

## 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.

The report of the Chairman of the Supervisory Board on corporate governance and internal control was approved by the members of the Board at their meeting on 9 February 2010.

### → 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, Roles and Responsibilities

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

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. It appoints members of the Managing Board and can remove them from office. Pursuant to the law, it is responsible for overseeing the Managing Board's management of the business.

The internal rules also stipulate that the Supervisory Board is required to authorize, in advance, the following actions by the Managing Board as provided for in article 9 of the bylaws:

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

the execution of any major transaction which substantially alters the scope of the business or the balance sheet structure of the Company or the Group.

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 authorisation of the Supervisory Board. These include the purchase or sale for cash or for shares of any building or 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

seven times in 2009, with an average attendance rate of 96%. Board proceedings are recorded in minutes that summarise the discussions and present the decisions taken.

In early 2010, the Board performed an assessment of its membership, organisation and operating procedures, whose findings will be discussed at the April meeting.

### 1.3. Committees of the Board

The Supervisory Board is assisted by three specialised committees: the Finance and Audit Committee, the Strategy Committee and the Compensation and Appointments Committee. Each one has its own set of internal rules. Proceedings of each committee meeting are summarised in a report submitted to the Supervisory Board.

#### The Finance and Audit Committee

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

It is chaired by a Supervisory Board member, classified as independent in accordance with the criteria applied by the Group, and as required by law, includes another independent member specialised in financial or accounting matters.

In accordance with article 823-19 of the French Commercial Code, the Finance and Audit Committee oversees issues concerning the preparation and control of accounting and financial data. In particular, it oversees the process of preparing financial information, the effectiveness of internal control and risk management systems, the statutory auditing of the parent company and consolidated financial statements and the independence of the Statutory Auditors. It is also responsible for informing the Board of its opinion on off-balance sheet commitments and any corporate action or other project requiring prior approval by the Board. As part of its duty to oversee the effectiveness of internal control systems, the Committee issues an opinion on the Internal Audit plan for the coming year and is informed of the findings of the Internal Audits performed in implementing the plan. At each meeting of the Supervisory Board, the Committee reports on its work in carrying out its mission.

The Finance and Audit 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 Finance and Audit Committee met seven times in 2009, with a 97% attendance rate. The Auditors and the Chief Financial Officer attended the meetings held in February and July to review, respectively, the 2008 financial statements and the 2009 interim financial statements.

In February, the Committee reviewed the Group's financing for the year, including the terms and conditions of the loan

from the French State, and, in a second meeting, the financial forecast and related objectives for 2009.

In April, the Committee reviewed the provisional figures for 2009 and the Group's financial strategy in a time of financial and economic crisis.

In June, the Committee examined the opportunities offered by the bond market and the guidelines for issuing debt securities.

In October, the Committee reviewed the Group's medium-term plan and the related projects.

Lastly, in December the Committee reviewed the 2010 budget, the strategic outlook and the 2010 audit plan.

#### The Strategy Committee

The Strategy Committee is responsible for considering the Group's long-term future and strategic vision. In line with this role, it reviews all matters of strategic importance as well as 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 comprises seven members, who are appointed in their own name and may not be represented by another party. It met five times in 2009, with a 97% attendance rate.

During the meetings, it primarily reviewed the strategic outlook for the Group and its development, the automotive product plan, Gefco and Faurecia's expansion strategies and the main measures taken in response to the financial and economic crisis.

#### 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. It also stays informed of changes in compensation and stock option grants to other Group executives.

It prepares 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 comprises four members, who are appointed in their own name and may not be represented by another party. It met eight times during the year, with a 100% attendance rate. In particular, it discussed the base salary of

Managing Board members and the preparation of succession plans for key executives.

The Committee prepared the Supervisory Board meetings that led to the termination of Christian Streiff's position as Chairman of the Managing Board, the appointment of an acting Chairman and then the appointment of Philippe Varin as Chairman of the Managing Board and the definition of his compensation package.

It also prepared the appointments to the Managing Board of Jean-Marc Gales and Frédéric Saint-Geours.

In December, the Supervisory Board decided to replace the Compensation and Appointments Committee with two separate committees, an Appointments and Governance Committee and a Compensation Committee. The Board felt that in view of the underlying strategic importance of appointments and the increasingly central role of corporate governance, the Group should have a committee specifically dedicated to these two areas. Furthermore, by creating a committee that deals exclusively with compensation issues, the Group will be able to track market practices more closely and enhance the effectiveness of its compensation policies.

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

Supervisory Board members and non-voting advisors are paid annual attendance fees. The aggregate amount of these fees is approved in advance at the Annual Shareholders' Meeting.

At the end of the year, the Supervisory Board determines the base salary that will be paid to Managing Board members the following year and, at the beginning of the year, it calculates the incentive bonus based on how well each member met his or her assigned objectives over the year. At the same early-year meeting, the Supervisory Board sets objectives for each Managing Board member for the current year. These objectives – which are both quantitative and qualitative – comprise targets set for all members of the Managing Board and specific performance-related targets based on each member's individual executive duties.

In accordance with the terms and conditions of the loan granted to the Group by the French State no bonuses were paid to members of the Managing Board for 2009.

When the Supervisory Board appointed the new Chairman of the Managing Board in April 2009, it decided that his incentive bonus could represent up to 110% of his base salary. Incentive bonuses for the other members of the Managing Board may not exceed 100% of their base salary.

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.

In accordance with the AFEP/MEDEF recommendations on executive Directors' compensation, the employment contracts of Managing Board members are no longer suspended for the duration of their terms of office.

No other commitments have been given to past or present Managing Board members concerning any 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 shareholder-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.

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 of office, a number of Peugeot S.A. shares equal to 15% of the theoretical gross capital gain.

No stock options were granted to Managing Board members in 2009.

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

#### **1.5. Application of the AFEP/MEDEF Corporate Governance Code**

At its meeting on 16 December 2008 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. The consolidated version of this Code, issued in December 2008, may 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 automotive 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. In 2009, Jean-Paul Parayre, Jean-Louis Masurel and Ernest-Antoine Seillière – who have been Supervisory Board members for more than twelve years – were therefore deemed to be independent by the Supervisory Board.

Jean-Louis Silvant is also considered to be independent, even though he sits on the Board of Directors of Peugeot Suisse, as the operations of this company only represent a small proportion of the Group's automotive business.

No member of the Supervisory 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 concerning the proportion of independent members of Board Committees (at least two thirds for the Finance and Audit Committee and a majority for the Compensation and Appointments Committee), in 2009 the membership structure of the Finance and Audit Committee and the Compensation and Appointments Committee took into account the requirement to have representatives from members of the Peugeot family, which is the Group's majority shareholder.

- 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.

- Attendance fees payable to Supervisory Board members do not include any variable component based on attendance at Board and Committee meetings. Attendance rates at Supervisory Board meetings were 96% in 2009 and 98% in 2008 and attendance rates at the various Committee meetings ranged from 97% to 100%. 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. Shareholders' Meetings**

Any Peugeot S.A. shareholder may take part in the Company's Shareholders' Meetings irrespective of the number of shares held. No specific attendance requirements are stipulated in article 11 of the bylaws concerning Shareholders' 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 (please refer to page 366 and 367).

## **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 the Group Finance Department 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 has set itself the objective of ensuring that its internal control system for the businesses defined in section 2.3 below complies with the Internal Control Reference Framework and Application Guide issued by the French securities regulator (AMF). This objective applies 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 2009, the Group put in place new internal control processes and procedures following the creation of the Internal Control Department in October 2008.

The Automotive 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

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

##### *Second-tier controls*

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

The Compliance unit is responsible for preventing, controlling and overseeing compliance risks. In particular, it verifies that the bank meets its obligations concerning data protection,

the prevention of money laundering and compliance of new or substantially modified products. It ensures that the required systems are put in place and organises compliance training. This unit is also responsible for regulatory oversight and ensuring that the Bank effectively incorporates regulatory changes into its business, particularly into its IT systems.

Controls over operational risks include (i) recurring assessments of the effectiveness of the operational risk management systems put in place within the bank, including for outsourced services, and (ii) specific second-tier controls. The department tasked with controlling operational risks is also responsible for ensuring that operations staff regularly perform key first-tier controls on risks classified as major.

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

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

#### *Risk management function*

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. It also ensures that the requirements of pillar 2 and 3 of Basel II are taken into account in the bank's overall 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 substantially all of the bank's units and processes (including those that are outsourced) to be audited at least once every three years.

#### OVERSIGHT BY EXECUTIVE MANAGEMENT AND THE BOARD

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

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

Executive management is responsible for defining and implementing the system of internal control. It oversees the system's efficiency and effectiveness, and ensures that adequate resources are assigned to internal control. 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 responsibility 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 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 ten members, three of whom are independent within the meaning of the AFEP/MEDEF Corporate Governance Code. Six members directly represent the interests of Peugeot S.A., Faurecia's majority shareholder. Yann Delabrière has held the position of Chairman and Chief Executive Officer since 16 February 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. On 15 October 2009 Faurecia's Board of Directors set up a Strategy Committee, tasked with preparing strategic issues to be discussed at Board meetings as well as with putting forward proposals, recommendations and opinions about planned acquisitions of new businesses, asset disposals and joint venture projects.

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 performance 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 Group's responsiveness.

Faurecia has its own Internal Audit Department, responsible for overseeing the optimal effectiveness of internal financial control systems. In 2009, Faurecia continued to enhance its internal control system by developing the Internal Audit function to ensure the implementation of best 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.

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 CONTROLS RELATING TO ACCOUNTING AND FINANCIAL INFORMATION

The accounting and management 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 and management data. They include an accounting system, the preparation of financial statements, and management reviews 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. Controls are performed relating to areas including pricing policies, sales margins, personnel costs and other operating costs.

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

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 CONTROLS RELATING TO OPERATING PROCESSES

Internal control at Gefco is also the daily responsibility of each employee and manager, who take care to conduct his or her activities in accordance with applicable standards, continually assessing the effectiveness of processes and implementing improvement measures where appropriate.

Each year, a Group-wide assessment campaign is conducted in order to gauge the effectiveness of the internal control system, with each manager reviewing the operations under his or her responsibility based on a structured analytical framework. The data collected is used to deploy improvement measures at every level of the business.

In 2009, the review methods incorporated PSA Peugeot Citroën recommendations on identifying and tracking risks. The assessment campaign was conducted in the third quarter of the year and involved twenty-seven subsidiaries and nearly three hundred agencies. A detailed report, prepared from the compiled information, served as a framework for defining appropriate improvement measures.

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.

Also in 2009, Gefco continued to work on the project launched in 2008 to improve its administrative processes – notably by drafting new standards and strengthening its information systems – which will directly contribute to enhancing the effectiveness of the Group's internal controls.

## 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 Automotive Division is organised into operating units with the necessary skills and resources to carry out their responsibilities. 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 operating structure is coordinated and supported by cross-functional corporate departments.

The Corporate Secretary, 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 Control – who reports to the Corporate Secretary – is responsible for organising the overall risk identification and management process described in section 2.4.3 below, as well as for overseeing the internal control system in place within the Group (except for Banque PSA Finance and Faurecia, which have their own systems). He also presents to senior management a report on the results of the procedures implemented. For risk exposures at the Group's sites – which mainly concern property, plant and equipment – the Head of Internal Control is assisted by the Risk Management and Insurance Department, which directs the specific process, set up for these risks. The Head of the Risk Management and Insurance Department also reports to the Corporate Secretary.

The Head of Internal Audit reports to the Corporate Secretary. 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 also reports twice a year to the Supervisory Board's Finance and Audit Committee.

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 2009, the Internal Audit Department carried out 75 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 in this area.

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, both for 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 Automotive 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 Automotive 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 Automotive Division, as part of the ISO quality management certification process, the Manufacturing and Components Department has introduced 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 can 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 and is currently in the process of being updated.

#### 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 Verifying the Existence of Risk Management Procedures

The various departments identify and assess risks and evaluate the related internal controls on an ongoing basis, in France and abroad, within the main units of the Automotive Division and the non-Automotive subsidiaries (except Faurecia and its subsidiaries, which have their own system). These units include corporate departments, plants, import subsidiaries, captive dealerships, local finance departments and facility accounting departments. This approach enables each operating unit as well as the Group as a whole to establish a map of their principal risks, to assess how well their various risks are managed and draw up action plans where appropriate. The main features of the overall internal control system put in place are as follows:

- a continuous improvement process for preventing and managing risks using a pragmatic, operations-based approach with a focus on action plans and outcomes;

- led by department heads, who are responsible for overseeing internal control down the chain of command, thereby contributing to the achievement of objectives and enabling full leverage of expertise specific to each business;
- cross-functional co-ordination and assistance from a network of Internal Control Officers who have a dotted-line reporting relationship with the Internal Control Department;
- use of existing systems, procedures and processes, including the Quality Management and similar systems, as well as best practices and procedures already applied in the different businesses;
- autonomy for the various internal control players, with no central questionnaire and a single deliverable – the risk data sheet – prepared based on straightforward support material such as risk classifications, an impact assessment grid and a scale of internal control maturity levels;
- precedence of financial impacts over other matters such as legal and HR factors or customer/image issues;
- tools for assessing both current and target internal control maturity levels;
- tracking systems for action plans relating to risk prevention and control and internal control maturity levels;
- a specifically designed reporting and consolidation system, adjusted as needed;
- monthly reviews by the departments, with a monitoring process for the main risks and associated action plans;
- a monthly process of reporting to the Executive Committee on the Group's main risks and associated action plans;
- a quarterly process of reporting to the Executive Committee on movements in the Group's overall risk portfolio.

Procedures for managing risks that could affect the Group's property, plant and equipment and therefore its ability to operate as a going concern are prepared based on a dedicated Site Risk Management Process, designed by the Risk Management and Insurance Department. This department helps the network of site risk managers to apply the Site Risk Management Process by providing expertise in such areas as fire, natural disaster and health and safety risks.

Note 37 to the consolidated financial statements provides information on (i) market risks, which are primarily managed by Corporate Finance; (ii) identified currency, interest rate, equity, commodity, counterparty and liquidity risks and the Group policies designed to manage them; and (iii) the hedges set up at 31 December 2009, 2008 and 2007.

The Group's other risk factors are described in section 4 of the Registration Document and the procedures implemented to control them are detailed below.

#### 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 Automotive Programmes and Strategy Department 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 set. 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. It also ensures that vehicles in the marketing or design stage comply with the applicable regulations, particularly those relating to health, safety and the environment.

Concerning risks related to partnerships, the Corporate Finance and Strategic Development departments have set up a process for verifying that the Group's partners comply with their contractual commitments.

In Manufacturing and Components, internal control is rooted in the PSA production system, the Site Risk Management Process 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. 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 a single entity whose manager reports to the Executive Vice-President responsible for the Peugeot or Citroën brand.

The Purchasing Department leverages extensive expertise in production 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. Since July 2007, a single team dedicated to industrial and supplier risk has monitored coverage of risks that may arise due to subcontractor failure, based on purchaser data and ongoing analysis of supplier financial statements and ratings.

The Group enters into contractual commitments with its suppliers. 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.

Automotive 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 Automotive 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 rooms ensure that these activities can continue without any interruption, even in the event of 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 has been validated by the Information Systems Department and the Corporate Secretary's Office – is updated regularly to reflect any technological or regulatory changes. The policy concerns the automotive 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 automotive 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 consolidated income statement, balance sheet and cash flow statement items is communicated each month to senior management.

The reliability of data reported by the subsidiaries is verified 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 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 Automotive 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 automotive 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.

#### CONTROL PROCEDURES FOR LEGAL AND CONTRACTUAL RISKS

The PSA Peugeot Citroën Group is exposed to legal risks as an employer and in connection with the design and distribution of vehicles, the purchase of components and the supply of services.

To manage these risks, the Group implements preventive policies covering workplace health and safety, the manufacturing environment, industrial and intellectual property, vehicle safety, product and service quality and the security of the Group's transactions from a legal standpoint.

The Legal Affairs Department is responsible for drafting or verifying the Group's contractual commitments and ensuring their legal and regulatory compliance. It is also in charge of organising the Group's defence in the event of disputes with third parties.

PSA Peugeot Citroën has two dedicated intellectual property teams – one that covers the Group's industrial property and the other in charge of brands.

#### 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 and Audit 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. Product and service quality risks are managed by the Quality Department. These units and department 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. In each operating unit, for example, a dedicated manager has been appointed to lead and continuously improve the unit's internal control system.

The Corporate Internal Control Department manages and coordinates internal control processes across the Group and verifies the consistency of measures undertaken by each operating unit. For its assessment of the Group's position as a whole, this department mainly draws on information provided by the Risk Management and Insurance Department concerning risks that could affect the Group's assets or disrupt operations.

Internal Audit initiatives guarantee the effectiveness and appropriateness of internal control processes and procedures. In light of this, the 2010 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 internal control risk 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 application guide included in the AMF's internal control framework.