

ORDINARY SHAREHOLDERS' MEETING OF 28 FEBRUARY 2017

SOLE DIRECTOR'S REPORT

Dear Sirs,

In my capacity as Permanent Representative of your Grouping's Sole Director, I am pleased to report to you on its activities over the past year, presenting the outlook for 2017, submitting the 2016 annual financial statements for your approval and, finally, asking you to allocate the earnings for the year.

RESPONSIBILITIES AND ACTIVITIES DURING 2016:

- Your Grouping centralises the liquidity needs and surpluses of the manufacturing and sales companies of the PSA Group in Europe as follows: (a) the euro zone countries through a euro cash-pooling, and (b) Great Britain, Switzerland, Poland, Mexico and Japan through a multi-currency cash-pooling managed by PSA International.
- Your Grouping manages the net cash surpluses in accordance with the short-term investment policy of PSA Group and within the counterparty limits governing these commitments.
- Since June 2013, GIE PSA Trésorerie has given guarantees to bond holders, to cover the issues of Peugeot S.A.
- In 2016 your Grouping extended two lines of credit to PCMA Russia. The first line, extended in December 2013 to comply with the ratios required by the European Reconstruction and Development Bank in the financing it granted to the subsidiary of 1,400 million roubles maturing in one year, which was utilised in full and then renewed, matured on 16 December 2016 and was not renewed.
The second line was extended in December 2016 to finance the acquisition of fixed assets and other costs of producing PSA vehicles. This line of 3,748,159,000 roubles maturing in five years was immediately drawn down in the amount of 1,328.2 million roubles. The repayment of this first tranche is spread over five years.
- During the period, in May 2016, your Grouping also granted a revolving line of credit to PSA Finance Belux in the amount of €300 million, to cover the operating needs of the borrower. This line has been fully drawn down. An addendum was attached to it in July 2016 to raise the principal to €400 million. The facility was fully utilised until the termination of the line on 2 December 2016.

- Since April 2014, Peugeot S.A. and GIE PSA Trésorerie have had a confirmed line of syndicated credit in the amount of €3 billion. This syndicated credit facility was amended on 10 November 2015 and now includes a Tranche A of €2 billion with a maturity of five years and a Tranche B of €1 billion with a maturity of three years (due in November 2018). Tranche B has two options to renew, by decision of the banks.

In September 2016, the first option was exercised. All the banks agreed to extend the maturity of Tranche B, with the exception of Banco do Brasil, whose exposure on Tranche B is €16.6 million. The maturity of Tranche B was therefore extended to 8 November 2019 in the amount of €983 million.

Cash position with respect to the members of the Grouping and other PSA Group counterparties

The loan accounts granted to members of the Grouping and other PSA Group counterparties (excluding Faurecia and Banque PSA Finance) represented €3,942 million of average annual outstandings (versus €6,932 million in 2015) when the borrowing accounts from these same entities were €8,745 million (versus €9,529 million in 2015). After the recapitalisation of Peugeot Citroën Automobiles S.A. by Peugeot S.A. in the amount of €4,052 million on 26 November 2015, the loans outstanding to Group entities fell starting in December 2015.

Since June 2009, the financing rate applied to members of the Grouping has been set on a monthly basis, in order to charge the funding costs incurred, less investment income received, back to members.

External financing

In 2016, your Grouping did not make use of any new external financing, either directly or by the intermediary of Peugeot S.A.

The net proceeds of the new bond issued by Peugeot S.A. in April 2016 were booked by GIE PSA Trésorerie in its current account, or €500 million.

In 2016 your Grouping, through Peugeot S.A., made the following redemptions:

- in January, a €535 million cash redemption of the OCEANE issued by Peugeot S.A. on 23 June 2009, maturing on 1 January 2016, with an issued amount of €575 million. The €40 million remainder equals the portion of the bonds that had been converted;
- in March, the redemption of the final maturity of the bond issued by Peugeot S.A. on 27 September 2011, maturing 30 March 2016, with an issued amount of €500 million;
- in June, the partial redemption of three of its bond issues with a nominal value of €496 million;
- in October, the redemption of the final maturity of the bond issued by Peugeot S.A. in two tranches on 21 October 2010 and 20 January 2011, maturing 28 October 2016, with an issued amount of €650 million.

In 2016, the average outstanding of all external financing amounted to €2,566 million, compared to €4,066 million in 2015.

Financial expenses resulting from external funding amounted to €219 million for 2016, against €295 million in 2015.

Interest rate hedges

Given the level of interest rates, no new interest rate hedging has been established. In 2016, no financing was hedged by interest rate instruments, either directly or via Peugeot S.A.

Currency hedges

The foreign exchange policy is to automatically hedge all currency risk exposures.

In addition, the Grouping used a cross-currency swap to hedge a loan in roubles extended to PCMA, for which the repayment of principal and interest is spread over five years.

Your Grouping also hedged its short-term investments in foreign currencies by subscribing appropriate financial instruments.

Short-term investments

The average amount of cash investments in 2016 was €7,515 million, compared to €6,943 million in 2015.

In 2016, your Grouping diversified the nature of its investments by extending it to include French instruments known as capitalisation contracts and foreign currency income.

The investments of your Grouping in 2016 break down as follows, in average annual amounts (in millions of euros):

UCITS	4,543
Money-market securities and short-term loans	2,271
Cash and cash equivalents	391
Loans to BPF/PSA Finance Belux	250
Capitalisation contracts	59
Overnight loans	1
Total	7,515

Financial income from external investment transactions amounted to €8 million in 2016, compared to €16 million in 2015, with an Eonia rate that, at a 2016 average of -0.3%, lost 21 basis points compared to 2015.

OUTLOOK FOR 2017

Your Grouping will continue to fulfil its responsibilities (i) of pooling the cash surpluses and requirements of members of the Grouping, (ii) of investing net surpluses, as well as (iii) acting as an intermediary in terms of managing interest rate risk.

Your Grouping will continue to optimise the return on its investments whilst preserving its short-term financial security.

In 2017, to properly match the financial resources of the Grouping with their uses, the mirror loans granted to the Grouping by Peugeot S.A. to make available the financing from the long-term bond issues will be terminated effective 1 January 2017.

The financial resources allocated to the Grouping will therefore be short-term resources, with the exception of the €600 million 2033 bond issued on the Grouping and retained as a financial security.

The cost of these short-term resources and the 2033 bond will henceforth be used in the calculation of the cost of capital charged to members.

REVIEW OF THE FINANCIAL STATEMENTS FOR 2016

The annual financial statements were prepared in accordance with current legal requirements and have been approved by your Grouping's Statutory Auditors. They include the balance sheet, the income statement and the notes to the financial statements. The notes contain information material to the understanding of the financial statements and, consequently, should be referred to.

The income statement for the year showed a gain of €2.5 million, versus a loss of €4.1 million in the preceding year.

Financial income for the year was up and stood at €77.1 million, compared with €61.5 million in 2015.

The change in operating income breaks down as follows:

- **+€77 million** due to decreased expenses related to external financing. The average outstanding balance of external debt was €2,566 million in 2016, €1,500 million lower than in 2015, but the €496 million bond redemption, the advantages of which will take effect over the coming years, created a redemption premium of €65 million in 2016. The average cost of financing rose accordingly, reaching 8.69% in 2016 against 7.25% in 2015.
- **+€0 million** on charges on the loans from members of the Grouping and other PSA Group counterparties due to the application of an average rate of 0% (EONIA, floored at 0), despite the reduced outstandings (-€784 million).
- **-€4 million** due to lower investment income, before adjusting for unrealised capital gains on UCITS, which are not shown in company profit and loss. Apart from this effect, the decrease in short-term investment income was -€8 million, with outstandings up by €572 million, but an average yield on investments of 0.13% versus 0.23% in 2015 in an environment of negative money rates.
- **-€69 million** due to the reduction in income from financing granted to members of the Grouping and other PSA Group counterparties (excluding Faurecia and Banque PSA Finance). The net change in income and expenses of the previous items has been passed on to members in accordance with the financing rate chargeback policy in force.

It should be noted that the increase in operating expenses, which amounted to €75 million in 2016, against €66 million in 2015, is due to the increased costs on bond issuance and redemption rebilled by PSA and which are recorded in this item. As mentioned above in regard to changes in the cost of external funding, a redemption premium of €65.4 million was paid in 2016, whereas redemptions in 2015 generated premiums to bondholders of €55.4 million.

The balance sheet footing at 31 December 2016 was €12.6 billion versus €12.5 billion at 31 December 2015.

You are asked to approve the financial statements for the financial year 2016 as now presented to you.

Proposal for allocation of earnings:

If you approve the financial statements as they have been presented to you, I propose, in accordance with Article 21 of your Grouping's contract, that you allocate the earnings, i.e. income of €2,504,009.68 to each of the members of your Grouping in proportion to the shares held in its capital, namely:

- PEUGEOT S.A.:	€2,478,969.58
- AUTOMOBILES PEUGEOT:	€8,346.70
- AUTOMOBILES CITROËN:	€8,346.70
- PEUGEOT CITROËN AUTOMOBILES S.A.:	€8,346,70

The Permanent Representative
of the Sole Director

JC. GAURY