances the Board's international representation and the diversity of its members' skills.

## 1.2. Preparation and organisation of the work of the Supervisory Board

### 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 13 March 2012, defines the Board's roles and responsibilities as follows:

- > the Supervisory Board appoints members of the Managing Board and can remove them from office. It 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.

As such, it is therefore responsible for:

- > overseeing the Managing Board's management of the Company by performing any checks and controls it deems appropriate,
- > the periodic review of the Company's management (i) each quarter when the Managing Board presents it with the activity report and (ii) within three months of each year-end, when the Managing Board presents the parent company and consolidated financial statements and the Management Report for its opinion and comments, before they are presented 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 Supervisory 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 capital increase (whether paid up in cash or by capitalizing retained earnings) and capital reductions;
- > any and all issues of ordinary or convertible bonds;
- > the drafting of any merger agreements or agreements for partial business transfer;
- > 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 Supervisory Board must therefore authorise in advance any significant transaction outside the scope of the Group's published strategy.

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 2013, 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 where there is no such limit). This remains unchanged in 2014.

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

- > Supervisory Board information procedures, practices and guidelines.  
The Supervisory Board is, in particular, kept regularly updated by the Managing Board of the Company's financial position, its cash flow and its commitments.
- > 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 has been signed by each member.

The internal rules of the Supervisory Board should be revised after the completion of the planned transactions with Dongfeng Motor Group Company Limited, the French State, the Peugeot family group companies, Etablissement Peugeot Frères and FFP, and the Company (for more information, see Chapter 22 of the Registration Document).

#### **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. and/or FFP, as well as Faurecia. The Code provides for preventive measures under which Board members can trade in these securities while complying with market integrity rules.

Since 2012, the Stock Market Code of Ethics has applied both to Board members and to 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**

In preparation for Supervisory Board meetings, Board members are sent the agenda at least two weeks before the date of each meeting, together with the draft minutes of the previous meeting.

In addition to these minutes, each member's information pack contains 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 pack also contains the updated agenda 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. The pack is sent to members at the end of the week preceding the planned meeting. An additional pack is sometimes provided during the meeting.

Members of the Managing Board attend Supervisory Board meetings for matters which concern them and the Statutory Auditors attend the meetings where the annual and interim financial statements are examined.

The agenda for each year's meetings is prepared in April of the preceding year. Ordinary Supervisory Board meetings are generally preceded by meetings of the Finance and Audit Committee.

Ordinary meetings of the Supervisory Board last at least four hours, and may be longer, depending on the agenda. Moreover, 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".

The annual assessment of the performance of the Supervisory Board and its Committees was carried out in February 2013 by an external firm (Spencer Stuart).

The Appointments and Governance Committee set up an *ad hoc* working group which, on the basis of the assessment, made recommendations aimed at improving the Company's governance:

- > reduce the number of Board Committees by merging the Compensation Committee and the Appointments and Governance Committee;
- > open the Strategy Committee to any Board member who wishes to participate;
- > implement a policy to gradually reduce the number of Board members to 12 by 2015, including employee representatives. Examples of the action taken in 2013 following the assessment are the merger of the Compensation and Appointments and Governance Committees to form the Appointments, Remuneration and Governance Committee; and the appointment of an independent Board member as Chairman of this Committee on 30 July 2013.

### 1.2.2. SUPERVISORY BOARD MEETINGS IN 2013

The Supervisory Board met twelve times in 2013, compared with thirteen times in 2012. The average attendance rate was 91%.

Key activities in 2013 were monitoring the action plans to redress the Group's financial position, reviewing the strategic objectives and negotiating the new social contract.

The meetings considered the following items, among others:

#### 7 February:

- > review of the adjustment to the carrying amount of assets in the Automotive Division and the related financial communication (views of the Statutory Auditors followed by discussion);

#### 12 February:

- > co-opting of Mr Gallois as a member of the Supervisory Board and appointment of Mr Friedel as an advisor;
- > presentation of the Consolidated and Company Financial Statements for Peugeot S.A. for 2012 and the financial position at the end of 2012 by the Executive Vice President, Finance (views of the Statutory Auditors);
- > review of the financial communication relating to the consolidated and parent company financial statements;
- > update on the objectives for reducing costs, selling assets and controlling stock;
- > presentation on the Group's strategic objectives;
- > quarterly Report of the Managing Board;
- > authorisation for a bond issue under the Euro Medium Term Notes (EMTN) programme;
- > authorisation to guarantee loans taken out by a subsidiary;
- > approval of the report of the Chairman of the Supervisory Board;
- > approval of the planned objectives for employee representation on the Supervisory Board;
- > presentation by the Managing Board of documents and management planning reports;
- > review of the independence of Board members;
- > Management Report of the Managing Board, Registration Document.

#### 12 March:

- > preparation for the Annual Shareholders' Meeting on 24 April 2013;
- > approval of the report of the Supervisory Board to the Annual Shareholders' Meeting;
- > Report of the Managing Board;
- > appointment of a new Managing Board and allocation of duties;
- > results of the assessment of the Supervisory Board's performance.

#### 23 April:

- > Report of the Managing Board;
- > publication of quarterly revenues;
- > authorisation to sell real-estate assets and provide guarantees;
- > authorisation to guarantee commitments entered into by subsidiaries;
- > approval of the Group's strategic objectives and authorisation to start discussions on strategy;
- > implementation of the Appointments, Remuneration and Governance Committee, created from the merger of the Compensation and the Appointments and Governance Committees.

#### 25 June:

- > update on the implementation of the agreements signed with General Motors;
- > update on the progress of the strategy discussions;
- > presentation on financial objectives by the Managing Board;
- > update on negotiations for the new social contract.

#### 30 July:

- > quarterly Report of the Managing Board;
- > results and accounts for the first half of 2013, quarterly financial report and related communication (views of the Statutory Auditors);
- > update on ongoing strategic discussions;
- > authorisation of a bond issue under the EMTN programme together with a partial buyback of existing issues;
- > authorisation to give guarantees for loans subscribed by subsidiaries;
- > appointment of Geoffroy Roux de Bézieux as Chairman of the Appointments, Remuneration and Governance Committee.

#### 9 September:

- > update on the activity at the end of August 2013;
- > update on the on-going strategy discussions.

#### 22 October:

- > publication of quarterly revenues;
- > quarterly Report of the Managing Board;
- > update on the on-going strategy discussions;
- > presentation of documents and management planning reports;
- > report on implementing the alliance with General Motors;
- > authorisation to guarantee commitments entered into by subsidiaries.

#### 18 November:

- > update on the on-going strategy discussions;
- > update on the implementation of the agreements signed with General Motors.

#### 25 November:

- > appointment of Carlos Tavares to the Managing Board with a view to succeed to Philippe Varin.

#### 10 December:

- > financial communication on asset impairment in the Automotive Division;
- > update on ongoing strategic discussions.

#### 17 December:

- > 2014 budget, medium-term plan;
- > renewal of the annual authorisation to give sureties, endorsements and guarantees;
- > review of the policy on gender equality and equal pay;
- > update on the on-going strategy discussions.

A long-term strategy meeting attended by all members of the Board was also held on 4 June 2013.

### 1.2.3. SUPERVISORY BOARD COMMITTEES

The Supervisory Board draws on preparatory work performed by its three Committees:

- > Finance and Audit Committee;
- > Strategy Committee;

> Appointments, Remuneration and Governance Committee.

The role of these Committees is to prepare matters for discussion 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.

#### COMPOSITION OF THE COMMITTEES IN 2013

Committee	Chairman	Members	Independent according to the Company's criteria	Independent according to the AFEP-MEDEF Code	Percentage independent under the Group criteria	Percentage independent under the AFEP-MEDEF Code
Finance and Audit Committee (6 members)	Jean-Paul Parayre*		√		4 independent members out of 6 (66.66%)	3 independent members out of 6 (50%)
		Patricia Barbizet	√	√		
		Pamela Knapp	√	√		
		Robert Peugeot				
		Thierry Pilenko	√	√		
Strategy Committee (7 members)	Robert Peugeot				5 independent members out of 7 (71.43%)	3 independent members out of 7 (42.85%)
		Louis Gallois	√	√		
		Jean-Paul Parayre*	√			
		Jean-Philippe Peugeot				
		Philippe Reichstul	√	√		
		Dominique Reiniche	√	√		
		Jean-Louis Silvant*	√			
Appointments, Remuneration and Governance Committee (6 members)	Geoffroy Roux de Bézieux		√	√	4 independent members out of 6 (66.66%)	3 independent members out of 6 (50%)
		Louis Gallois	√	√		
		Jean-Philippe Peugeot				
		Thierry Peugeot				
		Dominique Reiniche	√	√		
	Jean-Louis Silvant*	√				

\* For a discussion of the independence of Board members, see Section 1.1.1 p. 209.

Summary of the main developments during 2013:

- > the Appointments and Governance Committee and the Compensation Committee merged on 23 April 2013;
- > Geoffroy Roux de Bézieux replaced Jean-Philippe Peugeot as the Chairman of the Appointments, Remuneration and Governance Committee on 30 July 2013.

Members attend Committee meetings in their own names and may not be represented by another party.

#### 1.2.3.1. The Finance and Audit Committee

##### EXPERTISE OF BOARD MEMBERS

The Supervisory Board considers that Pamela Knapp's experience as Executive Vice President, Finance, first of the Siemens AG Group and then of the GfK SE Group, has given her the specific skills in financial and accounting matters to comply with legal requirements.

In accordance with the recommendations of the AFEP-MEDEF Code, the other members of the Finance and Audit Committee also have the required financial and accounting expertise:

- > The Committee's chairman, Jean-Paul Parayre, with the experience acquired during his service within various French ministers' offices and as a senior executive in major French groups;
- > Patricia Barbizet, as Chief Executive Officer of the Artémis Group and as corporate officer of major French and foreign companies;
- > Robert Peugeot, as Chairman and Chief Executive Officer of FFP;
- > Thierry Pilenko, as Chairman and Chief Executive Officer of Technip;
- > Marie-Hélène Roncoroni, having worked in an international audit firm before holding positions in the Group's Finance Department for seven years.



**ROLE**

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

- > 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;
- > the independence of the Statutory Auditors.

The Committee conducts its work on the basis of the Report of the Working Group on Audit Committees published by the AMF on 22 July 2010.

It is, in particular, responsible for overseeing the selection procedure for renewing 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 concerning operations which could have an impact on share capital.

In formalising its opinion on the quality of the internal control systems, the Committee reviews the Internal Audit plan for the coming year and is informed of the findings of the audits performed by the Audit and Risk Management Department in accordance with the plan.

The Finance and Audit Committee has access to all the information it requires. It also holds meetings with the Head of the Audit and Risk Management Department and the Statutory Auditors, with or without members of the Group Managing Board.

**COMMITTEE MEETINGS IN 2013**

The Finance and Audit Committee met 11 times in 2013, with an 88.5% attendance rate.

At its meeting on 7 February, it analysed the asset impairment tests and the related financial communication as part of its review of the consolidated accounts for 2012. The review of the accounts continued at a meeting on 8 February, at which the Chief Financial Officer and the Statutory Auditors presented the consolidated and parent company financial statements which were discussed by Committee members. They also worked on the financing plan for 2013-2014 and a planned bond issue.

The meeting on 11 March reviewed the financial ratings of Group companies, and discussed draft resolutions relating to finance and Group financing to be submitted to the Annual Shareholders' Meeting.

The Committee met on 22 April to review the results for the first quarter and the related communication, the *earnings guidance* and the draft authorisations for selling real-estate assets and giving guarantees.

The meeting on 15 July discussed the initial review of the half-yearly results. It also considered the progress of the strategy discussions, in terms of their financial impact. At its meeting on 26 July, the Committee reviewed the interim financial statements, presented by the Chief Financial Officer and the Statutory Auditors. The Committee also considered the authorisation of a bond issue and a partial buyback of existing issues.

The meeting on 13 September was devoted to reviewing the medium-term world plan and the financing of activities in Brazil, and that on 21 October to reviewing the third-quarter results and the related communication, and to discussing strategy and guarantee authorisations related to financing for subsidiaries.

The meeting on 28 November dealt with the financial impact of the strategic objectives and the implementation of the agreements signed with GM; the meeting on 10 December dealt with asset impairment in the Automotive Division.

At its meeting on 16 December, the Committee reviewed cash flow management for 2013 and the budget for 2014. It was also informed of the summary of work assignments in the 2013 Audit Plan, the map of the "Top Group Risks" (as defined in paragraph 2.4.1. below) and the 2014 Audit Plan.

**1.2.3.2. The Strategy Committee****ROLE**

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' content, especially their business approach and their development.

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".

**COMMITTEE MEETINGS IN 2013**

The Strategy Committee met four times in 2013, with a 92.7% attendance rate.

During 2013, its work focused on the review of the Group's on-going strategy discussions and on the different possible options. In line with the recommendations made following the Supervisory-Board assessment, meetings of the Strategy Committee were opened from April to all Board members who wished to attend. The Committee's work covered the Medium-Term Plan and the associated budget (meetings on 22 April, 15 July and 24 September), the trading position and the action plans implemented (20 October).

In June, the long-term strategy meeting focused specifically on brand strategy, improving competitiveness, and a review of the strategies implemented in Asia, Latin America and Russia.

**1.2.3.3. The Appointments, Remuneration and Governance Committee****ROLE**

The Committee prepares the material for the Supervisory Board's discussions on the appointment of new members of the Managing or Supervisory Boards and on their compensation.

It defines the selection criteria, organises the selection procedure and proposes candidates for appointment or re-appointment. It also monitors succession plans for members of the Managing Board.

It is kept informed of the succession plans for certain key executives.

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.

When proposing members, the Appointments, Remuneration and Governance Committee considers the legal requirements for gender balance on directorial Boards (Act 2011-103 of 27 January 2011) and the recommendations of the AFEP-MEDEF Code. It also applies a selection policy aimed at increasing international representation on and diversifying the capabilities of the entire Board.

It advises on all aspects of compensation and benefits for:

- > members of the Supervisory Board (Board and Committees);
- > the Chairman and Vice-Chairmen of the Supervisory Board;
- > 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.

#### COMMITTEE MEETINGS IN 2013

Prior to its merger with the Compensation Committee, the Appointments and Governance Committee met six times in 2013 with an attendance rate of 100%. The Compensation Committee met twice, with an 83.3% attendance rate. The Appointments, Remuneration and Governance Committee formed when the two Committees merged in April 2013 and subsequently met six times with a 95.2% attendance rate.

At its meeting on 24 January, the Appointments and Governance Committee issued recommendations on the engagement letter for the Senior Independent Supervisory Board Member (Mr Gallois) in view of his forthcoming co-option. The meeting on 7 February assessed the Group's governance (composition of the Board, organisation of the Managing Board and the role of the employee representatives to be appointed). At this meeting, the Committee also assessed the independence of Board members, measured against the criteria applied by the Company.

On 7 March, it focused on the draft resolutions for the Annual Shareholders' Meeting concerning the nomination of a new member of the Supervisory Board, the appointment of employee and employee-shareholder representatives, and the changes to the Articles of association associated with these appointments. It also gave its views on the organisation of the Managing Board and on the project to implement a more focused Managing Board.

The meeting on 18 April was devoted to the findings from the Board assessment, and recommended that the Appointments and Governance Committee be merged with the Compensation Committee.

Before the two Committees actually merged, the Compensation Committee held two more meetings: one (on 11 March 2013) on the recommendations for compensating members of the Managing Board and definition of their objectives; and a second (on 18 April) on the study of the attendance fees that might be paid to employee representatives on the Supervisory Board, whose appointment was proposed at the Annual Shareholders' Meeting on 24 April 2013. In the event, the members concerned elected to waive their fees.

The first meeting of the Appointments, Remuneration and Governance Committee took place on 25 July. Its discussions covered the renewal of the insurance policy for the civil liability of Executive Corporate Officers, the impact of the AFEP-MEDEF Code (revised in June 2013), the representation of employees on the Supervisory Board (legally required under the French Employment Protection Act) and the mandate of the Managing Board. Geoffroy Roux de Bézieux became Chairman of the Committee on 30 July 2013.

The meeting on 9 September recommended that all Supervisory Board members should have access to documents of the Committees. At its meeting on 17 October, the Committee considered the survey on the Group's employee relations, business organisation and the mandate of the Managing Board. The meeting on 20 November covered the succession plan for the Chairman of the Managing Board; and that on 27 November, the supplementary executive pension plan in force within the Group.

Under the terms of the succession plan for the Chairmanship of the Managing Board, the committee conducted research with the help of a recruitment agency in order to make recommendations to the Supervisory Board, which led to the selection of Carlos Tavares.

On 12 December, the Committee's main task was to review the report comparing the general working and training conditions for men and women within the Company, the Group's approach to ethics and compliance, and the composition of the Supervisory Board.

### 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 in its revised version of 8 June 2013, 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 are not applied by the Company due to the specific features of its legal structure and operating methods or those of the automotive industry.

Relevant recommendation	Explanation
Independence of the Supervisory Board members	The Supervisory Board applies all of the independence criteria recommended in the AFEP/MEDEF Code, with the following two exceptions: <ul style="list-style-type: none"> <li>&gt; Limit of twelve years for successive terms of office: specific features of the automotive industry. Please refer to section 1.1.1 above for more details;</li> <li>&gt; No office held in a consolidated company within the previous five years. To have acted as Director, even recently, of a Group company carries no risk of the sort of conflicts of interest that the independence rules are intended to avoid. Please refer to section 1.1.1 above for more details.</li> </ul>
Proportion of independent members on the Finance and Audit Committee	50% of members are independent compared with the Code's recommendation of at least two thirds. The presence on the Board of the main shareholder comprising the Peugeot family group and Mr Parayre, who is not considered independent under the AFEP-MEDEF criteria, explains why the 2/3 threshold has not been reached.
Description of the role, resources and prerogatives of the Senior Independent Supervisory Board Member in the internal rules	Since 2013, they have been described in the Registration Document.
Opinion of Supervisory Board sought before an office is accepted in another listed company	Members of the Managing Board inform the Supervisory Board before they accept office in another listed company.
Term of office of Supervisory Board members	Members of the Supervisory Board have been elected for a term of four years since the Annual Shareholders' Meeting of 25 April 2012. However, the term for members who were in office on that date remains at six years.
The Compensation Committee includes members representing employees	Although they do not attend meetings, since September 2013 they have had access to the same documents as Committee members. They have also attended meetings of the Strategy Committee, open to all members since 2013.
Having a variable component of attendance fees based on actual attendance	Introducing a variable component of attendance fees based on actual attendance does not seem warranted, given that: <ul style="list-style-type: none"> <li>&gt; the attendance rate at Supervisory Board meetings was 91% in 2013;</li> <li>&gt; the attendance rate at the various Committee meetings was 91.94% in 2013, as in 2012;</li> <li>&gt; 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.</li> </ul>
Members should own a significant number of shares	The Supervisory Board considered that, given the close involvement of its members, it was not necessary to change the rules in the Articles of association relating to shares held in the Company.

#### 1.4. Supervisory Board and Managing Board Compensation

This report sets out the principles and rules established by the Supervisory Board to determine the compensation and benefits granted to corporate officers. Please refer to Section 15 of the Registration Document for detailed information on compensation and benefits.

##### SUPERVISORY BOARD

Supervisory Board members and advisors are paid annual attendance fees up to an aggregate amount determined in advance by the Annual Shareholders' Meeting. This amount is allocated by the Supervisory Board among its members on an annual basis.

##### MANAGING BOARD

###### Employment contract/corporate office

For developments on this section, refer to Chapter 15 of this Registration Document.

###### Managing Board Compensation

The Board's Appointments, Remuneration and Governance Committee carries out all the preparatory work for Board discussions on any aspect of compensation.

In 2013, members of the Managing Board received no variable compensation, no stock options and no performance shares.

Pursuant to the agreement signed with the French State as to the latter's guarantee of bonds issued by Banque PSA Finance, any variable portion, stock options or performance shares offered to members of the Managing Board would need prior authorisation by the State, so long as the guarantee is in place.

#### 1.5. Attendance of Shareholders at Peugeot S.A. General Meetings

Every Peugeot S.A. shareholder may attend the Company's General Meetings irrespective of the number of shares held.

Pursuant to Article 11 of the bylaws, fully-paid up shares registered in the name of the same holder for at least four years shall carry double voting rights at Shareholders Meetings. Article 11 of the bylaws specifies that legal entities shall be represented at Shareholders Meetings by their legal representative or any other designated person. It does not set out any other specific formalities for attendance.

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@mps.com](mailto:psa-ag-mandataire@mps.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 2014 are 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

Pursuant to Article L. 225-100-3 of the French Commercial Code, it should be noted that there is no agreement providing for compensation for members of the Supervisory Board or the Managing Board if their term ends due to a takeover bid.

The other information defined in Article L. 225-100-3 of the French Commercial Code is provided in this Registration Document in Sections 18 and 21.1.

## 2. RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

### 2.1. Internal Control Objectives for the PSA Peugeot Citroën Group

As part of its commitment to preventing and limiting the effect of internal and external risks, risk management and internal control systems are in place to provide reasonable assurance concerning the achievement of the following objectives:

- > compliance with legislation and regulation;
- > application of the Managing Board's instructions and guidelines;
- > efficient internal processes, particularly those that help to safeguard the assets of Group 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. Reference Framework Used by PSA Peugeot Citroën

The Group's risk management and internal control system complies with and functions according to the rules of the eighth Directive on Statutory Audits, the Autorité des Marchés Financiers (AMF)'s Reference Framework for Risk Management and Internal Control Systems issued in January 2007, and the Report of the Working Group on Audit Committees published by the AMF on 22 July 2010. The Group's banking arm uses a specialised system for credit institutions that complies with Regulation 97-02 of the French Banking and Financial Regulations Committee concerning internal control in 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. In this respect, specific developments are accorded to the Company, as set out below.

### 2.3. Internal Control Principles

The Group internal control system was designed with the following goals in mind:

- > reflect the Group's strategic objectives, which are to be a global, profitable, independent Group ranked among the world's leading broadline automobile manufacturers;
- > proactively identify the risks capable of affecting the Group over the medium to long term;

- > involve all of the Group's companies in the process, manage risks and ensure internal control compliance in all of their operations;
- > focus on action plans and outcomes, with a constant view to supporting operating efficiency;
- > comply with applicable laws and regulations, exemplary behaviour and ethical practices, which the Group believes to be essential to responsible growth;
- > to have each division manage all the risks inherent in its business through internal control processes geared to its specific challenges;
- > to identify the specific "Top Risks" to which the Group is exposed, in order to develop appropriate action plans that address these risks and a system for reporting them to the Executive Committee;
- > 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 are decided by the Senior Executives, and defined in reference documents forming a working framework that each person follows.**

They include the Organisation Handbook and the Operating Procedures Handbook (hereinafter the "Operating Procedures"), 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 employees, in all of his or her day-to-day business activities.

In addition, 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 available on an intranet site dedicated to the Group's Excellence System. Based on lean management principles and a culture of continuous improvement, this system structures the Group's organisation, management and working methods, thereby enabling the development of formal standards.

**The risk management system is deployed Group-wide.**

Each department oversees the management and control of its own risk in accordance with the corresponding Operating Procedure, by incorporating it into its current operating practices. They each identify and assess their risks, taking existing management processes in account and developing the necessary action plans to address them.

**The Audit and Risk Management Department oversees the risk management system and controls the proper application of the risk management procedures.**

The principal risks in each department (those with the highest impact and the most critical (impact x probability)) are reported by every department each half year in a "Top Departmental Risks" report. This is sent to the General Secretary *via* its Audit and Risk Management Department.

To supplement this departmental view, the Audit and Risk Management Department identifies the Group's "Top Cross-Functional Risks" once a year, when it meets with a representative sample of the Group's key executives and managers. Appropriate action plans are then approved and implemented to manage these risks.

Maps of the Top Group Risks (compiled from the Top Departmental Risks and the Top Cross-Functional Risks) are reviewed twice a year by the Executive Committee and presented to the Finance and Audit Committee. During these two reviews, the Executive Committee approves the action plans for managing the Top Group Risks.

### **Specific risk management and control procedures cover particular risks.**

The Group's Code of Ethics was updated and expanded in 2010, and is directly available to all Group employees *via* the Intranet portal. All employees are required formally to accept the terms of the Code. An Ethics Committee chaired by the General Counsel 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. For further information on the Group's ethics policy, see Section 5.3.1 of this Registration document.

The fraud-prevention system was enhanced in 2012 and made the responsibility of the Group Ethics Committee. The Committee delegates its management, investigations, incident follow-up and reporting to the Group's Security Department.

The Security Department, which reports to the General Counsel, 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 General Counsel, 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 manages the process of preparing the medium-term plan and the budget framework. 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. It also carries out other finance-related tasks, particularly for the automotive business, such as product costings and price provision, selling price control, checking project profitability, financial monitoring of industrial cooperation with other carmakers, negotiations for mergers, acquisitions and disposals, etc., and drawing up formal management rules and standards.

### **The Audit and Risk Management Department checks that the risk management procedures are correctly applied**

The Audit and Risk Management Department, through audit missions, performs audits to ensure that all Operating Procedures are observed and that general and specific risk management procedures are applied throughout all the Group's departments. The annual audit plan, which is defined independently, is based on the "Top Group Risks" and is subsequently submitted to Senior Management for approval and presented to the Finance and Audit Committee. The Audit and Risk Management Department is also responsible for assessing the degree of maturity of the risk management system and making recommendations for improving its effectiveness. A total of 101 audits were carried out in 2013 across the entire Group.

### **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 General Counsel reports to the Supervisory Board on the systems in place and their degree of maturity, as well as the Top 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 departments have implemented the recommendations.

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

### **2.4.2. BANQUE PSA FINANCE**

Under Regulation 97-02 of the French Banking and Financial Regulations Committee concerning internal control in credit institutions, the internal control system implemented at Banque PSA Finance (BPF) is based on the functions of control and risk management (Risk Management Function). The internal control function is broken down into first-tier control, performed by the operating units themselves, on-going second-tier control and periodic third-tier control.

Banque PSA Finance has a Charter setting out the fundamental principles on which the organisation and operation of its internal control system is based. The Bank's internal control Charter defines the organisation, resources, scope and tasks. It also sets out the way in which the Bank's control system functions.

#### **Permanent Control Procedures**

##### **First-tier controls, the lynch pin 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.

#### **Permanent Control**

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.

#### Periodic Control Procedure

Periodic - or third-tier - controls consist of periodically checking transaction compliance, risk levels, compliance with procedures and the effectiveness of permanent 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 BPF's executive management and the Board, supported by various committees.

The decision-making body, 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 permanent 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.

#### Risk Management Function

Since 1 December 2012, the Risk Management Function has reported to the Executive Committee of Banque PSA Finance. It ensures that systems are in place to measure and monitor all the bank's risks, apart from compliance risk. For this, it validates the risk management systems and provides a double check when lending decisions are made regarding Corporate portfolios. Lastly, it monitors risks and may alert executive management and governing bodies if an adverse situation either develops or could do so in the short term. In relation to the overall oversight of the bank's risks, it is responsible for the assessment required by Basel II Pillar 2.

#### Organisation of Internal Control of the Bank

The bank's internal control system relies on a set of regular controls. They are implemented *via* the delegated authorities given 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.

The bank's key strategies are defined and implemented either in the quarterly Audit Committee meetings or in the operational committee

meetings held regularly in the corporate departments and finance companies. These committees are in particular concerned with:

- > credit risk. The committee reviews trends in arrears and write-offs, and analyses the performance of the risk-selection systems. Changes in the Basel II provisions are also presented to the meetings for decision;
- > financing margins;
- > products and processes, with their associated risks;
- > the financing proposals for wholesale networks and vehicle fleets (reviewed either by a Group or a local Credit Committee, depending on the terms of the delegations);
- > monitoring and review of the impact of the policy implemented in respect of bank refinancing and management of its liquidity, interest-rate and exchange rate risks;
- > monitoring the IT security policy;
- > compliance work.

#### **2.4.3. FAURECIA**

Faurecia internal control system is based on a set of resources, behaviours, procedures and actions tailored both to the specific features of each company and to the Faurecia Group as a whole. The system:

- > contributes to controlling its activities, the effectiveness of its operations and the efficient use of its resources; and
- > enables Faurecia to deal effectively with significant operational, financial or compliance risks.

The Faurecia Group's internal control aims to ensure:

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

The Faurecia Group follows the AMF's Reference Framework and application guide as updated on 22 July 2010. The Faurecia Group's internal control is implemented based both on its operational organisation and its legal structure, and covers all fully consolidated Group subsidiaries.

Internal control is implemented by the management bodies and by all the employees of the Faurecia Group, who comply strictly with the Group's procedures in the course of their day-to-day tasks.

The internal bodies that are stakeholders in the internal control system include in particular:

- > Faurecia's Board of Directors, which sets broad guidelines for the business and determines the Group strategy. It also supervises their development;
- > Faurecia's Audit Committee, which responsibilities are defined by its Board of Directors and it plays a key role in monitoring (i) the process of preparing financial information, (ii) the effectiveness of the systems of internal control and risk management, and (iii) the statutory audit of the annual consolidated and parent company financial statements by the Statutory Auditors;
- > Faurecia's Internal Audit Department, which reviews the system of internal control and changes to it; ensures that the Group's approach complies with the legislation and market recommendations; ensures that the system as a whole is comprehensive, consistent and appropriate; and ensures that the procedures are always followed, *via* regular audits based on sampling and verification. If there are shortcomings, it ensures that corrective action plans are properly implemented and assesses the

effectiveness of the internal control. Its work is approved and directed by the Chairman and reviewed by the Audit Committee. The Department uses a systematic and methodical approach to promote a constant improvement in the efficiency of all financial internal control systems. It may, where necessary, audit any Group process anywhere in the world. It conducts its audits entirely independently and supports its findings with detailed and quantified evidence that has been fully verified. All its work is open to Faurecia's Executive Committee and it reports regularly to the Committee on the progress of the audits and on compliance with its objectives. Internal Audit follows up its recommendations to the auditees by (i) an analysis by questionnaire three, six and twelve months after the final report, (ii) a follow-up by the Operations Committee, (iii) a subsequent on-site audit, if this is considered necessary. Every six months, it presents the planned audit schedule, the completed reports, and the objectives achieved to the Group's General Counsel and Chief Financial Officer. It reports at least annually to the Audit Committee.

Programs are subject to specific internal control procedures, and are bounded by control procedures and systems throughout their life cycle. The Programme Management System (PMS) closely defines the programme's successive stages. Each programme is marked by milestones, from managing the invitation to tender until the end of the product's life. As part of the control system, programs are reviewed by the businesses concerned every month. The reviews are formally recorded and must comprise a certain number of documents. The purpose of this process is to identify on an on-going basis both the risks in the programme and the necessary action plans, and to implement those plans.

Quality risks are managed separately. They are assessed using clearly defined indicators, *via* monthly reports that generate improvement plans. Actions to prevent major risks are applied across business boundaries, at all levels in the organisation. There is also an Alert Management System (AMS) which relays problems to management as they arise. This system ensures both that the response will be rapid and organised so that the problem is resolved, and that the Company can capitalise on the solution. Lastly, the Faurecia Group's Quality Department has a team of auditors independent of operational units to carry out audits at both the production sites and in the research and development centres.

## 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 risk management system described above, which also applies to it in the same way as any other department of the PSA Peugeot Citroën Group.

### 2.5.1. ACCOUNTING AND FINANCIAL ORGANISATION

The Finance Department uses a technical and organisational framework called "Nordic", which covers both accounting standards and Group consolidation standards, accounting best practice, and standards for integrated accounting, financial management, financing and cash management, and taxation. 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 accounting standards describe the accounting policies applicable to all Group's 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 closure and reporting dates, and 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 six months 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 Peugeot Citroën Group and the statutory financial statements of Peugeot S.A., 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. They form the basis of the full set of consolidated financial statements reviewed each month by the Executive Committee.

The consolidated financial statements are prepared by the Consolidation Department, which is also responsible for Group accounting policies. The statements are prepared using the accounts of Group companies excluding Faurecia, restated in accordance with IFRS as adopted by the European Union, together with the accounts of the Faurecia Group sub-consolidation.

The subsidiaries' accounts are prepared under the responsibility of the Accounting and Finance Departments within the various divisions (Automotive, Automotive Equipment, 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 parent company and restated accounts for Peugeot S.A. It takes the work of the Statutory Auditors into account.



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, in particular, 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 the Group as well as inventories of property, plant and equipment held at Group sites, based on cycle counts which ensure that each asset is counted, in general, 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, in conjunction with the Statutory Auditors. 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.