16.5 Other Significant Corporate Governance Practices and Internal Control Processes and Procedures

The Group's internal controls are implemented based on its operational organisation as well as its legal structure. The applicable internal control processes are described in the Report of the Chairman of the Supervisory Board on the preparation and organisation of Supervisory Board meetings and on internal control.

➜ 16.5.1 Report of the Chairman of the Supervisory Board on the preparation and organisation of Supervisory Board meetings and on internal control

1 Preparation and organisation of Supervisory Board meetings

1.1 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.

The Board's internal rules stipulate that the Board is required to authorize, in advance, the following actions by the Managing Board, as provided for in Article 9 of the Peugeot S.A. bylaws:

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

Certain other actions exceeding financial limits set by the Supervisory Board may be carried out only with the unanimous backing of all the members of the Managing Board or, failing that, with the prior authorization of the Supervisory Board. These include the purchase or sale for cash or for shares of any building and business rights used by Peugeot S.A. involving an amount in excess of €50 million, the purchase or sale of any equity interest in any other company directly or indirectly representing an immediate or deferred investment, expense, credit guarantee or seller's warranty involving an amount in excess of €50 million, and any borrowings by Peugeot S.A. other than in the form of bonds, involving an amount in excess of €100 million.

Lastly, 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).

1.2 Supervisory Board Practices

The Supervisory Board meets at least once every quarter; the agenda of each meeting is prepared by the Chairman. It met five times in 2008, with an average attendance rate of 98%.

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

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, organising the selection process and recommending candidates for appointment or re-appointment.

The Committee currently comprises four members who are appointed in a personal capacity and may not be represented by another party. It met six times in 2008, to review the base salary and bonuses of Managing Board members and the granting of stock options to Managing Board members. In addition, the Committee was informed of the succession plans for the Group's key executives and examined the recommendations issued by the AFEP/MEDEF on October 6, 2008, which it advised the Supervisory Board to adopt.

The Strategy Committee

The Strategy Committee 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 projects submitted for the Board's approval in accordance with Article 9 of the bylaws.

The Committee currently comprises seven members who are appointed in a personal capacity and may not be represented by another party. It met four times in 2008, primarily to examine the Group's automobile product plan and its strategy in China, as well as Gefco's expansion strategy and the main measures taken in response to the financial and economic crisis.

The Finance Committee

The Finance Committee comprises five members who are appointed in a personal capacity and may not be represented by another party. It issues an opinion to the Board on the 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, as well as 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, which enjoys free access to all the information it needs, can, like the Chairman of the Supervisory Board, meet with the persons responsible for internal control and with the Auditors, with or without line management attending.

The Committee met six times in 2008. At each meeting it reviewed the management reporting indicators. The Auditors and the Chief Financial Officer attended the meetings held to review the 2007 financial statements and the 2008 interim financial statements. During the last quarter of the year the Committee carefully monitored the Group's cash position and the financing situation for manufacturing and sales operations and Banque PSA Finance. It also devoted a specific meeting to examining the Group's Internal Audit plan and to tracking the action plans implemented following the fraud at Banque PSA Finance in 2007. To this end the Committee carefully reviewed the stronger internal control procedures set up at the Bank as described in paragraph 2.3 below. At its meeting of February 6, 2009 – which was attended by the Auditors – the Finance Committee reviewed (i) the 2008 financial statements of the Company and the Group, prior to their presentation to the Supervisory Board on February 10, 2009, (ii) Faurecia's financial position, and (iii) the financing measures being negotiated with the French government and banks.

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 base salary and an incentive 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 quantitative and qualitative criteria. The Chairman of the Managing Board receives an incentive bonus which, barring exceptional circumstances, may not represent more than 110% or less than 50% of his base salary. The bonus for other members of the Managing Board is limited to 100% of their base salary.

The Supervisory Board sets Managing Board members' base salaries at the end of each year for the following year. Their bonuses are determined at the beginning of the following year, based on the performance for the prior year in relation to their assigned objectives. At the same meeting, the Supervisory Board sets the objectives of Managing Board members for the coming year.

In addition to being covered by government-sponsored basic and supplementary pension plans, Managing Board members are also entitled to pension benefits funded under an insured plan.

The employment contracts of Managing Board members, which were suspended upon their appointment as corporate officers, will be reinstated when they cease to be a member of the Managing Board. At that time, their annual compensation under the employment contract will be equal to their latest base salary decided by the Supervisory Board, plus the average of the last three years' incentive bonuses, and their entire term as member of the Managing Board will be taken into account for the purpose of calculating their seniority under the employment contract. This arrangement is conditional on the person having earned an incentive bonus equal to at least 60% of his or her average base salary over his or her term as member of the Managing Board. However, in accordance with the AFEP/MEDEF recommendations on executive directors' compensation, this system will be abolished for the Chairman of the Managing Board when his term of office is renewed or when he is replaced.

No other commitments have been given to past or present Managing Board members concerning any other benefits to be paid when they cease to be a member.

The Supervisory Board may also decide to grant stock options to Managing Board members, in which case it determines the lock-up rules that will apply to shares acquired upon the exercise of the options in accordance with the law. The Managing Board, in full agreement with the Supervisory Board and in compliance with stockholder-approved limits, decided that starting in 2002, the benchmark price for options to purchase existing shares granted in a given year to executives or employees of the Company or related companies would be equal to the average of the opening share price during the 20 trading days following the publication of the Group's first-half consolidated earnings, without any discount. On 20 August 2008, the Managing Board used the authorisation given by the Annual Stockholders' Meeting of May 23, 2007 to grant 1,345,000 options to purchase existing shares of Peugeot S.A. stock for €33.08 per share.

In July 2007, in accordance with the law, the Supervisory Board determined the lock-up rules applicable to shares acquired by corporate officers on exercise of stock options granted under any future plans. Under these rules, every time a Managing Board member sells such shares, he or she will be required to retain, until the end of his or her term as member, a number of Peugeot S.A. shares equal to 15% of the theoretical gross value of the shares sold. These lock-up conditions also apply to the August 2008 stock option plan.

In 2008, 140,000 stock options were granted to Christian Streiff and 60,000 options were granted to each of the four other Managing Board members.

Supervisory Board decisions concerning compensation are prepared by the Compensation and Appointments Committee.

The Group will implement the AFEP/MEDEF's October 6, 2008 recommendations on executive directors' compensation to the Chairman and other members of the Managing Board when applicable.

1.5 Adoption of the AFEP/MEDEF Corporate Governance Code

At its December 16, 2008 meeting, the Supervisory Board decided to adopt the AFEP/MEDEF Corporate Governance Code, as applicable to French joint-stock companies with a Supervisory Board and Managing Board, except for a number of points that are detailed below. The full version of this code, issued in December 2008, can be consulted at Peugeot S.A.'s head office or on the AFEP or MEDEF websites.

The areas of the Code that Peugeot S.A. has elected not to apply are as follows:

- to assess its members' independence the Supervisory Board applies the criteria recommended in the AFEP/MEDEF Code, except that members who have sat on the Board for more than twelve years or who have been a director of another Group company during the last five years may nevertheless be deemed independent.

  The Supervisory Board considers that the automobile industry experience of its members is extremely valuable, particularly in a business requiring a medium and long-term vision. The Board also considers that the fact of having recently been a director of another Group company does not give rise to any risk of the type of conflict of interest that the AFEP/MEDEF independence rules are designed to avoid. No member of the Board exercises any senior executive responsibilities or is a salaried employee of a Group company.

  As an exception to the recommendations in the AFEP/MEDEF corporate governance code, the membership structure of the Finance Committee and the Compensation and Appointments Committee takes into account the Group's independence criteria but also the requirement to have representatives from members of the Peugeot family, which is the Group's majority stockholder;

- supervisory Board members' terms of office are set at six years rather than four as recommended in the Code, as the Supervisory Board considers that a supervisory and oversight body needs to be in place for a certain amount of time in order to be able to effectively perform its duties. The term of office for Managing Board members is four years however;
- the Supervisory Board believes that it would be neither helpful nor necessary to set up a variable component for attendance fees based on members' attendance at Board and Committee meetings. Given that attendance rates at these meetings were 98% and 95% in 2008 and 2007 respectively, the Board feels that there is no need to give added incentives for members to attend meetings. Furthermore, 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.

1.6 Attendance at Peugeot S.A. Stockholders' Meetings

Any Peugeot S.A. stockholder may take part in the Company's Stockholders' Meetings irrespective of the number of shares held. No specific attendance requirements are stipulated in Article 11 of the bylaws concerning Stockholders' Meetings.

1.7 Disclosure of Information that May Have an Impact in the Event of a Public Tender Offer for the Company's shares

This information is provided in this Registration Document as part of the disclosures required under Article L. 225-100-3 of the French Commercial Code (see p. 346).

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

In 2008, the Group consolidated the internal control processes related to the new organisational structure put in place in 2007.

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 organisation 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 decentralised nature of their organisation (Faurecia and Gefco). These three companies are therefore not included in the scope of the overall internal control framework.

Banque PSA Finance

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

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

RECURRING CONTROLS

First-tier controls, the lynchpin of the internal control system

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

Second-tier controls

Second-tier controls include compliance controls and controls over operational risks within the finance companies and corporate units, including those arising from services performed by the PSA PEUGEOT CITROËN Group on the Bank's behalf.

The Compliance unit is responsible for preventing, controlling and overseeing compliance risks.

In 2008, the Compliance unit focused on:

- continuing to train staff in compliance risks, particularly the prevention of money laundering and the financing of terrorism, and the protection of personal data;
- deploying controls to help prevent money-laundering and the financing of terrorism and improving the related systems and processes;
- monitoring regulatory changes more closely across the entire business.

Controls over operational risks include:

- recurring assessments of the effectiveness of controls over operational risks within the Bank, including for outsourced services;
- specific second-tier controls, performed across the entire organisation.

In 2008, the focus was on assessing recurring controls over the subsidiaries' and branches' operational risks, as identified during the Banque PSA Finance risk mapping process.

The department set up in the fourth quarter of 2007 to control operational risks associated with accounting, IT, refinancing and treasury processes gradually extended its activities during 2008. A significant proportion of the department's time was devoted to overseeing the implementation of the recommendations issued following a specific audit carried out within the Group's Financing and Treasury Department, following the discovery of a fraud committed by an employee.

Alongside the risk mapping approach, a system to monitor first-tier recurring controls was implemented from the second half of 2008. It consists of a quarterly reporting system designed to inform that Bank's executive management of the extent to which operational risks are controlled within the various units.

Risk Management Function

The Risk Management unit of the Management Control Department is responsible for measuring and overseeing the Bank's financial risks on a consolidated basis and participating in their overall management.

The second and third pillars of Basel II are currently being incorporated into the Bank's risk management system.

PERIODIC CONTROLS

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

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

OVERSIGHT BY EXECUTIVE MANAGEMENT AND THE BOARD

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

The Board of Directors ensures 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 learnt from risk monitoring activities and from recurring and periodic controls. It met four times in 2008.

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. It is supported in this task by a Control Committee, which has front-line responsibility for the operational management of the internal control system.

ORGANISATION OF INTERNAL CONTROL

The internal control system is built around regular first-tier controls backed by an organisation structure in which each individual's authority and responsibilities are clearly defined, primarily through delegations of authority applicable to all operating units and corporate departments. These delegations of authority determine the levels at which decisions must be made in the areas of banking and financial transactions, loan approvals, lending terms, new products and services and expenditure commitments.

At the beginning of 2008, the system of dual signatures for banking and financial transactions was stepped up and extended to executive directors.

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

- the Credit Risks Committee, which monitors changes in troubled loans and credit losses, and analyses the performance of the risk selection systems;
- the Lending Margins Committee;
- the Products and Processes Committee;
- the Group Credit Committee, which reviews wholesale and fleet financing applications;
- the Refinancing Committee, which reviews the results of the Bank's refinancing and interest rate risk management policies;
- the IT Security Committee;
- the Compliance Committee;

Faurecia

Faurecia's Board of Directors is made up of eleven members, five of whom are independent within the meaning of the AFEP/MEDEF Corporate Governance Code. Five members directly represent the interests of Peugeot S.A., Faurecia's majority stockholder. Yann Delabrière has held the position of Chairman and Chief Executive Officer since February 16, 2007. Two committees of the Board were set up in 2003 – the Appointments and Compensation Committee and the Audit Committee. The role of the Appointments and Compensation Committee is to (i) prepare matters for the Board's discussion regarding corporate officers' compensation and stock option grants, and (ii) prepare procedures for selecting and recommending directors for election or re-election. The role of the Audit Committee is to review in detail the interim and annual financial statements, as well as any material financial transactions, and to analyse the Group's financial performance indicators.

Internal control is based on a set of procedures available for consultation by all employees via the Faurecia Intranet. The procedures mainly concern programme 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 overseeing the optimal effectiveness of internal financial control systems. In 2008, Faurecia continued to enhance its internal control system through its risk mapping process and by developing the Internal Audit function to ensure proper implementation of defined practices.

Gefco

Internal control is an integral part of Gefco's corporate governance strategy. The Gefco group applies the definition of internal control set out in the reference framework issued by the AMF in January 2007.

To ensure that its internal control system is both complete and accurate, Gefco performs controls at each level of the organisation – agencies, subsidiaries and group headquarters – as well as within its various Business Units. These controls cover financial, accounting and operating functions.

INTERNAL CONTROL OF ACCOUNTING AND FINANCIAL INFORMATION

The accounting processes that underpin Gefco's internal control of accounting and financial information correspond to a set of uniform activities that convert business transactions into accounting data. They include an accounting system, the preparation of financial statements, and reporting processes based on the standards and principles used by the PSA PEUGEOT CITROËN Group.

Each agency is structured as a profit centre and prepares monthly income statements, which enables them to check that services rendered are correctly recorded and invoiced at the agreed price. Sales margins, personnel costs and other operating costs are closely monitored.

Each subsidiary aggregates the income statement data received from its agencies and ensures that the financial flows recorded comply with Group procedures.

Lastly, headquarters internal control teams check the accounts and results of each subsidiary using an SAP software solution covering 95% of Gefco's operations.

The controls used to guarantee the quality of Gefco's accounting and financial information are based on criteria including true representation, completeness, accuracy and compliance with classifications.

INTERNAL CONTROL OF OPERATING PROCESSES

The internal control process also involves each Gefco manager in the agencies and departments, who reviews the operations under his or her responsibility based on a structured analytical framework. This approach provides an opportunity to verify that objectives are understood and shared and that the best possible use is made of the resources put in place to meet them.

In 2008, Gefco's internal control system for operating processes covered 23 subsidiaries and some 380 agencies and departments. The reporting schedules drawn up following the control assessments were sent to each entity during the third quarter of the year. All Gefco managers also have access to an intranet portal providing regularly updated internal control information.

Action plans arising from internal control assessments are managed Group-wide via a software application that is also used to manage the quality system. Using the same application to track both functions is designed to enhance the quality of Gefco's customer service.

The outcome of the internal control procedures applied to operating processes and the action plans implemented by each unit are also assessed during the audits carried out across the Group by the Internal Audit team.

Lastly, in 2008 Gefco launched a broad-based project to improve its administrative processes, which will directly contribute to strengthening the Group's internal control 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 running of the business and the Supervisory Board's oversight role, 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 organisation, internal control is the responsibility of senior management, represented by the Managing Board.

The Automobile Division is organised into operating units with the necessary skills and resources to carry out their responsibilities. The new organisation set up for these units in 2007 came into full effect in 2008.

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 decentralised 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 Head of Internal Audit reports to the Vice President, 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 reports to the Finance Committee of the Supervisory Board when requested.

The annual Internal Audit plan is drawn up based on identified and evaluated risks. It is prepared independently by the internal auditors and submitted to senior management for review. In 2008, the Internal Audit Department carried out 73 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 Programmes 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 organisation. 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 organised 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 organised around the main entities (the brands, 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 and 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 duties. 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 behaviour 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 organisational framework called “Nordic”, which covers accounting and consolidation standards, best accounting practices, integrated accounting standards, financial management standards, financing and cash management standards and tax-related standards. The framework is accessible to all Group employees to ensure that standards are applied uniformly. 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 Analysing Main Risks and Vverifying the Existence of Risk Management Procedures

The internal control system is evaluated each year based on assessments performed at the level of the main units, in France and abroad, within 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.

This approach enables each entity to assess how well it manages the various risks and to identify 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 Risk Management and Insurance 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 Insurance 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.

Note 37 to the consolidated financial statements provides information on (i) the management of market risks, which is primarily carried out by Corporate Finance; (ii) identified currency, interest rate, equity, commodity, counterparty and liquidity risks and the Group's policy for managing those risks; and (iii) the hedges set up at December 31, 2008, 2007 and 2006.

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 Programmes Operating Unit leverages a comprehensive design and development process, known as the operational development plan, which is regularly updated. 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 authorises the sale of each vehicle that leaves the production line and organises any necessary recalls of faulty vehicles delivered to dealers or customers.

In Manufacturing and Components, internal control is rooted in the PSA production 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 19001:2000-certified by UTAC, to comply with the requirements of European Directive 2001/116, Appendix X. Substantially all 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 brands, 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 organisation in general. These plans are managed and controlled by the corporate sales and marketing teams. To enhance the performance of the dealer networks, each proprietary dealership has been allocated to specific entities whose managers report to the Executive Vice Presidents responsible for the Peugeot and Citroën brands.

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 analysing 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.

At senior management level, information systems security is overseen by the Information Systems Security Committee. The Group's Information Systems Security Policy – which was validated in 2004 by the Information Systems Department and the Legal Affairs, Institutional Relations and Internal Audit Department – is updated regularly to reflect any technological or regulatory changes. The policy concerns the automobile and finance Company divisions and complies with the best practices recommended in ISO 27001. The applicable standards are rolled out to the various departments via a cross-business network.

Based on risk analyses and internal and external audits performed regularly within the Group, the Information Systems Department implements security action plans in liaison with the relevant departments from the Group's business lines. These plans – which help ensure compliance with banking and finance regulations – are structured around three objectives: (i) enhancing the administration of access rights e.g. through segregating tasks, periodically reviewing access rights and reducing the number of users with such rights; (ii) ensuring that security is maintained despite the requirement to open up the Group's systems to external parties under the "PSA Extended Enterprise" strategy; and (iii) guaranteeing that the automobile and finance Company divisions would be able to continue their essential operations if a major incident occurred at one of the Group's IT centres.

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 several campaigns each year 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 the 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 verified both by their own management control teams and by teams of accounting analysts within the Group Consolidation 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. A meeting is held every quarter 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.

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 Corporate Finance.

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 Audit 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 Insurance Department manages and oversees all procedures designed to protect the Group from major risks that may 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.

Other risks are monitored by each Group department or unit independently.

At the end of 2008, a Corporate Internal Control unit was set up as part of Legal Affairs, Institutional Relations and Internal Audit in order to manage and coordinate internal control processes across the Group and verify the consistency of measures undertaken by each operating unit. For its assessment of the Group's position as a whole, this unit will mainly draw on information provided by the Risk Management and Insurance Department concerning risks that could affect the Group's assets or disrupt operations. The unit's official working framework as well as the coordinating processes and any changes in internal control methods will be prepared in early 2009.

Internal audit initiatives guarantee the effectiveness and appropriateness of internal control processes and procedures. In light of this, the 2009 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 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 fulfil the quality criteria defined for each operational category in the guidelines integrated into the internal control framework.