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 19 April 2011.

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. Membership of the Supervisory Board

The Supervisory Board has twelve members plus two non-voting advisors. The members are elected by shareholders for six-year terms.

No member of the Supervisory Board is a salaried employee of a Group company.

The Supervisory Board comprises five members of the Peugeot family and seven members qualified as independent based on the criteria applied by the Group.

The Board had one woman member in 2010. In accordance with French Act 2011-103 of 27 January 2011 concerning gender balance among Board members, the Supervisory Board conducted studies and undertook the necessary measures, taking into account the expiry dates of the current members' terms, to ensure that its membership complies with gender balance principles. At least 20% of members will be women following the 2014 Annual Shareholders' Meeting and at least 40% after the 2017 Annual Shareholders' Meeting.

In particular, at its 8 February 2011 meeting, the Board decided to put forward a proposal at the 2011 Annual Shareholders' Meeting to elect another woman as director.

More generally, the Appointments and Governance Committee has undertaken a member selection process designed to change the Board's membership structure.

1.2. The Supervisory Board's Roles, Responsibilities and Operating Procedures

Internal Rules

At its 9 February 2010 meeting, the Supervisory Board revised its internal rules that were originally adopted in February 2003. The new version defines the Board's roles and responsibilities as follows:

- The Supervisory Board appoints members of the Managing Board, can remove them from office and determines their compensation packages.
- The Supervisory Board sets the amount of compensation for its Chairman and Vice-Chairman or Chairmen and determines the procedures for allocating attendance fees among its members.
- In accordance with the law, the Supervisory Board acts as the oversight body of the Company, which is administered and managed by the Managing Board.

  The Supervisory Board is therefore responsible for:
  - Overseeing the Managing Board's management of the Company by performing any checks and controls it deems appropriate,
  - Carrying out periodic controls of the Company's management (i) on a quarterly basis by reviewing business reports presented by the Managing Board and (ii) within three months of each year-end, by examining and issuing its opinion and comments on the annual financial statements of the Company and Group, as presented by the Managing Board, and on the Management Report to the Annual Shareholders' Meeting.
- The Supervisory Board ensures that the strategy proposed and applied by the Managing Board fits with the Group's long-term vision as defined by the Supervisory Board.

  The Board reviews the strategic plan and the various multi-year business plans, as well as the capital expenditure plan and the budget.

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

- shareholder-approved 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.

The Managing Board may carry out the following actions only with the unanimous backing of all of its members or, failing that, with the prior authorisation of the Supervisory Board:

- the purchase, sale, exchange or transfer of any and all operating real estate and businesses in transactions representing an amount in excess of the ceiling set by the Supervisory Board (currently €50 million);
- the purchase, acquisition or sale of any equity interest in any and all existing or future enterprises directly or indirectly representing an immediate or future investment, expense, debt guarantee or seller's warranty involving an amount in excess of the ceiling set by the Supervisory Board;
- the signature of loan agreements, other than for bond issues, for a period or an amount in excess of the limits set by the Supervisory Board (currently €100 million).

Lastly, guarantees given on behalf of subsidiaries are submitted for Supervisory Board approval when the amount exceeds a certain level. In 2010, such approval was required for individual guarantees exceeding €25 million, or when the cumulative amount of guarantees given during the year exceeded €125 million (excluding customs and tax bonds).

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

- Supervisory Board information procedures, practices and guidelines;
- the minimum number of Board meetings that must be held per year (currently five), as well as the procedures to be applied when holding the meetings and preparing the agenda;
- the roles and responsibilities of Supervisory Board Committees;
- the procedures for assessing the Board's performance;
- the obligations of Board members, particularly the requirement to comply with the Stock Market Code of Ethics introduced in 2010, which each Board member has signed.

Operating Procedures

Two weeks before each Supervisory Board meeting all of the Board's members receive the agenda of the forthcoming meeting and the draft minutes of the previous meeting. In addition, at the end of the week preceding the planned meeting, the Board members are sent an information pack containing a copy of the minutes of the previous meeting, the presentations to be given for each agenda item, the minutes of the meetings of the Board Committees and, where the meeting involves examining a quarterly business review, the Report of the Managing Board. The packs also contain the schedule for the meetings of the Supervisory Board and the Board Committees for the year in progress and the following year, an update of the "blackout periods" during which Board members are prohibited from trading in the Company's securities (as specified in the Stock Market Code of Ethics), press articles that have been published about the Group since the last Board meeting, and any external financial analyses that have been released. A copy of the pack is usually also provided in the meeting itself.

The members of the Managing Board attend Supervisory Board meetings and the Statutory Auditors attend the meetings where the annual and interim financial statements are examined.

The schedule for each year's meetings is prepared in April of the preceding year. Ordinary Supervisory Board meetings are systematically preceded by meetings held by the Finance and Audit Committee, the Appointments and Governance Committee and the Compensation Committee.

Each ordinary Supervisory Board meeting lasts for a minimum of three and a half hours, but may be longer when required. The Chairman of the Board may call special meetings where necessary.

Assessment of the Board's Performance

In February and March 2010 the Supervisory Board carried out a formal assessment of its own work and the work performed by its Committees based on an individual questionnaire completed by each Board member.

In summary, the findings of the self-assessment showed that the Board's membership structure is generally considered to be appropriate and that the members believe the quality of Board meetings to be high, with increasingly open discussions, enabling them to effectively deal with the items on the agenda. The Supervisory Board members also feel that the Committees effectively fulfil their role of preparing the Board's discussions.

However, a number of areas for improvement were also identified during the assessment process. For example, half of the Board's members felt that they do not receive the preparatory documents in sufficient time for meetings.

Concerning the Supervisory Board's membership structure, recommendations were put forward on the need to increase the proportion of women on the Board and to appoint an independent non-French member with proven financial experience who is also familiar with the business environment in Asia. The Appointments and Governance Committee subsequently launched a process to find candidates corresponding to this profile.

In addition, following recommendations expressed during the self-assessment, Supervisory Board meetings have been extended by between thirty and sixty minutes, and time discipline has been improved to leave room for discussion at the end.

Also further to suggestions made during the assessment process, the Board's programme for training and on-site visits was stepped up in 2010, with the introduction of two half-day sessions to be systematically held every year on the Group's future product ranges and long-term strategy. Supervisory Board members have also been provided with a list of on-site visits that they can make if they so wish.

Another area for improvement expressed during the self-assessment was for Board members to have a better understanding of the Group's strategy in Latin America and China. This request was fulfilled in October 2010 when the members of both the Supervisory Board and Managing Board spent five days in China. During the trip, they met local managers and freely discussed the Group's current position and outlook in the country. They also visited the manufacturing plants and sales units managed by the Group's joint ventures, and met its manufacturing partners as well as certain local political and administrative representatives. A similar visit to Latin America is scheduled for 2011.

The Supervisory Board carried out another self-assessment in January 2011 based on a more detailed questionnaire sent to the Board's members.

1.3. Supervisory Board Meetings in 2010

The Supervisory Board met eight times in 2010, with an average attendance rate of 90%.

During five of these meetings – held on 9 February, 20 April, 27 July, 19 October and 21 December – the Board reviewed business reports presented by the Managing Board concerning the Group's sales and manufacturing performance, as well as the financial results of its various divisions, and its overall financial situation. During these meetings, the Board was also informed about events affecting employees and quality, and gave its opinion on the Group's strategic growth vision, which it discussed in detail with the Managing Board during the February and April meetings.

The 9 February and 27 July meetings were attended by the Statutory Auditors and included, respectively, presentations of the full-year 2009 financial statements of the Company and the Group and the results for the first half of 2010.

At its February meeting, the Supervisory Board adopted the revised version of its internal rules (it subsequently adopted the internal rules of the Strategy Committee, the Appointments and Governance Committee and the Compensation Committee at its 20 April meeting and those of the Finance and Audit Committee on 27 July). During the same meeting in February the Board adopted a Stock Market Code of Ethics, which sets out the rules concerning transactions carried out by Supervisory Board members and non-voting advisors as well as Managing Board members in securities issued by Peugeot S.A., Société Foncière Financière et de Participations (FFP) and Faurecia. The Code provides for preventive measures under which Board members can trade in these securities while complying with market integrity rules.

Also at its 9 February meeting, the Board approved the new regulations applicable to the top hat pension plan for the Group's senior executives and set the performance criteria underlying Managing Board members' incentive bonuses for 2010.

On 20 April, the Supervisory Board examined the agenda, Report of the Managing Board and draft resolutions for the 2010 Annual Shareholders' Meeting and approved its own report to the meeting. In addition it reviewed the findings of its self-assessment, examined the independence of its members and defined the requisite profile for candidate members, as part of an underlying aim to diversify the Board's membership structure by increasing the number of women, non-French and independent members.

At its 19 October meeting – which took place in Shanghai in the offices of the Group's new Asia Division – the Managing Board gave a presentation on the Group's medium-term plan.

In December, the Supervisory Board was given a presentation by the Managing Board on the 2011 budget and announced the two audit firms whose reappointment as the Group's Statutory Auditors will be submitted to the 2011 Annual Shareholders' Meeting.

The Board's remaining three meetings during the year were held on 2 June, 29 September and 29 November.

At the 2 June meeting, the Board unanimously decided to appoint Thierry Peugeot as Chairman of the Supervisory Board for the remainder of his term as a Supervisory Board member, which was renewed at the Annual Shareholders' Meeting held on that same day and attended by all of the Supervisory Board members.

At each of these three meetings, the Board authorised the issue of bonds, in accordance with article 9 of the Company's bylaws. It also gave its opinion, took decisions or gave approvals as required on various matters, based on preparatory work performed by the Board Committees.

1.4. Supervisory Board Committees

The Supervisory Board is assisted by four specialised committees: the Finance and Audit Committee, the Strategy Committee, the Appointments and Governance Committee and the Compensation Committee.

The Compensation Committee and the Appointments and Governance Committee were set up in 2010 to replace the combined Compensation and Appointments Committee as the Board felt that, in view of the underlying strategic importance of appointments and the central role of corporate governance, the Group should have a committee specifically dedicated to these two areas. Furthermore, by having a committee that deals exclusively with compensation issues, the Group can track market practices more closely and enhance the effectiveness of its compensation policies.

The role of these Committees is to prepare certain matters to be discussed at Supervisory Board meetings. They therefore issue proposals, recommendations and opinions on the areas falling within their terms of reference and submit them to the Supervisory Board at its meetings.

1.4.1. The Finance and Audit Committee

ROLES AND RESPONSIBILITIES

The Finance and Audit Committee's internal rules were revised in 2010, in particular to bring them in line with the AMF report of the Audit Committee Working Group. The new version was approved by the Supervisory Board on 27 July.

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 Supervisory 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. The Committee reports on its work at each Supervisory Board meeting.

The Finance and Audit Committee, which enjoys free access to all the information it needs, can meet with the Head of Internal Audit and with the Statutory Auditors, with or without any Managing Board members attending.

MEMBERSHIP

The Finance and Audit Committee comprises five members, who are appointed in their own name and may not be represented by another party. Two of these five members are independent based on the criteria applied by the Group. The Committee's current members are:

- Jean-Paul Parayre, Committee Chairman;
- Marc Friedel;
- Jean-Louis Masurel;
- Robert Peugeot;
- Marie-Hélène Roncoroni.

It is chaired by a Supervisory Board member who is 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 (Jean-Louis Masurel who is the Chairman of another company's Finance Committee) and who has served as Co. Chairman and Chief Executive Officer of large listed companies.

Marie-Hélène Roncoroni, who represents the Company's main shareholder, has specific knowledge in financial and accounting matters, and worked for seven years in the Group's Finance Department.

FINANCE AND AUDIT COMMITTEE MEETINGS IN 2010

The Finance and Audit Committee met eight times in 2010, with an average attendance rate of 98%.

In January, the Committee and the Chief Financial Officer examined the possible financial arrangements and potential financial conditions for a strategic development project, as well as its potential financial impact.

In February, the Committee met with the Statutory Auditors and the Chief Financial Officer to review the 2009 consolidated and parent company financial statements. During a second meeting held in February, attended by the Chief Financial Officer and the Chairman of the Managing Board, the Committee examined the financial outlook in general and the potential financial consequences of the strategic development projects in progress. It also examined with an external consultant the rating methods used by financial ratings agencies and how these are applied for the Group.

In April, the Committee reviewed the first quarter results for 2010 – with a particular focus on changes in the Group's debt – and examined the draft resolutions to be tabled at the Annual Shareholders' Meeting.

In July it met with the Statutory Auditors and Chief Financial Officer to examine the consolidated financial statements for the first half of 2010. It also reviewed the Group's financing and strategic outlook and began the Statutory Auditor selection process in view of the upcoming expiry of the current Auditors' terms of office. At this same meeting the Committee reviewed the Group's various risk exposures in conjunction with the line managers concerned, as well as the processes used to manage and track these risks. In addition, it examined the structure and operating procedures of the Group's Internal Audit function as well as the findings of the assignments performed by the Internal Audit teams.

At its September meeting, which was attended by the Group Vice-President, Finance and Treasury, the Committee analysed the proposed issue of Peugeot S.A. bonds as part of the on-going EMTN programme. At the same time, with the Chief Financial Officer and the Corporate Secretary, it reviewed the status of the OCEANE convertible bond issue carried out in June 2009.

In October, the Committee reviewed the Group's medium-term plan and related projects as well as issues relating to the Group's financial rating. It also decided on the date for hearing the Statutory Auditors' service and fee proposals as part of the Auditor selection process.

Lastly, in December, the Finance and Audit Committee examined the end-of-year forecasts and the 2011 budget. It also issued its recommendation to the Board concerning the two audit firms short-listed during Statutory Auditor reproposal process.

The 2011 audit plan, which was provided to the Finance and Audit Committee in December 2010, was examined by the Committee during its meeting in January 2011, which was not attended by the Chief Financial Officer. At this meeting, which was specifically dedicated to audit matters, the Vice-President, Internal Audit, updated the Committee on the Internal Audit programme and the Committee gave its opinion on the organisation of the Internal Audit function.

1.4.2. The Strategy Committee

ROLES AND RESPONSIBILITIES

The role of the Strategy Committee – whose internal rules were revised and adopted by the Supervisory Board at its 20 April 2010 meeting – is to examine the Group's long-term future, reflect on potential avenues of growth and recommend to the Supervisory Board the Group's overall strategic vision. It also ensures that the strategy proposed and applied by the Managing Board fits with the Group's long-term vision as defined by the Supervisory Board and issues recommendations on the long-term strategic plans and Medium-Term Plan presented by the Managing Board.

The Strategy Committee examines all major projects from their outset and is kept informed of the projects' terms and conditions (particularly their financial structure), as well as of any changes and developments. In particular, the Committee meets to discuss any project that falls within the scope of article 9 of the Company's bylaws, whereby the Supervisory Board must approve in advance "the signature or termination of any manufacturing or sales agreements representing a future commitment for Peugeot S.A., 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".

MEMBERSHIP

The Strategy Committee comprises seven members, who are appointed in their own name and may not be represented by another party. The Committee's current members are:

- Robert Peugeot, Committee Chairman;
- Jean-Paul Parayre;
- Jean-Philippe Peugeot;
- Thierry Peugeot;
- Henri Philippe Reichstul;
- Ernest-Antoine Seillière;
- Jean-Louis Silvant.

Four of these seven members are independent based on the criteria applied by the Group.

STRATEGY COMMITTEE MEETINGS IN 2010

The Strategy Committee met three times in 2010, with an average attendance rate of 95%. The meetings were attended by the members of the Managing Board and Group executives involved in the issues discussed.

At the March meeting, the Committee primarily examined the Group's strategic development projects and the outlook for current or future co-operation agreements, particularly in China.

In May, the Committee discussed the Group's long-term goals, as expressed by the Peugeot and Citroën brands, and in September it examined the Group's Medium-Term Plan, ways to improve the Group's competitiveness, and potential new co-operation agreements.

1.4.3. The Appointments and Governance Committee

ROLES AND RESPONSIBILITIES

The Appointments and Governance Committee – whose internal rules were adopted at the Supervisory Board meeting held on 20 April 2010 – prepares Supervisory Board discussions concerning the appointment of new Supervisory Board and Managing Board members, by proposing selection criteria, organising the selection process, recommending candidates for appointment or re-appointment, and monitoring succession plans for members of the Managing Board. In addition, it tracks changes in French legislation concerning the governance of listed companies, as well as all of the recommendations issued by market regulators and representatives of listed companies. It also submits opinions or recommendations to the Supervisory Board concerning governance issues.

MEMBERSHIP

The Committee comprises six members, who are appointed in their own name and may not be represented by another party. The Committee's current members are:

- Jean-Philippe Peugeot, Committee Chairman;
- Robert Peugeot;
- Thierry Peugeot;
- Geoffroy Roux de Bézieux;
- Ernest-Antoine Seillière;
- Jean-Louis Silvant.

Three of these six members are independent based on the criteria applied by the Group.

APPOINTMENTS AND GOVERNANCE COMMITTEE MEETINGS IN 2010

The Appointments and Governance Committee met five times in 2010, with a 100% attendance rate.

At the beginning of the year, the Committee discussed (i) the membership structure of the Supervisory Board Committees, (ii) the amendments to the internal rules of the Supervisory Board and its Committees and (iii) the introduction in February 2010 of a Stock Market Code of Ethics applicable to Supervisory Board members, non-voting advisors and Managing Board members.

Also during the year, the Committee reviewed the criteria applied by the Supervisory Board when assessing the independence of its members, as well as future changes to the Board's membership to align it with best market practices. As part of this review, the Committee launched a process to find new Supervisory Board members with a view to increasing the proportion of women, non-French and independent members and creating a more diverse Board.

The Committee participated in the Board's process for assessing its own performance in 2010, by (i) finalising the questionnaire given to the members and (ii) recommending measures in response to the observations made in the questionnaires and to ensure that the Board continues to function effectively and applies best corporate governance practices. These recommendations were put into practice in 2010. A further self-assessment of the Supervisory Board's performance was performed in January 2011 based on a more detailed questionnaire.

Also in 2010, the Committee kept itself closely informed of actions implemented by the Group concerning ethics and conduct (such as the processes for revising and enriching the Code of Ethics and setting up an Ethics Committee) and undertook a review of the succession plans for a number of senior executives.

1.4.4. The Compensation Committee

ROLES AND RESPONSIBILITIES

The Compensation Committee – whose internal rules were adopted at the Supervisory Board meeting held on 20 April 2010 – prepares Supervisory Board discussions regarding all aspects of compensation and benefits for the Chairman, Vice-Chairmen and other members of the Supervisory Board as well as for Board Committee members and the Chairman and other members of the Managing Board.

To fulfil these responsibilities, the Committee stays informed of

- current and emerging market compensation practices;
- the pay levels and forms of compensation of senior executives who are not on the Managing Board, as well as the Managing Board policies for reviewing and updating these compensation packages.

MEMBERSHIP

The Compensation Committee comprises five members, who are appointed in their own name and may not be represented by another party. The Committee's current members are:

- Thierry Peugeot, Committee Chairman;
- Jean-Philippe Peugeot;
- Ernest-Antoine Seillière;
- Jean-Louis Silvant;
- Geoffroy Roux de Bézieux.

Three of these five members are independent based on the criteria applied by the Group.

COMPENSATION COMMITTEE MEETINGS IN 2010

The Compensation Committee met seven times in 2010, with a 100% attendance rate.

At the beginning of the year, the Committee determined the incentive bonuses for Managing Board members for 2010, examining, for each member, the maximum percentage of the base salary that the bonus could represent and the applicable Group and personal performance criteria.

Also in 2010, the Committee examined the new rules for the supplementary pension plan for the Group's senior executives.

Towards the end of the year, the Committee set the base salary of the members of the Managing Board as well as the terms and conditions for calculating their incentive bonuses for 2011.

In addition, the Committee reviewed the methods used for allocating attendance fees among Supervisory Board members out of the aggregate amount approved by shareholders.

At several of the meetings held in 2010, the Committee members examined the long-term incentive plan proposed by the Managing Board that involved granting performance shares to 291 senior executives and managers.

1.5. Supervisory Board and Managing Board Compensation Policies

Supervisory Board

Supervisory Board members and non-voting advisors are paid annual attendance fees up to an aggregate amount determined in advance by the Annual Shareholders' Meeting. Pursuant to the decision of the Annual Shareholders' Meeting of 28 May 2008, this amount has been set at €600,000 until further notice. The individual amounts allocated by the Board in 2010 based on membership and chairmanship of the Board and its Committees were unchanged from the previous year, apart from the fee for the Chairman of the Finance and Audit Committee, which was raised from €15,000 to €20,000.

The Chairman of the Supervisory Board received €425,000 in attendance fees for 2010, unchanged since 2002.

Managing Board

EMPLOYMENT CONTRACTS

The former policy of suspending the employment contracts of Managing Board members upon their appointment to the Board was eliminated in 2009.

MANAGING BOARD COMPENSATION

- All Supervisory Board discussions on compensation are prepared by the Compensation Committee.
- 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 quantified and qualified on the basis of pre-defined criteria – comprise targets set for all members of the Managing Board and specific performance-related targets based on each member's individual executive duties.
- The base salaries set for Managing Board members in 2010 were unchanged from 2009.
- At its April 2010 meeting, the Supervisory Board decided that, barring exceptional circumstances, the incentive bonus payable to the Chairman of the Managing Board for 2010 could represent up to 150% of his base salary. Incentive bonuses for the other members of the Managing Board could not exceed 100% of their base salary, again barring exceptional circumstances.
- 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.
- 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 and/or performance shares to Managing Board members further to an authorisation granted by shareholders. Where stock-options are granted the Supervisory Board 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 or performance shares were granted to Managing Board members in 2010.

1.6. Application of the AFEP/MEDEF Corporate Governance Code

At its 16 December 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. The consolidated version of the Code, issued in April 2010, may be viewed at Peugeot S.A.'s head office or on the MEDEF website at www.medef.com.

While Peugeot S.A. applies the vast majority of the recommendations set out in the Code, there are a certain number that it has elected not to apply. These exceptions are described below.

- Independence criteria

  The Supervisory Board has elected not to apply two of the AFEP/MEDEF's independence criteria, as follows:

– **not being a Director or Supervisory Board member of the corporation for more than twelve years**. The Supervisory Board does not apply this recommendation as it considers that the automotive experience of its members is extremely valuable, especially in a business requiring a medium and long-term vision. In addition, the Supervisory Board's internal rules state that one of the Board's key missions is to "ensure that the strategy proposed and applied by the Managing Board fits with the Group's long-term vision, as defined by the Supervisory Board";
– **not holding a directorship or equivalent position in another Group company in the past five years**. The Board 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 addition, no member of the Supervisory Board exercises any senior executive responsibilities or is a salaried employee of a Group company. Consequently Jean-Louis Silvant is considered to be independent, even though he sits on the Board of Directors of Peugeot Suisse, a company whose operations only represent a small proportion of the Group's automotive business.

In total, the Supervisory Board considers that Jean-Louis Masurel, Jean-Paul Parayre, Henri Philippe Reichstul, Geoffroy Roux de Bézieux, Ernest-Antoine Seillière, Joseph F. Toot Jr. and Jean-Louis Silvant can be qualified as independent. These independent members represent seven out of the 12 members of the Supervisory Board, which means that, based on the independence criteria applied by the Group, Peugeot S.A. complies with the AFEP/MEDEF recommendation that in controlled companies at least one third of Board members should be independent.

When selecting new Supervisory Board candidates based on the recommendations of the Appointments and Governance Committee, the Board seeks to appoint a greater number of independent members and to ensure that there are staggered renewals of members' terms of office. It is also considering the election of new members qualified as independent in accordance with the AFEP/MEDEF criteria and the re-election of certain members for terms of less than six years. At the same time, the Supervisory Board is committed to increasing the percentage of women members, in accordance with new legal requirements (Act 2011-103 of 27 January 2011) and based on the guidelines recently included in the AFEP/MEDEF Corporate Governance Code.

◆ Having a certain proportion of independent members on the Board's Committees. 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 Appointments Committee), the membership structure of the Finance and Audit Committee and the Appointments and Governance Committee takes into account the requirement to have representatives from members of the Peugeot family, which is the Group's majority shareholder.
◆ Setting Board members' terms of office at four years. 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 dates on which the terms of office of the current Supervisory Board members are due to end are staggered between 2011 and 2016.
◆ Having a variable component of attendance fees. Attendance fees payable to Supervisory Board members do not include any variable component based on actual attendance at Board and Committee meetings. Attendance rates at Supervisory Board meetings were 90% in 2010 and 96% in 2009 and attendance rates at the various Committee meetings ranged from 95% to 100% in 2010. 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.

1.7. 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.

1.8. 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 pages 370 and 371).

2. Risk Management and Internal Control Procedures

2.1. Objectives of the PSA Peugeot Citroën Internal Control System

As part of its commitment to preventing and limiting the effect of internal and external risks, the Group has set up risk management and internal control:

◆ 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 assets of the Group's companies;
◆ reliable financial reporting.

More generally, these procedures and processes also contribute to the proficient management of the Group's businesses, the effectiveness of its operations and the efficient use of its resources.

2.2. Risk Management and Internal Control Framework Used by PSA Peugeot Citroën

PSA Peugeot Citroën is committed to ensuring that its risk management and internal control system complies with the Reference Framework for Risk Management and Internal Control Systems issued by French securities regulator AMF in 2007 and updated in 2010. Banque PSA Finance has a specific system that complies with CRBF regulation 97-02 concerning the internal control systems of credit institutions.

As a listed company acting under the responsibility of its Board of Directors, Faurecia has a separate internal control system that it applies independently. Gefco has an internal control and risk management system that complies with PSA Peugeot Citroën recommendations and is aligned with the specific features of its business and its organisation.

2.3. Internal Control Principles

PSA Peugeot Citroën's internal control system was designed with five key goals in mind:

- to reflect the Group's strategic objectives, which are to be a global, profitable, independent company that ranks among the world's leading broadline automobile manufacturers:
  - the entire process is designed to proactively identify the risks capable of affecting the Group over the medium to long term,
  - all of the Group's companies are involved in the process, managing risks and ensuring internal control compliance in all of their operations,
  - the process focuses on action plans and outcomes, with a constant view to supporting operating efficiency,
  - the process is underpinned by compliance with applicable laws and regulations, exemplary behaviour and ethical practices, which the Group believes to be essential to responsible growth.
- to integrate a formal system, the Global Risk Management System (GRMS);
- to structure the system in such a way that it enables each department or division to deploy the same risk management and internal control process;
- to deploy the system with the support of dedicated standards and IT resources;
- to make the system auditable based on quality indicators.

2.4. Participants and Processes.

2.4.1. At Group level and in the Automotive Division

Senior Management defines the Group's organisation and operating procedures. To make the Group the benchmark in operating efficiency, Senior Management decided in particular to implement the PSA Excellence System deployed in 2010. Based on lean principles and a culture of continuous improvement, this system structures the Group's organisation, management practices and working methods, which are partly based on formally defined internal standards. All employees are trained to put the Excellence System into practice.

The Group's organisation and operating procedures are, in particular, described in the Group's Reference Handbooks, such as the Organisation Handbook and the Operating Procedures Handbook, which are available to every employee on a dedicated intranet page. These operating procedures, which were formalised in 2010 and are regularly expanded and updated, They describe the procedures to follow, the division of responsibilities and the rules to be applied by every employee, in all of his or her day-to-day business activities, and as such include the general guidelines for managing and controlling risks. Each of these guidelines is championed by a member of Senior Management, validated by the Executive Committee and posted on a dedicated intranet site accessible to all employees. Their application is regularly audited by the Group Internal Audit Department.

In 2010, Senior Management decided to consolidate the Group's ethics process. The Code of Ethics was revamped, expanded and focused more clearly on practical applications, then posted on the intranet portal with direct access for all employees. In every host country, senior executives formally pledged to apply the Code, while an Ethics Committee chaired by the Corporate Secretary was set up and now meets on a quarterly basis. Lastly, an international network of Chief Ethics Officers was put into place to deploy the process in every host country and to systematically report to the Ethics Committee any local ethical issues or breaches of compliance.

At its monthly meetings, the Executive Committee systematically tracks the Group's major risks, with a focus on new developments or the emergence of new risks. During these meetings, it is informed of any difficulties encountered in managing these risks and plays careful attention to the effectiveness and quality of the action plans being deployed.

In general, Senior Management is responsible for the quality of internal control and risk management systems, whose design and implementation it delegates to Administrative Services, and more particularly to the Risk Management and Control Department.

Each operating Division and corporate Department has its own reference manual, accessible by every employee on a dedicated intranet site and describing its operating procedures and processes as well as interfaces with the other Departments or Divisions. It offers an effective working framework to provide employees with the information they need to correctly perform the tasks assigned to them.

In accordance with the corresponding risk management and control guidelines, each Division or Department is responsible for managing and controlling its own risk. As such, each one applies in its remit the iterative five-step process described in the Global Risk Management System: (i) identify, (ii) analyse, (iii) assess, (iv) address and (v) control risks. Deployment of this process is managed by an Executive Risk Controller and by the Site Risk Managers, backed as needed by a network of specialists capable of managing specific risks, such as financial and legal risks, information system risks, environmental risks and supplier risks.

The Risk Management and Control Department, which reports to the Corporate Secretary, designs and maintains the Global Risk Management System and the dedicated information system. In this capacity, it works in close cooperation with the network of Executive Risk Controllers and Site Risk Managers, who submit the information that the Department consolidates and analyses to prepare an updated risk map. Every month, the updated map is sent to the Executive Committee along with comments on any difficulties encountered in managing the identified risks and the action plans to be implemented or enhanced.

The Internal Audit Department, which is part of Administrative Services, uses the risk map created from the Global Risk Management System as a base for preparing its annual audit plan, which is defined independently and subsequently submitted to Senior Management and the Finance and Audit Committee for review. In 2010, the Internal Audit Department carried out 85 audits, whose general conclusions were reported to Senior Management and to the external auditors for the purpose of their accounting and financial reports. The Internal Audit Department is also responsible for assessing the quality of the Group's internal control system.

The Legal Affairs Department, which is part of Administrative Services, is responsible for preparing or verifying the Group's contractual commitments and ensuring their legal and regulatory compliance. It is also in charge of organising the Group's defence in the event of disputes with third parties. In this way, it helps to limit and manage the Group's exposure to legal risks as an employer and in connection with the design and distribution of vehicles, the purchase of components and the supply of services.

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 marketing and sales subsidiary for the Automotive Division.

The Supervisory Board, with the support of the Finance and Audit Committee ensures that the risk management and internal control system operates effectively. It is informed of the internal control system and the risk map, with particular emphasis of risks capable of having an impact on the Company's financial and accounting information, and ensures that these systems are sufficiently mature and proficiently managed. It was with these objectives in mind that the Risk Management and Control Department presented the Group's internal control and risk management procedures and risk mapping methodology to the Finance and Audit Committee at its July meeting.

The Finance and Audit Committee also reviews the Internal Audit Department's organisational and operating principles, expresses an opinion on the internal audit plan and is informed of the findings of (i) the internal audits performed as part of the plan and (ii) the follow-up audits to check that the recommendations have been implemented. As part of this process, a session was devoted entirely to the Internal Audit Department at the Finance and Audit Committee's January 2011 meeting, which was attended without the Chief Financial Officer and other members of the Managing Board. During the meeting, the Committee reviewed the findings of the 2010 audits, the progress made on the resulting action plans, the 2011 audit plan and the organisation and resources deployed to lead these audits and track their outcomes.

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

2.4.2. 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 Banque PSA Finance's internal control system 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 of the finance companies, including insurance entities, and headquarters, (iii) accounting processes and procedures and (iv) the finance, treasury and IT services provided by the PSA Peugeot Citroën Group on the Bank's behalf.

The Compliance unit is responsible for preventing, controlling and overseeing compliance risks. In particular, it verifies that the Bank meets its obligations concerning data protection, the prevention of money laundering and compliance of new or substantially modified products. It ensures that the required systems are put in place and organises compliance training. This unit is also responsible for regulatory oversight and ensuring that the Bank effectively incorporates regulatory changes into its business, particularly into its IT systems.

Controls over operational risks for the finance companies and headquarters include (i) recurring assessments of the effectiveness of the operational risk management systems put in place within the Bank, including for outsourced services, and (ii) specific second-tier controls. 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 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. In carrying out these duties it draws on the minutes of meetings of the Internal Control Committee, which has front-line responsibility for the operational management of the internal control system.

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, analyses the performance of the risk selection systems, and reviews changes in Basel II rules;
- 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.

2.4.3. Faurecia

In performing its duties, Faurecia's Board of Directors is supported by an Audit Committee that plays a key role in the internal control process, particularly by reviewing (i) the process used for preparing financial information, (ii) the effectiveness of internal control and risk management systems, and (iii) the statutory audit work on the parent company and consolidated financial statements. The Committee also conducts in-depth analyses of material financial transactions and reviews the Group's financial performance indicators.

Faurecia's internal control system 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 to supply complex equipment to automakers – in the acquisition, design and production phases – as well as financial and accounting controls intended to ensure that financial and accounting information is properly processed, thereby ensuring the Group's responsiveness.

Faurecia has its own Internal Audit Department, responsible for overseeing the optimal effectiveness of internal financial control systems. In 2010, Faurecia continued to enhance its internal control system with a view to ensuring the implementation of identified best practices.

2.4.4. GEFCO

Gefco performs appropriate controls at each level of the organisation, covering the financial, accounting and operating aspects of its business.

The basic units in the Gefco organisation are the agencies, which are structured as profit centres, guaranteeing that each service is properly recorded, invoiced and paid for.

Each subsidiary aggregates the income statement data received from its agencies and ensures that the financial flows comply with prevailing standards. Lastly, headquarters internal control teams check each subsidiary's accounts using the information systems covering most of Gefco's operations.

Accounting system, financial statement preparation and management review processes are based on the standards and principles used by the PSA Peugeot Citroën Group.

Gefco's operational internal control system includes a self-assessment process for the business operations. The data reported in 2010 by the Group's 27 subsidiaries and 343 agencies via a dedicated information system were used to define action plans to drive improvements that will contribute to Gefco's operational excellence.

The Group has also implemented a risk management system aligned with PSA Peugeot Citroën recommendations to identify, analyse and address the main risks involved in Gefco objectives.

All of this information is assessed during internal audits performed in every aspect of the Group's business.

2.5. Preparation and Processing of Accounting and Financial Information

Control procedures concerning accounting and financial matters are based on specific processes that are defined and implemented by the Finance and Strategic Development Department which has appointed a coordinator to lead and monitor its work in this area.

Financial and accounting information is controlled at Group level by the Finance and Strategic Development Department, which has appointed a coordinator to lead and monitor its work in this area.

2.5.1. Internal Reporting

The Finance and Strategic Development Department 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. Different managers are responsible for updating specific categories of standards in line with their areas of specialisation. In addition, a set of guidelines on best accounting practices has been prepared by the Automotive Division Accounting Department to extend the application of identified accounting and internal control best practices. These guidelines are accessible by all Automotive Division employees.

The Group's accounting standards describe the accounting policies applicable to all subsidiaries, based on International Financial Reporting Standards (IFRSs), as approved by the European Union, and taking into account the accounting options selected by the Group and any standards that have been early adopted. Specific standards are applied for Banque PSA Finance and Faurecia to reflect the specific nature of their businesses. 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 the Senior Management, based on the full monthly consolidation packages.

2.5.2. Procedures Relating to the Preparation and Processing of Accounting and Financial Information

Published financial information comprises the consolidated financial statements approved by the Managing Board and presented to the Supervisory Board, as well as analyses of the data included in these financial statements and press releases issued by the Group.

The consolidated financial statements are prepared by the Consolidation Department, which is also responsible for Group accounting policies. The statements are prepared in accordance with IFRS and the individual statutory accounts of the Group's subsidiaries are restated to align them with IFRS, apart from Faurecia and the companies that Faurecia consolidates. The subsidiaries' accounts are prepared under the responsibility of the Accounting and Finance Departments within the various divisions (Automotive, Automotive Equipment, Transportation and Logistics, and Finance). These departments, in liaison with the operating units and the Management Control Department, ensure the accuracy of the individual statutory accounts and the consolidation packages and systematically co-validate them. The Consolidation Department produces a full set of consolidated financial statements each month, both for internal management and external reporting purposes for the half-year and full-year closings. It also prepares the individual statutory accounts and restated IFRS accounts for Peugeot S.A.

The Finance and Strategic Development Department 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, the Finance and Strategic Development Department runs several campaigns each year to identify risks, risk coverage and related control procedures.

The accounts are consolidated by separate dedicated teams for (i) the Group as a whole, (ii) Banque PSA Finance and its subsidiaries and (iii) Faurecia. Each month, all consolidated companies send their dedicated team their detailed financial statements, including their income statement, balance sheet, cash flow statement and analyses, prepared in compliance with Group standards, for integration into the consolidated accounts. Each subsidiary is responsible for preparing regular reconciliations between their statutory equity and equity reported in the consolidation package. These reconciliations are checked by the consolidation team. All consolidation adjustments are controlled and traced. An overall analysis of changes in the main consolidated income statement, balance sheet and cash flow statement items is communicated each month to Senior Management.

The reliability of data reported by the subsidiaries is verified by their own management control teams, the Division-level Accounting and Finance Departments and the Group Consolidation Department.

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.

Investment and financing strategies and strategies for evaluating counterparty risks arising from financial market transactions are approved by the Finance and Strategic Development Department.

To uphold and improve the quality of accounting and internal control within the Finance and Strategic Development Department, 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 Executive Vice-President, Finance and Strategic Development to monitor the Accounting Quality Plan. At each meeting the line managers present action plan progress reports.

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

2.6. 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 AMF's Reference Framework for Risk Management and Internal Control Systems;
- obtaining assurance at the level of the Finance and Strategic Development Department – with input from the accounting, consolidation, financial communications and management control teams – that processes for the preparation and approval of the consolidated financial statements fulfil the quality criteria defined for each operational category in the application guide included in the above-mentioned Reference Framework.