12

Report of the Chairman of the Supervisory Board

on the preparation and organization of Supervisory Board meetings and on Internal Control

1. Supervisory Board membership, role and responsibilities

The Peugeot S.A. Supervisory Board has twelve members and three non-voting advisors. No member of the Board is a salaried employee of a Group company.

The Supervisory Board appoints members of the Managing Board and can remove them from office. According to the law, it is responsible for overseeing the Managing Board's management of the business. The Company's bylaws also attribute to the Supervisory Board sole authority to approve corporate actions, bond issues, the signature or termination of agreements with other companies operating in the same industry that will have a decisive impact on the Group's future development, and any major transaction that substantially alters the business or financial structure of the Company or the Group. In addition, the Supervisory Board ensures that the strategy implemented by the Managing Board is consistent with the Group's long-term vision, as defined by the Supervisory Board.

1.2. Supervisory Board practices

The Supervisory Board meets at least once every quarter; the agenda of each meeting is drawn up by the Chairman. It met five times in 2007, with an average attendance rate of 95%.

Board members are provided with detailed information about all material transactions. Guarantees given on behalf of subsidiaries are submitted for Supervisory Board approval when the amount involved exceeds €25 million or the cumulative amount of guarantees given during the year exceeds €125 million (excluding customs and tax bonds).

1.3. Committees of the Board

The Supervisory Board is assisted by three committees, each of which has its own internal rules.

The Compensation and Appointments Committee

Set up in 1998, the Compensation and Appointments Committee is responsible for preparing Supervisory Board decisions regarding compensation for members of the Managing Board, the Supervisory Board and the Board committees, as well as stock option grants to members of the Managing Board. The Committee also stays informed of changes in compensation and stock option grants to other Group executives.

In February 2003, the Committee's terms of reference were broadened to include preparing Supervisory Board decisions concerning the appointment of new members of the Supervisory Board and Managing Board, by proposing selection criteria, organizing the selection process and recommending candidates for appointment or re-appointment.

The Committee currently comprises four members, appointed in their own name and not as representatives of corporate Supervisory Board members. It met six times in 2007, to discuss the replacement of a Supervisory Board member, and to review the composition of the Managing Board, the base salary and bonuses of Managing Board members and the granting of stock options to Managing Board members.

The Strategy Committee

The Strategy Committee, set up in 1998, is responsible for considering the Group's long-term growth strategy. It is consulted on all major strategic issues and reviews the Managing Board's long-term strategic plan. It also prepares Supervisory Board decisions on strategic transactions submitted for the Board's approval in accordance with Article 9 of the bylaws.

The Committee currently comprises seven members, appointed in their own name and not as representatives of corporate Supervisory Board members. It met four times in 2007, mainly to discuss the Group's organizational structure following the appointment of a new Chairman of the Managing Board, the CAP 2010 program objectives and the Group's strategic objectives by business. One meeting, which was attended by all members of the Supervisory Board, was specifically dedicated to reviewing the Group's automobile product plan.

The Finance Committee

The Finance Committee, set up in 2002, is responsible for informing the Board of its opinion on the interim and annual financial statements of the Company and the Group. It may also be asked to review any corporate actions and other projects requiring the Board's prior approval. To this end, the Committee reviews in detail the interim and annual financial statements, the most significant financial transactions and management reporting indicators. It also monitors off-balance sheet commitments and information concerning the Group's risk exposure.

The Finance Committee enjoys free access to all the information it needs, and, like the Chairman of the Supervisory Board, may meet with the persons responsible for internal control and with the auditors, with or without line management attending. The Committee comprises five members, including a new Chairman.

Members are appointed in their own name and not as representatives of corporate Supervisory Board members.

The Committee met six times in 2007. At each meeting, it reviewed the management reporting indicators. The auditors and the Chief Financial Officer attended the meetings held to review the 2006 financial statements and the 2007 interim financial statements. A special meeting was held to examine the details of a fraud at Banque PSA Finance and the action plans undertaken in response. In February 2008, the Committee met with the auditors to review the 2007 financial statements of the Company and the Group, prior to their presentation to the Supervisory Board on February 12, 2008.

1.4. Supervisory Board and Managing Board Compensation Policies

Supervisory Board members and advisors are paid annual attendance fees. The total fees are approved by stockholders at the Annual Stockholders' Meeting.

The annual compensation paid to members of the Managing Board comprises a fixed salary and a variable bonus that is based on a certain number of objectives.

The five Managing Board members are assigned common objectives as well as personal objectives related to their respective executive positions. Each objective comprises both qualitative and quantitative criteria. The Chairman of the Managing Board receives a variable bonus which, except in exceptional circumstances, may represent up to 110% of his fixed salary. The variable bonus for other members of the Managing Board is limited to 100% of their fixed salary.

Managing Board members' salaries are set at the end of each year, for the following year. Their bonuses are determined at the beginning of the following year, based on their performance for the year in relation to their assigned objectives, along with their objectives for that year.

Each Managing Board member is covered by a pension plan that is in addition to the government-sponsored basic and supplementary pension plans.

The Supervisory Board may also decide to grant stock options to the Managing Board members, in which case it determines the lock-up rules that will apply to shares acquired upon exercise of the options.

Supervisory Board decisions concerning compensation, pension benefits and stock options are prepared by the Compensation and Appointments Committee.

2. Internal Control procedures

2.1. Objectives and limits of the PSA Peugeot Citroën Internal Control system

As part of its commitment to preventing and limiting the effects of internal and external risks, the Group has established internal control procedures and processes designed to provide reasonable assurance concerning the achievement of objectives in the following categories:
- 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 Company's assets;
- Reliable financial reporting;
- These controls also contribute to the proficient management of the Company's businesses, the effectiveness of its operations and the efficient use of its resources.

Within Group companies, the focus is on accounting and financial controls, which constitute a core component of the internal control system. Covering the production and communication of all of the Group's accounting and financial information, these controls contribute to the reporting of reliable information in compliance with legal and regulatory requirements.

They are based on specific procedures defined and implemented by Corporate Finance in order to meet the above objectives.

The internal control system aims to ensure that the above objectives will be met; however, no system can provide an absolute guarantee that this will be the case.

2.2. Internal Control framework used by PSA Peugeot Citroën

PSA Peugeot Citroën set the objective of adopting in 2007 the internal control framework and guidelines recommended by the French securities regulator (AMF), for the businesses defined in section 2.3 below. This objective applied both to processes contributing to the preparation of accounting and financial information for reporting purposes and to the overall organization of the Group's operations.

The Group's organizational structure was overhauled in 2007, leading to the creation of new operating units. As a result of these structural changes, the internal control teams had to be reorganized to function at the level of the different operating units. In addition, the revamping of a number of processes under the CAP 2010 plan made it necessary to update methods and procedures used to identify and manage the related risks. These projects were mainly carried out in 2007, with some continuing into 2008.

The Automobile Division's operating units and support departments are equipped with a set of procedures whose purpose is to ensure that operations continue to function effectively and in compliance with identified best practices. These units and departments also have the means to evaluate the risks they face and the controls they implement to counteract those risks. The databases and analyses are regularly updated.

2.3. Scope of the Internal Control framework

Internal controls are implemented based on the Group's operational organization as well as its legal structure.

The summary information provided in this internal control report focuses on procedures implemented to address risks likely to have a material impact on PSA Peugeot Citroën's published financial and accounting information.

Three Group companies use their own internal control frameworks, which are either specific to their business and regulatory environment (Banque PSA Finance) or adapted to the decentralized nature of their organization (Faurecia and Gefco). These three companies are therefore not included in the scope of the internal control framework.

Banque PSA Finance

To cover all the risks inherent in its business, Banque PSA Finance has set up an internal control system that complies with the rules specified by the French banking regulator *(Comité de la réglementation bancaire et financière)* in standard CRBF 97-02.

The system is organized around two lines of responsibility – for recurring controls and periodic controls – and includes first-tier controls performed by the operating units.

The internal control system checks:
- that the Bank's transactions, internal organization and procedures comply with the applicable regulations, professional standards and codes of practice;
- that decision-making procedures are strictly followed, whatever the nature of the decision;
- the quality of accounting and financial information;
- the existence of an audit trail guaranteeing data traceability;
- the quality of information and communication systems.

To comply with the new provisions of standard CRBF 97-02, the system is built around a headquarters-based internal control unit that regularly performs internal audits of Banque PSA Finance, its subsidiaries and branches and the Group entities responsible for supplying essential services (IT and Cash Management/Financing). The unit is supported by the Compliance and Operational Risk Control departments, which are completely independent from the operating units. Transactions carried out by the operating units are controlled by a series of procedures, formal authorizations, commitment limits and programmed controls. The new system was approved by the Bank's senior management and Board of Directors.

Ex-ante controls performed by headquarters teams mainly concern significant lending decisions made by the Banque PSA Finance Group Credit Committee under the system of discretionary lending limits, new products and services that are submitted to the New Products Committee for approval, and pricing decisions.

The Finance Committee of the Supervisory Board is regularly informed of Banque PSA Finance's actions.

At headquarters, the Risk Committee monitors trends in retail financing credit losses and the Margins Committee tracks changes in lending margins and competitive positioning indicators. The headquarters team also closely tracks the performance of the operating entities, through a standard management reporting system, for both budgetary control and risk monitoring purposes.

The Bank's Audit Committee, which was set up in 2005, monitors internal control structures and procedures and reports its findings to the Bank's Board of Directors. The Audit Committee held four meetings in 2007, including a special meeting in June to determine the steps to be taken following the detection of a major fraud within the Finance and Treasury Department, acting as a service provider to Banque PSA Finance. Immediate action was taken to eliminate the internal control weaknesses that allowed the fraud to be committed, and a special audit was conducted with the assistance of external accountants to evaluate all process dysfunctions and determine the necessary corrective action.

As a credit institution, Banque PSA Finance is required to comply with French banking regulations and is supervised by the French Banking Commission, the supervisory arm of the Bank of France. The Banking Commission is responsible for verifying compliance with the laws and regulations applicable to credit institutions, reviewing business practices and ensuring that capital adequacy requirements are met. Banque PSA Finance also complies with all banking laws and regulations in the other countries where it has operations.

Faurecia

Faurecia's Board of Directors, whose Chairman is also the Chief Executive Officer, is made up of eleven members. Two committees of the Board were set up in 2003, the Appointments and Compensation Committee and the Audit Committee. The Audit Committee's main responsibility is to review the financial statements in detail.

Internal control is based on a set of procedures available for consultation by all employees *via* the Faurecia Intranet. The procedures mainly concern program controls designed to track the execution of contracts for the design, production and supply of complex equipment to automakers, and financial and accounting controls intended to ensure that financial and accounting information is properly processed, thereby underpinning the company's responsiveness.

Faurecia has its own Internal Audit Department, responsible for assessing the effectiveness of internal financial control systems. In 2007, Faurecia continued to improve its internal control system by launching a risk-mapping process, analyzing operating processes and developing the internal audit function to ensure proper implementation of defined practices.

Gefco

Gefco operates integrated agency networks that all apply the same operating and service quality standards, based on information systems that are being brought into alignment. In the finance area, the Gefco companies apply PSA Peugeot Citroën Group standards and policies and participate in the Group cash pool. The networks are ISO 9001-certified.

The system of internal control comprises three tiers.

- The agencies check that all services performed are accounted for and billed at the agreed price. Organized as profit centers, the agencies prepare monthly income statements and closely monitor sales margins (revenues – transport costs), personnel costs and employee numbers, other operating costs and agency costs. The income statement data are aggregated by business under the supervision of regional managers, then by country.
- The national accounting departments ensure that financial flows comply with Group procedures.
- Headquarters internal control teams check the quality of the monthly reporting packages submitted by the subsidiaries.

The internal control teams monitor the compliance of accounting, management and financial flows with Group procedures and use an SAP software solution covering more than 95% of the Group's operations.

In this way, the quality of financial and accounting information is analyzed both by country and by business (controlled at Group level).

Internal control is supported by an agency self-assessment system launched in 2006, which is based on matrices covering all business processes and sub-processes. A summary risk analysis is then drawn up and action plans are applied accordingly. A quality system is also used, mainly consisting of quality audits and cross-functional checks. Accounting, financial and administrative audit teams at headquarters level carry out 15 to 30 audits per year based on a schedule or in response to identified risks.

In 2007, Gefco launched FORCE 10, a three-year project to improve quality, guarantee seamless service provision and reduce costs. The project will strengthen the internal control system by setting up indicators and action plans. The Group has also set up administrative information system task forces and specific action plans relating to inter-company reconciliations, revenue and purchase accruals and account closing processes, in response to problems associated with the May 2007 deployment of the part load and full transportation network information system.

2.4. Internal Control Systems in the Corporate Departments

2.4.1. Corporate Structure and Internal Control

Group Operational Structure

Since 1972, Peugeot S.A. has had a two-tier management structure, with a Supervisory Board and a Managing Board. This structure guarantees a clear separation between the Managing Board's day-to-day management of the business and the Supervisory Board's oversight, exercised with the support of three committees of the Board (see section 1.3). It represents an effective corporate governance model, by maintaining an appropriate balance of powers between the executive and control functions. As part of this organization, internal control is the responsibility of senior management, represented by the Managing Board.

The Automobile Division is organized into operating units with the necessary skills and resources to carry out their responsibilities. In

2007, these operating units were extensively reorganized. The new internal organization clarified the operating units' responsibilities and processes, most notably by creating the Programs Operating Unit, which covers all product plan, program and vehicle project responsibilities, and the Manufacturing and Components Operating Unit, which is responsible for engineering, production, plant scheduling and logistics.

One or several employees within each operating unit are tasked with managing and overseeing internal control over operations and updating the related procedures, in order to ensure the system's effectiveness while also fostering the teams' accountability and commitment to internal control.

This decentralized operational structure is coordinated and supported by cross-functional departments.

The Vice President, Legal Affairs, Institutional Relations and Internal Audit, who is responsible for internal control, is a member of the Group's Executive Committee and reports directly to the Chairman of the Managing Board.

The Vice President, Internal Audit reports to the head of Legal Affairs, Institutional Relations and Internal Audit. He has direct authority over the corporate-level internal auditors and a dotted-line reporting relationship with all internal auditors working in the Group's other departments, including at Banque PSA Finance and Gefco. He communicates directly with the Chairman of the Managing Board, which gives him total independence from all Group units and departments. He reports to the Chairman twice a year on all his responsibilities and he reports on request to the Finance Committee of the Supervisory Board.

The annual internal audit plan is drawn up based on identified and evaluated risks. It is drawn up independently by the internal auditors and submitted to senior management for review. In 2007, the Internal Audit Department carried out 87 audits, the overall results of which were reported to senior management and to the external auditors for the purpose of their accounting and financial reports.

Capital expenditure management, which is key to meeting the Group's objectives, is the responsibility of the Programs Operating Unit and Corporate Finance. Financial and management analyses are carried out to ensure that investment decisions are aligned with the Group's performance and profitability objectives. These analyses are presented to the Executive Committee members for validation.

Lastly, the overall structure of delegations of authority down the chain of command reflects the Group's internal organization. Account is taken of each manager's job as well as of his or her position in the chain of command, in order to grant powers to individuals who have the necessary authority, resources and competence in the area concerned. Each delegation of authority describes the individual's role and responsibilities, the rules and regulations to be complied with and the practices to be followed.

Preparation and processing of financial and accounting information

Financial and accounting information is controlled at Group level by Corporate Finance, which has appointed a coordinator to lead and monitor its work.

The consolidated financial statements are prepared by the Accounting Department and by the Consolidation Department, which is also responsible for establishing and updating Group accounting policies. The Accounting Department, in liaison with the operating units and the Management Control Department, ensures the accuracy of and systematically co-validates the individual statutory accounts and the consolidation packages. The Consolidation Department produces a full set of consolidated financial statements each month, for both internal management and external reporting purposes.

Management controls within the Group are organized around an integrated three-tier structure:

- A Corporate Department is responsible for the entire system and for issuing finance and management standards and procedures, describing the methods to be used, the related software applications and the timelines for the various tasks.
- The second tier consists of management control structures at divisional level, with Automobile Division controls organized around the main entities (the marques, production, R&D).
- The third tier corresponds to management control structures in each operating unit, such as a plant or a distribution subsidiary for the Automobile Division.

2.4.2. Internal communication on standards and procedures

Information on Divisional Operating Procedures

Each sales or manufacturing department has set up databases that describe the operating procedures that employees must follow in order to carry out their tasks correctly within their area of competence. These databases are all accessible *via* the PSA Peugeot Citroën Intranet.

In the case of the Automobile Division, as part of the ISO quality management systems certification process, the Management and Components Department established written procedures and operating policies with the general aim of providing employees with the information they need to properly carry out their responsibilities. All these documents may be viewed on the Cascade Intranet site, which is accessible to all employees.

Lastly, a Code of Ethics setting out the standards of conduct and behavior to be met by all employees has been available for consultation on the Group Intranet by all employees since March 2003.

Financial and Accounting Information

Corporate Finance uses a technical and organizational 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. A manager is responsible for updating each of the standards.

The best accounting practices database was created by the Accounting Department to extend the application of identified best accounting and internal control practices across the Group. These standards are also made available to all Group employees.

The accounting, management control and consolidation teams hold regular meetings to report and validate information leading to the preparation of the consolidated financial statements. The subsidiary financial statements are reported *via* the Magnitude system, which has been set up at all consolidated subsidiaries to guarantee data security and traceability. Data archiving and backup procedures create an audit trail guaranteeing data traceability.

To keep managers well informed, the management control entities produce monthly reporting packages for submission to senior management, based on the full monthly consolidation packages.

2.4.3. System for identifying and analyzing main risks and verifying the existence of risk management procedures

The internal control system is evaluated based on assessments performed at the level of the main units, in France and abroad, the different departments of the Automobile Division and the non-Automobile subsidiaries (except Faurecia and its subsidiaries, which have their own system). These units include corporate departments, plants, import subsidiaries, captive dealerships, local finance departments, facility accounting departments, etc.

The assessment is based on questionnaires outlining processes, sub-processes, risks and risk management measures. By filling out the questionnaire, each entity assesses how well it manages different risks and identifies appropriate solutions.

A project was undertaken in 2006 to consolidate risks identified by the different departments and map the Group's main risk exposures. This concise and thorough risk map led to the identification of some 20 risks, which are mapped in greater detail at the level of each department. The Group has therefore been able to satisfactorily cover its main risks by establishing their relationship to operating structures and procedures.

To manage the major risks likely to compromise the physical safety of employees, harm the environment, disrupt operations or affect the Group's tangible or intangible assets, the corporate Risk Management and Organization Department, which reports to the Legal Affairs, Institutional Relations and Internal Audit Department, is in charge of defining, deploying and supervising the Group's risk prevention and management policy. It is supported by a network of risk prevention and management supervisors responsible for implementing the policy at department or site level. The Risk Management and Organization Department also has teams of experts in environmental matters, fire and natural disaster risks, physical safety and insurance, who are responsible for:
- monitoring changes in technology and regulations;
- assisting and advising the corporate risk prevention and line managers;
- verifying that projects take risks into account and comply with regulations;
- defining and suggesting risk prevention and protection measures.

2.4.4. Control procedures

Divisional operating procedures

Each operating division has set up internal controls to cover the main risks identified in its risk map.

To cover the project management risks related to new vehicle development and process engineering, the Programs Operating Unit leverages a comprehensive design and development process known as the operational development plan. The plan is regularly updated and, in 2007, underwent specific modifications as part of the CAP 2010 project. For each vehicle project, a set of product services, profitability, quality and time-to-market objectives are fixed. Progress in meeting these objectives is tracked by a system of project milestones, corresponding to the various stages at which senior management reviews all the financial and technical indicators. In addition, the Quality Department authorizes the sale of each vehicle that leaves the production line and organizes any necessary recalls of faulty vehicles delivered to the dealers or to customers.

In Manufacturing and Components, internal control is rooted in the Quality Management System, the Risk Prevention and Management System and Management Control, Manufacturing Economics. These three systems cover all major risks identified within Manufacturing and Components. Internal control is integrated into Manufacturing and Components operational management and monitoring is performed all year long. Furthermore, each of the three internal control systems is regularly audited to verify proper implementation of control procedures, assess their effectiveness and issue recommendations where necessary.

The assembly plants have been ISO 9001:2000-certified by UTAC, to comply with the requirements of European Directive 2001/116, Appendix X. Most of the manufacturing plants' environmental management systems are ISO 14001-certified. All employees are trained in safety procedures and a constant focus is maintained on improving plant safety. Ergonomic considerations are taken into account in the design of products and the related plant and equipment in order to improve working conditions in the production shops.

In sales and marketing, internal control for the two marques, Peugeot and Citroën, is based on descriptions of control procedures designed to cover operating process risks within the corporate departments, the import subsidiaries and dealerships. Senior management provides the leadership and impetus for operational management in each department, subsidiary and dealership, backed by a system of controls and a continuous improvement process. Each entity has a Service Quality Plan detailing action plans in progress and aiming to improve internal control and internal organization in general. These plans are managed and controlled by the corporate sales and marketing teams.

The Purchasing Department leverages extensive expertise in product costing and commodity price management, as well as in-depth understanding of global markets, which enable it to manage the competitive bidding process and supplier relationships as part of its purchasing strategy. Close attention is paid to supplier risk, particularly the risk of supply chain disruption or of supplier bankruptcy. The department created a single team dedicated to industrial and supplier risk in July 2007, with responsibility for monitoring coverage of risks that may arise due to subcontractor failure by analyzing and rating supplier financial statements and purchaser data.

Contractual commitments to suppliers are strictly adhered to. Orders, inward deliveries and invoices are systematically recorded. Supplier payments are made only when the invoices have been checked for compliance with the order and the applicable regulations, and when they correspond to the goods actually received.

Programmed and manual controls are performed to ensure that customer invoices comply with local customs, tax and other regulations in both the shipping country and the delivery country, as well as with the terms of the order or contract covering the price, incoterms, transfer of title and other matters. Periodic physical inventories and cycle counts are performed to ensure that all delivered goods have been duly invoiced.

Automobile Division vehicle and replacement part sales in the countries where Banque PSA Finance has operations are carried out on a cash basis, with any financing requested by customers being provided by Banque PSA Finance. For sales in other countries, a standard has been issued stipulating payment and credit terms to be applied by the Automobile Division to customers according to the product (new vehicles, used vehicles, replacement parts, spare parts or components). A secure payments policy has been drawn up to avoid credit risks, supported by a monthly reporting system that ensures compliance.

Financing decisions and banking relationships are managed at corporate level. Back-up trading rooms have been set up to avoid the risk of any interruption of trading following a major incident.

The Group's Information Systems Security Policy was introduced in 2004 under the supervision of the Legal Affairs, Institutional Relations and Audit Department. The policy complies with the best practices recommended by standard ISO 27001. It outlines the standards applicable to different technologies. These standards are deployed through a network of managers specialized in the areas of Risk Prevention and Management and Logical Security. At senior management level, the Information Systems Security Committee is in charge of information systems security.

Access to the Group's internal computer network is controlled by security layers, the effectiveness of which is verified in internal and external audits. Action plans are currently underway to reduce the risk of malicious acts that may arise due to technical vulnerabilities within the PSA Peugeot Citroën network, particularly as the network becomes increasingly available to third parties. Lastly, to avoid the risk of any interruption of processing following a major incident and for its most important applications, the Group is in the process of setting up remote site data storage systems that do not rely on the physical transport of data storage material.

Procedures for the preparation and processing of financial and accounting information

Corporate Finance is in charge of the internal control procedures covering the preparation and processing of published financial and accounting information. To ensure that internal control objectives are met in its area of competence, Corporate Finance runs an annual campaign to identify risks, risk coverage and related control procedures.

The consolidated financial statements are prepared by a dedicated team. Each month, all consolidated companies send this 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 their consolidation package. These reconciliations are checked by the consolidation team. All consolidation adjustments are controlled and traced. An overall analysis of changes in the main 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 controlled both by their own management control teams and by teams of analysts within the Accounting Department.

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 all 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.

To uphold and improve the quality of accounting and internal control within Corporate Finance, an Accounting Quality Plan has been implemented at the level of each accounting team within the Automobile Division. This plan comprises all internal action plans established with the purpose of implementing the recommendations of the internal and external auditors as well as those of the teams themselves. Every six months, a meeting is held under the chairmanship of the Group's Chief Financial Officer to monitor the Accounting Quality Plan. At each meeting, the line managers present action plan progress reports. The auditors and the head of internal audit also attend these meetings.

Published financial information is based on the consolidated financial statements approved by the Managing Board and presented to the Supervisory Board, as well as on analyses of consolidated data.

The management control system also includes detailed automobile costing analyses, including analyses of variances and product margins, for use by line management.

Investment and financing strategies and strategies for evaluating counterparty risks arising from financial market transactions are approved by the Chief Financial Officer.

2.4.5. Internal management and oversight

The Managing Board is responsible for constantly overseeing and reviewing the internal control system, where necessary with the support of the Internal Control Department, which reports to the Board on the results of its controls. The Finance Committee of the Supervisory Board is kept informed of the main results of regular and one-off internal audits.

Each operating unit is responsible for managing risks within its scope of responsibility. However, the Risk Management and Organization Department manages and oversees all procedures designed to protect the Group from major risks likely to pose a threat to employee safety, the environment, operational activities or tangible or intangible assets. Product and service quality risks are managed by the Quality Department. These departments have teams of auditors that carry out dedicated quality controls designed to assess risk coverage.

Since 2007, other risks have been monitored by each Group department or unit independently. At the level of each operating unit, a manager is tasked with supervising the internal control system and its improvements. To ensure alignment between actions taken at operating-unit level, a corporate department has been created to lead and coordinate internal control processes at Group level for each of these units. The department should become operational in 2008.

Internal audit initiatives guarantee the effectiveness and appropriateness of internal control processes and procedures. In light of this, the 2008 internal audit plan includes a certain number of specific audits of areas identified as giving rise to significant risks, whatever the quality of the related internal controls as determined by the assessment process.

2.5. Procedures for the preparation of this report

This report was prepared 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 internal control framework created under the aegis of the French securities regulator (AMF).
- Obtaining assurance at the level of Corporate Finance—with input from the accounting, consolidation, financial communications and management control teams—that processes for the preparation and approval of the consolidated financial statements fulfill the quality criteria defined for each operational category in the guidelines integrated into the internal control framework.