II. BUSINESS REPORT

1. RISK FACTORS AND UNCERTAINTIES

Main risk factors specific to the Group and its business

The PSA Peugeot Citroën Group pays close attention to ensuring that effective control is maintained over the risks associated with its various businesses. The various departments identify and assess risks and evaluate the related internal controls on an on-going basis, in France and abroad, within the main units of the Automotive Division and the non-Automotive subsidiaries (except Faurecia which has its own system). The principal risk factors specific to the Group are described in detail in the 2012 Registration Document, which will be published in March 2013 and include the following:

1.1 Operational risks

These include, in particular, market cycle and country risks, new vehicle development, launch and marketing risks, customer and dealer risks, raw materials risks, supplier risks, industrial risks, environmental risks, workplace health and safety risks, risks associated with the cooperation agreements and information systems risks.

- **Risks related to the group's economic and geopolitical environment**

The Group's operations and earnings can be adversely affected by difficult economic conditions as demand in one or more geographic markets can decline sharply if the economic context turns morose, and particularly in the event of a recession. The impact for the Group can be even greater if the falloff in demand hits the regions where PSA Peugeot Citroën has a strong sales presence.

In areas outside Europe, the Group is, de facto, exposed to various risks, including:

- exchange rate risk, as sharp falls in local currencies against the euro or currency overvaluation may affect the Group's ability to sell its products in certain markets;
- unfavourable changes in tax and/or customs regulations in the countries with which the Group trades;
- geopolitical events: the Group may be exposed to risks such as popular uprisings, diplomatic crises, the overthrow of a regime, arbitrary or discriminatory behaviour, or a war in a foreign country. For instance, the Group decided to suspend its shipments to Iran because of difficulties finding secure sources of funding.

Risk management and control processes

The Group has tightened up its management structure so that it can react swiftly to various high-risk situations. As part of this move, against a backdrop of fierce sales competition and a European market that is expected to remain depressed for the foreseeable future, the Group has implemented new cost-cutting measures with a view to further strengthening its Performance Plan. The Group's globalisation strategy – which primarily involves internationalising its business activities – is part of its strategy to deal with any negative consequences that could arise in a particular geographic area as a result of a recession or serious geopolitical events.

The Group's exposure to exchange rate risks is managed mostly on a centralised basis by PSA International (PSAI) which sets up the appropriate currency hedges where required. In addition, the impact of negative currency effects is passed on in selling prices wherever possible.

- **New vehicle development, launch and marketing risks**

The Automotive Programmes Department is tasked with deploying the Group's strategic vision and enhancing value creation by ensuring the alignment of all of the contributing processes and by leading the implementation of Group programmes. This mission is global in scope. The department is responsible for ensuring that project start-ups, either by the Programme processes (Vehicles, Modules, Services) or by the participating departments (Industrial Operations, HR, etc.), are aligned with the Worldwide Master Plan and that the programmes' financial metrics are consistent with the targets set during the strategic planning process.

To cover the project management risks related to new vehicle development and process engineering, the Group 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, time-to-market and CO_2 reduction 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 safety and the environment. Responding more effectively to customers' after-sales service requirements during the vehicle design phase (repairability, ease of fault detection, etc.) has also contributed to the steady improvement in the quality of the Group's new models.

The Group works with the regulatory authorities to ensure that effective dates for new regulations are determined based on the results of objective impact studies and that they are realistic, taking into account the time that carmakers will reasonably need to adapt.

Regulatory watch systems and appropriate action plans have been set up in Europe and in the Group's main host countries outside Europe.

- **Raw materials risk**

The Group's Automotive Division and Automotive Equipment Division (Faurecia) are exposed to raw materials risk either as a result of their direct purchases of raw materials or indirectly when purchasing components from suppliers. Raw materials purchases represented 24% of total purchases by the Group in 2012. They are either industrial products such as steel and plastics whose prices and related adjustments are negotiated between purchasing officers and vendors, or commodities traded on organised markets, such as aluminium, copper, lead or precious metals, in which case the purchase prices of the raw materials or components concerned are based directly on quoted market prices. Raw materials with the greatest impact on production costs are as follows, in declining order:

- Industrial products: steel (42% of total raw material purchasing costs), thermoplastics (13%) and elastomers (11%);
- Commodities (for which the price risk is hedged): aluminium (8% of total raw material purchasing costs), precious metals (5%) and copper (3%).

The Group has identified two different types of raw materials risk:

1. supply risk related to the availability of raw materials;
2. financial risk related to fluctuations in raw materials prices.

Risk management and control processes

The Group's Purchasing strategy implemented by the Purchasing Department is aimed at fully leveraging a number of action points, such as optimising global sourcing, using bulk purchases for raw materials (for both direct and indirect transactions), increasing flexibility in terms of substitute materials, using recycled and green materials, recovering and reusing by-products and putting in place financial hedging mechanisms.

The Group's exposure to risks related to commodities traded on organised markets (aluminium, copper, lead, and precious metals such as platinum, palladium and rhodium) is tracked jointly by the Purchasing Department and Corporate Finance through PSA International (PSAI). In line with the Group's hedging policy for commodity risks (and currency risks), PSAI sets up the necessary hedges based on consumption forecasts for the raw materials concerned. These forecasts are prepared by the Purchasing Department or result from the 3-year business plan. No speculative positions are taken. The hedging policy in periods of rising prices aims to fix the price of at least 50% of forecast purchases for the coming year and 20% of purchases for the coming two years.

Steel and plastics purchases are made under contracts for relatively short-periods (six months for steel). The Group negotiates with suppliers the impact of price rises and falls to be reflected in component prices. Only part of the increase can be passed on in selling prices.

Raw materials risk is also reviewed on a quarterly basis by a Metals Committee chaired by the Chief Financial Officer. Raw materials risk is reviewed on a day-to-day basis and also at quarterly meetings of a Metals Committee chaired by the Chief Financial Officer. During these meetings, the Purchasing Department presents its updated raw materials consumption forecasts, which are used by PSAI to adjust its commodity hedging positions.

For more details, please refer to Note 37 to the consolidated financial statements at 31 December 2012.

- **Risks associated with the cooperation agreements**

To speed its development and bring down engineering and production costs, over the past few decades PSA Peugeot Citroën has implemented a policy of entering into cooperation agreements with other carmakers. This policy forms part of the Group's medium- and long-term Worldwide Master Plan and is underpinned by the dual principles of mutual trust and risk sharing. Examples include agreements signed with Fiat, Toyota and Mitsubishi for shared vehicle platforms and with Renault, Ford, BMW and Mitsubishi for gearboxes, engines and electrical components. In future agreements will also be signed with General

Motors. In addition, the Group regularly grants manufacturing licenses to industrial partners in countries where these types of agreements are required in order to break into the market.

In 2012 the Group signed a strategic global Alliance. Leveraging the combined strengths and capabilities of the two companies, it will contribute to the profitability of both partners and strongly improve their competitiveness in Europe.

In the pre-signature negotiation phase for cooperation agreements there is a risk that the partner concerned could use the information provided to it by PSA.

Once a cooperation agreement has been signed, the risks faced by PSA are mainly financial, i.e. (i) penalties may be imposed in the event of a breach of take-or-pay clauses under which the Group is committed to taking delivery of an agreed quantity of products manufactured by the cooperative venture, (ii) costs may be incurred to offset the negative impact on component purchase prices caused by reductions in volumes, or (iii) overruns may arise for R&D costs, capital expenditure or the costs for remedying faulty products, when the partner is acting as project manager.

In all circumstances, whenever a project’s profitability is jeopardised, a provision for onerous contracts and/or an asset impairment loss is recorded in the consolidated financial statements to reflect the future costs that will be incurred.

Other risks to which the Group is exposed in relation to its cooperation agreements include the risk of a partner granting licenses to a third party without any entitlement for PSA to receive the related royalties, or the risk of a partner manufacturing low-quality products which would require PSA to undertake large-scale remedial action with its customers and would damage the Group’s image.

Risk management and control processes

In order to limit its risk exposure during the pre-signature negotiation phase for cooperation agreements, PSA has put in place a procedure whereby no talks can commence with a potential partner until the parties have signed a non-disclosure agreement.

During the performance phase of a cooperation venture or a partnership, the various underlying contracts – such as the framework agreement, development agreement or supply agreement – are drawn up in as much detail as possible in order to avoid any legal risks.

At operational level, Corporate Finance and the Programmes department have set up a process for verifying that the partners involved in cooperation ventures comply with their contractual commitments.

Part of this process entails setting up governance bodies for each venture, with a referral procedure for settling any disputes that may arise. The governance bodies regularly review a wide range of issues and take shared decisions, notably concerning action plans aimed at rectifying any potential situations of contractual non-compliance and therefore eliminating or mitigating the related risks.

1.2 Financial market risks

The Group is exposed to liquidity risk, as well as interest rate risks, counterparty risks, exchange rate risk and other market risks related in particular to fluctuations in commodity prices and in equity markets. Note 37 to the consolidated financial statements provides information on risk management, which is primarily carried out by Corporate Finance, and identified risks and the Group policies designed to manage them.

1.3 Banque PSA Finance risk exposures

In particular, they include risks relating to financial markets and Banque PSA Finance's status as a financial institution, operational risks and credit risks

(See Note 37 to the consolidated financial statements at 31 December 2012).

More detailed information is provided in Banque PSA Finance’s 2012 Annual Report which can be downloaded from its website at www.banquepsafinance.com.

1.4 Legal and contractual risks

These risks include, in particular, risks arising from legal and arbitration proceedings, financial covenants, pension and other post-retirement benefit obligations, intellectual property and on- and off-balance sheet commitments given in connection with the

Group's cooperation agreements.

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.

- **Legal and arbitration proceedings**

As of 31 December 2012 no Group company was involved in any claims or litigation that had a material impact on the consolidated financial statements.

During the last twelve months, there have been no governmental, legal or arbitration proceedings which may have, or have had in the recent past, significant effects on the Group's financial position or profitability, and to the best of the Group's knowledge, no such proceedings are pending or threatened.

Concerning provisions for claims and litigation, please refer to Note 28.2 to the consolidated financial statements at 31 December 2012.

- **Financial covenants**

The financial covenants applicable to borrowings and undrawn lines of credit are detailed in Note 37.1 A for manufacturing and sales companies and finance companies.

The Group is currently in compliance with all of these clauses.

For more details, please refer to Chapter 4 of the 2012 Registration Document regarding risk factors. The registration document will be published in March 2013.

2. THE GROUP'S OPERATIONS

2.1. Significant events in 2012

2.1.1. Alliance with General Motors

Alliance announcement on 29 February 2012

General Motors and PSA Peugeot Citroën announced the creation of a global strategic alliance on 29 February 2012. Leveraging the combined strengths and capabilities of the two companies, it will contribute to the profitability of both partners and strongly improve their competitiveness in Europe.

The alliance is structured around two main pillars: the sharing of vehicle platforms, components and modules and the creation of a global purchasing joint venture for the sourcing of commodities, components and other goods and services from suppliers, with combined annual purchasing volumes of approximately $125 billion. Each company will continue to market and sell its vehicles independently and on a competitive basis.

Beyond these pillars, the alliance creates a flexible foundation that allows the companies to pursue other areas of cooperation.

Under the terms of the agreement, GM and PSA Peugeot Citroën will share selected platforms, modules and components on a worldwide basis, in order to achieve cost savings, gain efficiencies, leverage volumes and advanced technologies, and reduce CO2 emissions. Sharing of platforms not only enables the development of global applications, it also permits both companies to execute large-scale Europe-specific programs in a more cost effective manner.

Initially, GM and PSA Peugeot Citroën intend to focus on small and mid-size passenger cars, MPVs and crossovers. The companies will also consider developing a new common platform for low emission vehicles. The first vehicle on a common platform is expected to be launched by 2016.

This alliance enhances but does not replace either company's ongoing independent efforts to return their European operations to sustainable profitability.

The purchasing cooperation defined in the agreement allows the companies to act as one global purchasing organisation when it comes to sourcing commodities, components and services from suppliers, taking full advantage of their joint expertise, volumes, platforms and standardised parts. Combining GM's robust global processes and organisational structure with best practices from PSA Peugeot Citroën will bring significant value and efficiencies to the purchasing operations at both companies.

Additionally, the alliance is exploring areas for further cooperation, such as integrated logistics and transportation. To this end, GM established a strategic, commercial cooperation with Gefco, an integrated logistics services company and 25%-owned subsidiary of PSA Peugeot Citroën, whereby Gefco would provide logistics services to GM in Europe and Russia (see the section entitled "Steps taken by the Alliance", below).

The total synergies expected from the alliance are estimated at approximately $2 billion USD annually within about five years. The synergies will largely coincide with new vehicle programs, with limited benefit expected in the first two years. It is expected the synergies will be shared about evenly between the two companies. The alliance is supervised by a global steering committee that includes an equal number of 5 senior leader representatives from both companies. It will have strategic managerial oversight of all activities that are currently part of the alliance and any exploration of other potential areas of cooperation.

Steps taken by the Alliance

Logistics cooperation agreement between General Motors and PSA Peugeot Citroën

As an initial result of their global alliance, on 2 July 2012, General Motors and PSA Peugeot Citroën announced the signing of an exclusive, long-term agreement to transfer the majority of GM's logistics business in Europe to Gefco, a 25%-owned subsidiary of PSA Peugeot Citroën and established leader in automotive and industrial logistics in Europe and beyond.

The agreement concerns the majority of Opel/Vauxhall, Chevrolet and Cadillac logistics activities in Europe (including Russia) and includes services such as equipment and component deliveries to manufacturing plants, delivery of finished vehicles to dealerships and the transport of after sales spare parts to distribution centres.

This is one of the most extensive logistics agreements in the European automotive industry to date. It will allow GM to achieve cost savings and focus its internal resources on its core automotive business.

The new logistics agreement between GM and Gefco will take effect in 2013.

On 20 December, PSA Peugeot Citroën (PSA) and General Motors (GM) confirmed the signing of agreements for the formation of their global strategic alliance. In accordance with the provisions of the framework contract signed on 29 February 2012, the two partners signed definitive agreements for three vehicle projects as well as for a joint purchasing scheme.

Creation of a purchasing joint venture

The agreements signed in 2012 provide for the creation of a joint purchasing organisation in Europe, supported by a joint venture. This entity has now been approved by all relevant anti-trust authorities, so the joint purchasing organization (JPO) will soon be operational. A GM executive will be in charge of setting up the organization as part of a transitional phase under the supervision of a board chaired by a PSA representative.

He will be replaced within a maximum of one year by a Vice-President of Purchasing and a Deputy Vice-President, both of whom will be appointed alternately from each of the two Groups.

Three joint platform and vehicle development projects

The first joint platform and vehicle development projects are:

- A joint programme for a C-MPV for Opel/Vauxhall and a C-CUV for Peugeot
- A joint B-MPV for both Groups
- The joint development of an upgraded low CO2 segment B platform to underpin the new generation of Opel/Vauxhall and PSA Peugeot Citroën vehicles in Europe and worldwide

Additional joint development vehicle projects are under review and will serve to further strengthen the alliance. These will be the subject of future announcements. The first vehicles produced as a result of this collaboration are due to be launched in 2016. Opel/Vauxhall, Peugeot and Citroën models will be highly differentiated and fully consistent with their respective brand identities.

The balance of roles and responsibilities will allow both partners to reap the benefit of this collaboration:

- The C-MPV for Opel/Vauxhall, the C-CUV for Peugeot and the B-MPV for both Groups will be developed at PSA Peugeot Citroën platforms.
- GM will spearhead the development of the B-MPV for both Groups.
- An upgraded low CO2 segment B platform will be jointly developed to underpin the new generation of Opel/Vauxhall and PSA Peugeot Citroën vehicles in Europe and worldwide

Further global initiatives

Based on the success of their collaboration, the partners also announced their intention to develop further global initiatives to broaden the scope of their alliance and seize future opportunities:

- Joint development of a next generation of high-performance, fuel-efficient petrol engines derived from PSA's global small petrol engine programme (EB engine).
- Research into new vehicle and industrial initiatives in Latin America or other growth markets.

2.1.2. Rights issue

In connection with the alliance, PSA Peugeot Citroën announced on 29 march 2012 the launch of an approximately €1 billion capital increase with preferential subscription rights for shareholders of PSA Peugeot Citroën, underwritten by a syndicate of banks and including an investment from the Peugeot Family Group. This investment is a sign of their confidence in the success of the alliance. As part of the agreement, which includes no specific provision regarding the governance of PSA Peugeot Citroën, GM acquired a 7% equity stake in PSA Peugeot Citroën through the acquisition and exercise of the Peugeot Family Group's remaining preferential subscription rights and the acquisition of treasury shares sold by PSA Peugeot Citroën, making it the second largest shareholder after the Peugeot Family Group.

The proceeds from the capital increase will be used principally to fund strategic investments related to projects that are core to the global strategic alliance with General Motors. These investments will be used to finance the projects related to the sharing of vehicle platforms, components and modules, which will generate design and purchasing costs synergies.

The proceeds from the capital increase will also make it possible to extend the alliance to other areas of cooperation beyond the two initial pillars.

The share capital increase with preferential subscription rights launched by PSA Peugeot Citroën on 6 March 2012 has been successfully concluded. The final gross proceeds amounted to €999,013,089, corresponding to the issue of 120,799,648 new shares. Total subscription orders amounted to approximately €1.78 billion, representing a subscription rate of 178%:

- 119,101,968 new shares were subscribed by irrevocable entitlement (*à titre irreductible)*, representing approximately 98.6% of the total number of new shares;

- 96,431,058 new shares were requested on a basis subject to reduction (*à titre réductible)*, and were, as a result, only satisfied in part, in the amount of 1,697,680 new shares.

At 31 December 2012, the Peugeot Family Group remains PSA Peugeot Citroën's major shareholder with 25.51% of the capital and 38.11% of the exercisable voting rights

2.1.3. 2012 cash management plan

Faced with the downturn in the European market, in early 2012 the Group announced a cash management plan for €1 billion and proposed asset disposals totalling €1.5 billion.

- The objective of €1 billion in cost savings on purchases and fixed costs was exceeded, with €1,181 million in cost savings realised in 2012, despite a declining European market and the pressures it put on volumes and prices;
- Asset disposals amounted to €2 billion in 2012, in excess of the €1.5 billion target, and included:

- The disposal of car rental firm Citer SA and its Spanish subsidiary Atesato Enterprise Holdings brought €448 million in cash, as part of PSA Peugeot Citroën's strategy to optimise its portfolio and allocate resources to developing its core business;
- Exceptional divestment of real estate assets brought in €634 million and included the sale of the Group's head office building to a subsidiary of Ivanhoe Cambridge, the real estate arm of Caisse de depot et placement du Quebec, for €242.2 million; the sale of the Citroën showroom on the Champs Elysees in Paris and of property in our own network in France and Great Britain.
- A 75% capital interest in Gefco was sold to JSC Russian Railways (RZD) for €797 million, following GEFCO's payment of an exceptional €100 million dividend to PSA Peugeot Citroën.

- - Stocks were reduced to levels below those of December 2010, in line with planned objectives, with 416,000 vehicles at end December 2012 as against 445,000 at 31 December 2010.
- The Group postponed a number of projects as a result of its decision to reduce R&D investments and spending and give priority to certain other investments in a difficult environment. Capital expenditure and R&D spending came to €3,814 million in 2012, before exceptional items. This high level corresponded to a peak in capital expenditure, primarily reflecting capacity extension at Kaluga in Russia, Porto Real in Brazil and in China, the development of three-cylinder petrol engines and product development. The reduction in Automotive Division capital expenditure will be significant in 2013.
- The merger of the two brands' back office operations in Europe over 10 months has generated the initial synergy expected from the new organisation of sales and marketing and brand operations.

2.1.4. Rebound 2015 plan

In response to the durable fall off of demand in Europe, an additional plan for €1.5 billion in 2015 was deemed necessary. This plan is over and above the cost reduction and cash management measures implemented at the beginning of 2012, and which will continue. The Rebound 2015 plan is expected to lead to breakeven[1] in operational free cash flow by end 2014. This plan includes:

- €600 million from reorganizing the French production base and dimensioning the structural costs of the Group, as announced on 12 July. This project is based on ceasing production at the Aulnay plant, adjusting production facilities in Rennes, revitalising the Aulnay and Rennes sites, and redeploying corporate overheads.
- €550 million reduction in capital expenditure, following the ramp-up of capacities in Russia, Latin America and China. This reduction will already be significant in 2013.
- Optimising production costs, primarily as a result of the alliance with General Motors, for €350 million. Half of these gains will come from alliance initial purchasing synergies and the other half from action plans to reduce design and production unit costs.

These measures will help to restore the Automotive Division's performance, by increasing capacity utilisation in Europe and reducing the cost base in Europe, ahead of the full effects of the alliance with General Motors. They will be supported by the continuing upscaling of the brands and by the drive towards increased globalization, with newly installed production capacities.

<u>Project to reorganise the Group's French production base and redeploy the workforce</u>

To deal with the extended volume decline in Europe, a project to reorganise manufacturing operations and the redeployment of the workforce was on presented on 12 July 2012, in order to restore the Group's competitiveness and ensure its future. The following measures are planned:

- In 2014, cessation of operations at Aulnay, which employs 3,000 workers, refocusing production in the Paris region in or near Poissy and revitalising Aulnay.
- Adjusting the production facilities in Rennes, redeploying 1,400 workers there out of a total of 5,600.

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[1] In current market conditions, e.g. European market and pricing environment stabilized at 2012 level, a 13% market share in Europe, and the assumption that the increase of input costs would equal the impact of production and procurement.

- Redeploying Group overhead staff, which should result in a reduction of 3,600 positions across all sites in France.
- Employer-employee consultation and dialog.

The Aulnay and Rennes projects will, in keeping with our commitment to employee dialog, include measures intended to assist all employees concerned and to foster their reassignment, especially within the Group. The redeployment of overhead staff will be implemented through voluntary retirements and departures from the company.

As part of the Aulnay revitalisation plan implemented by PSA Peugeot Citroën, ID Logistics announced on 25 October 2012 its intention to relocate to one portion of the space currently available. This relocation will therefore entail the creation of nearly 600 jobs. These jobs may be offered to interested workers at the Aulnay site as part of the revitalisation process that will be undertaken in collaboration with the labour unions.

On 12 December 2012 the Group announced the end of the consultation period with unions concerning economics and the continuation of negotiations concerning assistance.

2.1.5. New financing from Banque PSA Finance

On 24 October 2012, PSA Peugeot Citroën announced that financing from Banque PSA Finance was to be strengthened for the benefit of the Group, its customers and the automotive industry as a whole, including dealer networks.

The Banque PSA Finance banking pool was asked to provide €11.5 billion in cash facilities, including €1 billion in additional liquidity. A significant number of the principal lines of credit have been renegotiated, with drawdowns possible over the full 2013-2015 period.

At the same time, the French State announced its intention to provide up to €7 billion in refinancing guarantees for new bond issues, for drawdowns to be made over the same 2013-2016 period. An oversight committee made up of Government and Group representatives has been set up to monitor the guarantee.

On 11 February, Banque PSA Finance obtained the European Commission's temporary authorization to use the French State's guarantee to secure its debt issuance in the period from 1 January 2013 to 31 December 2016. The guarantee was voted by the French parliament on 29 December 2012 and has been granted in exchange for a premium. It concerns total issues of up to €7 billion and covers the principal amount of the debt issues plus related interest, costs and incidental expenses.

The European Commission's authorization has been obtained for the first €1.2 billion tranche of issuance with a term of up to 36 months, to be carried out in the next six months, corresponding to the period needed by the Commission to issue its final decision concerning this State support.

A 5-member guarantee monitoring committee, comprising representatives of the French State and the PSA Peugeot Citroën Group, will oversee the coordinated implementation of the guarantee.

The temporary authorization to use the guarantee, along with the increase in the securitization programme and the rollover of bank facilities provide Banque PSA Finance with robust refinancing resources, in terms of their amount and duration, together with good visibility.

(See Note 41 to the consolidated financial statements at 31 December 2012.)

These measures serve to supplement the measures already taken by the Group, following the change in PSA Peugeot Citroën's credit rating, so as to improve Banque PSA Finance's funding capacity with, in particular:

• An increase in the securitisation and repurchase of 18% to 27% of the balance sheet, going from €4.9 billion in 2011 to €7.4 billion at end 2012, including €2.9 billion with the CEB
• The launch in France in the first half of 2013 of a savings account for retail customers

Success of Banque PSA Finance securitisation programmes in 2012

Banque PSA Finance accelerated its securitisation programme in 2012, reaching a new level with the success of five operations in four markets (France, the United Kingdom, Spain and Italy) amounting to €3.1 billion of senior notes.

Against a background of financial market volatility, Banque PSA Finance increased the share of its funding undertaken through its securitisation programme, thereby demonstrating its ability to strengthen and diversify its funding sources in order to support PSA Peugeot Citroën sales.

Banque PSA Finance rolls over its bank facilities

Banque PSA Finance signed a new €4.1 billion, 5-year, syndicated loan agreement on 11 January 2013. The facility was oversubscribed, with 18 banks from eight different countries taking part.

On the same day, as part of the plan to streamline and extend its back-up facilities, the Bank negotiated the extension of a €1.2 billion revolving line of credit to January 2016. Having also rolled over a €1.8 billion line of credit to December 2015, Banque PSA Finance now has unused drawing rights totalling €3 billion.

Lastly, Banque PSA Finance has also rolled over the majority of its bilateral bank facilities, strengthening its ties with its banking pool which comprises over fifty banking institutions worldwide.

Together, these transactions allow Banque PSA Finance to confirm the availability of €11.5 billion worth of medium-term bank financing.

Thanks to the roll-over of these bank facilities, along with securitisation programmes and planned issues of Government-guaranteed bonds, Banque PSA Finance now has robust sources of refinancing and good visibility of their amount and duration.

For further details, see section 3.4.2. Banque PSA Finance.

2.1.6. Supervisory Board press release in respect of BPF financing

The Peugeot S.A. Supervisory Board, meeting on 23 October 2012, welcomed the announcement on Banque PSA Finance funding by the Group's banking partners and by the Government.

Within this context, a decision was taken to cease dividend payments and share buybacks and to refrain from granting stock options or performance shares to Managing Board members during the period covered by the Government guarantee.

In addition, so as to improve employee involvement in Group governance, the Supervisory Board decided to initiate the process of the appointment, by the Shareholders' Meeting, of an employee representative as a member of the Supervisory Board.

The Supervisory Board also expressed its intention to actively pursue measures already taken to renew the Board's composition and increase the number of women members by the addition of a new, independent board member. The intention is that this independent board member will become a member of the Board's Strategy Committee and an advisory member of the Supervisory Board. He or she will have an important role to play in the Group's governance.

The next Shareholders' Meeting will be called upon to approve the new Peugeot SA Supervisory Board which will include the addition of independent members.

The Supervisory Board of Peugeot S. A. decided to co-opt Louis Gallois as lead independent director during its meeting on 12 February 2013. The appointment of Mr. Gallois will be submitted to the Shareholders' Annual Meeting for ratification on 24 April 2013.

2.1.7. Impairment losses on assets of the Automotive Division in 2012

As part of the 2012 year-end closing process and in line with the accounting standards guidelines issued by France’s securities regulator, the Autorité des Marchés Financiers, PSA Peugeot Citroën has undertaken an analysis of the difference between the value of its consolidated equity in the balance sheet and its economic value based on future discounted cash flows. The discount rate (Weighted Average Cost of Capital - WACC) of the automotive sector has also been revised. This analysis takes into account the outlook for the Group in the context of the deterioration of the European market, which is likely to remain at 2012 levels for the foreseeable future.

The difference leads to a depreciation of the global Automotive Division assets value in the accounts at 31 December 2012 of €3,888 million, broken down as follows:

- Impairment charge on the Automotive division assets under IAS36 in respect of 2012: 3 009 M€
- Adjustment in net value of deferred taxes 879 M€ This measure will not involve any cash-out. It is reversible, and is not related to goodwill.

In addition, other impairments relating to specific assets and provisions for onerous contracts of the Automotive division, booked in the non-recurring operating result, amount to €855m before tax for the full year 2012 (out of which €612m were already accounted in H1 2012).

All these charges will impact PSA Peugeot Citroën’s net Income Group share in 2012, but do not affect its solvency nor its liquidity. The depreciation of these assets has no impact on cash.

2.1.8. Sale of 75% capital interest in Gefco to JSC Russian Railways (RZD)

On 5 November 2012, Philippe Varin, Chairman of the PSA Peugeot Citroën Managing Board, and Vladimir Yakunin, President of JSC Russian Railways (RZD), signed a sale contract appertaining to the acquisition by RZD of a 75% capital interest and voting rights in GEFCO S.A., the GEFCO Group parent company.

On 20 December, PSA Peugeot Citroën announced the completion of the acquisition of 75% of the capital and voting rights of its subsidiary, GEFCO S.A. by JSC Russian Railways (RZD), in accordance with the sale contract signed on 5 November 2012.

PSA Peugeot Citroën sold its investment to RZD for €800 million, following the payment by GEFCO to PSA Peugeot Citroën of an exceptional dividend of €100 million. (See Note 2.4 to the consolidated financial statements at 31 December 2012).

With RZD, GEFCO will not only further enhance its geographic expansion strategy in China, India and Latin America, but will also accelerate its growth in Eastern and Central Europe, particularly in Russia. RZD and GEFCO will offer unrivalled logistics services between Europe and Asia by combining the strengths of the two groups. The new entity will become a world leader in diversified industrial supply chain logistics.

RZD intends to retain GEFCO's management team and all of its existing operating units, including those providing services to PSA Peugeot Citroën.

The protection of the sustained quality of the logistics services provided by GEFCO to PSA Peugeot Citroën, as well as the protection of both parties' interests, is guaranteed by a shareholders' agreement between PSA Peugeot Citroën and RZD.

The PSA Peugeot Citroën and Gefco S.A. Works Councils have expressed their support for the transaction.

2.1.9. Development of agreements by the Group in 2012

- Fiat Group Automobiles and PSA Peugeot Citroën continued discussions over the future of their Sevelnord joint venture. Under the terms of their agreement, Fiat's stake in Sevelnord will be transferred, and Sevelnord will continue to manufacture light commercial vehicles for the two groups until the new Euro 6 emissions standards come into effect at the end of 2016.
- On 23 July 2012, Toyota Motor Europe and PSA Peugeot Citroen announced a new agreement on light commercial vehicles for the European market. Under the plan, PSA Peugeot Citroen is to supply Toyota with light commercial vehicles for sale in Europe under the Toyota brand.

  As a first step, starting in the second quarter of 2013, PSA Peugeot Citroen will supply Medium Size Vans derived from its existing vehicles Peugeot Expert and Citroen Jumpy. The agreement also includes collaboration on next generation vehicles which are to be produced by PSA Peugeot Citroen. The collaboration is expected to last beyond 2020.

  Under the plan, Toyota Motor Europe is to participate in development and industrial investment costs for the next generation product. There are no plans for the two companies to enter into capital tie-ups or joint production arrangements.
- The PSA Peugeot Citroën Group's second joint venture in China with Changan is up and running. The DS brand network was launched on June 28 and already included 25 dealers by the end of December. Local production will begin in Shenzen in the second-half of 2013 from a plant with an annual capacity of 200,000 vehicles.
- Cooperation with Ford on 1.4-litre to 1.6-litre engines continued apace with the derivatives planned for Euro 6 emissions legislation which comes into effect from 2014.
- On 31 October 2012, PSA Peugeot Citroën and BMW announced the end of their partnership through the joint venture BMW Peugeot Citroën Electrification. The BMW Group will take over the business unit's activities. Cooperation between the two groups on petrol engines will continue.
- Regarding the Group's first Chinese joint venture with Dongfeng Motors, construction work continued at the third plant in Wuhan which will begin production in the second-half of 2013. The total annual production capacity of the joint venture is expected to reach 750,000 vehicles by 2015.

2.2. Business Review

Significant events

- Worldwide sales of assembled vehicles down 8.8% at 2,820,000 units
- Sales of Group vehicles and CKD units stood at 2,965,000 units (down 16.5% following the suspension of sales of CKD units in Iran)
- Sharp increase in the proportion of assembled vehicle sales outside Europe, rising from 33% in 2011, to 38% in 2012
- PSA Peugeot Citroën still the leader in terms of CO2 emissions at 122.5g/km CO2
- Successful launch of the Peugeot 208
- 300,000 Citroën DS sold worldwide since its launch

In 2012, the world's automotive markets experienced mixed fortunes. European markets continued to decline (down 8.6% in Europe 30), whilst the Russian market grew by 10.6%, the Chinese market by 6.6. % and the Latin American market by 5.6%.

Against this backdrop, Group sales worldwide amounted to 2,820,000 units (down 8.8%) for assembled vehicles and 2,965,000 units (down 16.5%) including CKD units.

The drop in Group sales is a reflection of the crisis being experienced by the European automotive industry. The Southern European markets, where the Group has a particularly strong presence, have been hit the hardest by this crisis (France: -13.3%, Spain: -14.9%, Italy: -20.9%). The Group's market share was 12.7 % in Europe 30. Group market share equivalent to 2011 would be 13%.

In addition, the Group's decision to suspend its sales of CKD units in Iran from February onwards, following the strengthening of international sanctions and resultant funding difficulties affecting payments, impacted on Group sales in 2012.

The Group's globalisation programme has borne fruit. The percentage of new vehicles sold outside Europe grew sharply, rising from 24% in 2009, to 33% in 2011 and 38% in 2012. The Group confirmed its target of achieving 50% of its sales outside of Europe by 2015.

2012 was marked by the successful launch of the Peugeot 208, with 221,000 vehicles sold. The continuing ramp-up of sales of small three-cylinder petrol engines from Summer onwards was noted.

In Europe, the Peugeot 208 has been diesel engine segment leader since June. As a result of this success, Peugeot was brand leader in this European segment in the second half. Finally, in December, the Peugeot 208 became the top selling car in France, all categories included.
Likewise, brand upscaling is on the right track. The percentage of Premium vehicles has doubled in three years and now accounts for 18% of the Group's sales. The Group's world premiere of vehicles equipped with diesel hybrid technology contributed to this percentage for the first full year. With 22,000 deliveries in 2012, the Group was the second largest seller of hybrid vehicles in Europe where one Citroën DS5 out of every four, one Peugeot 508 out of five and one Peugeot 3008 out of six were sold with hybrid diesel engines.

Finally, PSA Peugeot Citroën is still European leader in terms of the reduction of CO2 emissions, with an average of 122.5g/km CO2 across its range.

Southern Europe brought down Group sales

The European market declined by 8.6% in 2012. Even within the European continent, markets have experienced mixed fortunes with countries in the South* being particularly hard hit by the economic crisis, whilst accounting for 57% of the Group's European sales in 2012. The automotive market shrank by 13.3% in France, 14.9 % in Spain, 20.9% in Italy and 40% in Portugal, the countries where the Group has the greatest presence. This particularly unfavourable market mix was a major factor in the drop in Group market share which stood at 12.7%, compared to 13.3% in 2011.

In this extremely difficult market, the Group did, however, increase its market share in Italy (up 0.6 points to 10.2%). Peugeot and Citroën also profited from the robust health of the British market (+ 3.8%), and grew their market share by 0.2 points to 9.3%, due to the success of the Citroën DS and the strong performance recorded by the 208. On the Spanish market, the Group achieved a market share of 17.2% making Peugeot and Citroën the second and third highest selling brands.

In France, where sales of cars and light commercial vehicles were down 13.3% on 2011, Peugeot was the highest performing French brand with a total of 369,000 vehicles sold and a 16.2% market share.

The Group also confirmed its position as European light commercial vehicle market leader with a 20.8% market share.

** France, Spain, Italy and Portugal*

The Group's globalisation initiative is bearing fruit

China: sales growth outperformed the market

In China, the automotive market grew by 6.6% in 2012. Against this backdrop, Group sales were up 9.2% with 442,000 vehicles sold, growth thereby outperforming the market. This performance was reflected in growth in market share which reached 3.5%. Sales of Peugeot brand vehicles rose sharply (+24%) at 216,000 units.

These figures confirm the success of the Group's strategy in China. The growth in Dongfeng Peugeot Citroën Automobile (DPCA) sales will continue in 2013 due to the launch of new vehicles, the Peugeot 3008 and Citroën C4 L at the start of the year, followed by the Citroën C-Elysée and Peugeot 301, and due to the expansion of distribution networks.

In 2012, the Group's second joint venture, Changan PSA Automobile (CAPSA) launched the Citroën DS as a premium brand and constructed a dedicated sales network. The joint venture's products strategy, which includes both imported and locally produced vehicles, will enter a new phase in 2013 with the entry into production of the Citroën DS5 at the Shenzhen plant in the second half.

Latin America: a mixed picture

The Latin American market recorded growth of 5.6% over the year due to an improvement in the Brazilian economy. Group registrations were down 8.2% to 277,000 units, representing market share of 4.8%.

The picture was mixed: in Brazil, tax measures (IPI: Tax on Industrialised products) mainly benefited the B Popular segment, a segment in which the Group does not have a presence. PSA Peugeot Citroën sales in Brazil were also impacted by the works required to increase production capacities at the Porto Real plant which have now been completed. In contrast, in Argentina, Group registrations were up 4.4% and its market share is now 13.8%. For the second consecutive year, the Palomar plant was the country's top automotive production site with 129,500 vehicles produced in one year.

Sales in Latin America will be underpinned in 2013 by recent and future launches, in particular, those of the Citroën C3 and the Peugeot 208.

Russia: strong commercial and industrial growth

The Russian automotive market continued to grow in 2012 (+ 10.6%). Against this backdrop, Group registrations were up 7.4%, at 77,300 units, its market share standing at 2.6%, mainly due to 2012 launches: Peugeot 408, 508, 4008 and Citroën C4 Aircross, DS4 and DS5. Sales growth was particularly strong in the light commercial vehicle segment where Group registrations were up 18% in a market which grew by 4.5%.

Peugeot and Citroën continued to expand their networks which now cover over 90% of the territory and Russia's 25 largest cities. In addition, the Kaluga plant has now been fully operational since last July.

In Ukraine, the Group also consolidated its presence with a market share which grew from 2.9% to 3.4% in 2012.

In total, Group sales in the CIS (including Russia) stood at 88,000 vehicles over the year, a 110% increase since 2009.

Rest of the World

In the Rest of the World segment, Group sales were up 16.5% with exceptional performances in Mahgreb countries and, in particular, in Algeria where Group sales more than doubled (+45%) in a booming market, from 39,800 units in 2011 to 81,000 units in 2012.

Brand upscaling

Against the backdrop of a polarised European market in long-term decline, Peugeot and Citroën's upscaling strategy proved to be more relevant than ever.

Premium vehicles now account for 20% of Peugeot brand orders.

For its part, Citroën has sold a total of nearly 300,000 DS line vehicles (DS3, DS4 and DS5) since its launch in March 2010. In 2012, the Citroën DS accounted for 18% of all Citroën orders in Europe.

In Germany, the Citroën DS3 was voted "Best imported car" by Auto Zeitung readers.

From early 2013, the launch of the Citroën DS3 Cabrio will add to the DS line.

Reducing carbon emissions: PSA Peugeot Citroën is leading the race and is out in front of European standards

PSA Peugeot Citroën kept its place as European leader in terms of CO2 emissions with average emissions of 122.5g/km CO2* in 2012 compared with 127.5g/km CO2 in 2011. The Group has thus already exceeded the targets set by Brussels for 2015 (130g/km CO2).

38.7% of vehicles sold by the Group in Europe emit less than 111g/km CO2, up from 30.3% in 2011.

The Group is continuing to reduce its vehicles' CO2 emissions on the basis of four mutually-reinforcing pillars:

- optimised internal combustion engines with its family of three-cylinder petrol engines
- micro-hybrid technologies with broader deployment of second generation Stop & Start e-HDi on diesel Peugeot and Citroën ranges
- electric vehicles
- hybrid technologies with the launch of the Peugeot 3008, 508, 508 RXH and the Citroën DS5.

2013

In Europe, the automotive market is likely to experience a further dip of between 3 to 5% in 2013. Against this backdrop, the Peugeot and Citroën brands will step up their sales offensive with 17 launches worldwide, nine of which will be in Europe. The Group expects thereby to reduce the average age of its range to 3.5 years.

The Group will continue its upscaling strategy with numerous launches in 2013 such as the Citroën DS3 Cabrio, the Peugeot 208 GTI, 208 XY and 2008.

In China, with four launches for DPCA and the first locally produced vehicles from the Group's joint venture, Changan PSA Automobile (CAPSA), in the second half, the Group is in a strong position to continue its growth in a market which will remain steady in 2013.

In Latin America, after a year of transition and transformation, the production launch under way at the Porto Real plant for the Peugeot 208 and its subsequent sales launch in spring 2013, followed by other launches later in the year, will be sound assets which will enable the Group to boost its growth.

In Russia, in a market which is growing at a rate of around 2%, the Group will continue its growth strategy. This will be based on a young range, capitalising on the six models launched in 2012 and continuing this strategy in 2013 with the launch of the Peugeot 208 and 301 as well as that of the Citroën C-Elysée and C4 L.

In these developing areas, market growth, added to gains in market share, will enable PSA Peugeot Citroën to hit its target of making 50% of its sales outside Europe by 2015.

2.3. Capital expenditure and Research & Development

Innovation, research and development are the priorities for the PSA Peugeot Citroën Group. They represent a powerful lever for creating competitive advantage by addressing such major automotive industry challenges as changing standards and legislation, rising environmental awareness, emerging mobility and networking needs and meeting customer expectations for product appeal.

Thus, in 2012, capital expenditure (including capitalisable R&D costs) remained at €3,814 million (€861 million for Faurecia), compared with €3,713 million in 2011 (€681 million for Faurecia). Specifically, this amount reflects capacity extension at Wuhan III and Shenzhen in China, Porto Real in Brazil and Kaluga in Russia, as well as the development of the three-cylinder petrol engine used by the Peugeot 208.

In 2012, research and development focused in particular on:

- Solutions to reduce carbon emissions with measures to lower vehicle weight, make more energy efficient powertrains with a smaller carbon footprint and pave the way for alternative hybrid and electric powertrains. As Europe’s second largest carmaker, PSA Peugeot Citroën confirmed its progress, staying one step ahead in technology and environment through a new family of three-cylinder petrol engines and it remains the world leader in diesel hybrid vehicles, a field in which it has played a pioneering role. The 3008 HYbrid4, 508 HYbrid4, 508 RXH and DS5 HYbrid4 have already proved very successful with nearly 20,000 sales in 2012.

- The development of Peugeot and Citroën vehicles with the launch of 17 new models in 2013 so as to maintain an average age of these ranges at 3.5 years. The company will continue to introduce significant innovations via the new models.

- The emergence of the connected car with improved driver assistance to further increase safety and comfort, and connectivity solutions that integrate the new ways the customers use their vehicles nowadays.

Research and development led to the launch in 2012 of the Peugeot 208 and 301, the Citroën C- Elysée, two SUVs and the EB engine, and continued to expand internationally, notably in China, LATAM and Russia. This effort also resulted in the Group releasing four hybrid models in 2012, thus becoming Europe's second largest hybrid car maker, with a 14% annual market share growth.

R&D efforts were made visible at the Innovation Day event, held on 22 January 2013, when the Group unveiled several unique technologies, primarily including:

- The Hybrid Air technology, a petrol-compressed air hybrid system that marks a key step towards the 2l/100 km vehicle.
- Its new global modular platform EMP2 (Efficient Modular Platform 2) that provides efficient solutions to modularity, equipment and reduced CO2 emissions.
- SCR (Selective Catalytic Reduction), an innovative technology designed to treat nitrogen oxide (NOx) emissions from diesel vehicles, which will be launched in 2013.

2.4. Financial Position and Results

2.4.1. 2012 Group operating results

Following the sale by PSA Peugeot Citroën of its 75% interest in Gefco to JSC Russian Railways (RZD) (see paragraph 2.1.7.) and pursuant to IFRS 5 and IAS 27, the financial data for the Transportation and Logistics segment have been reclassified under "Discontinued operations" and the remaining 25% investment is recognised under " Investments in companies at equity".

For further information, please refer to Note 2 - Significant Events in the notes to the consolidated financial statements for the year ended 31 December 2012.

2.4.1.1. Revenue

The Group's operations are organised around four main segments:

- The Automotive Division, covering the design, manufacture and sale of passenger cars and light commercial vehicles under the Peugeot and Citroën brands;
- The Automotive Equipment Division, corresponding to the Faurecia group and comprising Interior Systems, Automotive Seating, Automotive Exteriors and Emissions Control Technologies;
- The Finance Division, corresponding to the Banque PSA Finance group, which provides retail financing to customers of the Peugeot and Citroën brands and wholesale financing to the two brands' dealer networks;
- Other Businesses, which include the operations of Peugeot S.A., the Group's holding company, and Peugeot Motocycles.

The table below shows consolidated revenue by business.

(in millions of euros)	**2012**	**2011**	**%**
Automotive	38,299	42,710	-10.3%
Faurecia	17,365	16,190	+7.3%
Banque PSA Finance	1,910	1,902	+0.4%
Other Businesses and intersegment eliminations	(2,128)	(2,293)	-
TOTAL	**55,446**	**58,509**	**-5.2%**

Consolidated revenue does not include the contribution of our Chinese company, Dongfeng Peugeot Citroën Automobile (DPCA), as it is jointly controlled on a 50/50 basis with our local partner and is therefore accounted for by the equity method.

In 2012, consolidated revenue was down 5.2% to €55,446 million from €58,509 million in 2011.

The Automotive Division reported a drop of €4,411 million, reflecting lower sales volumes in Europe. Faurecia's revenue increased by €1,175 million, while that of Banque PSA Finance rose by €8 million. The performances of each business are discussed in section 2.4.1.3.

The table below shows consolidated revenue by region, based on the location of the customer.

(in millions of euros)	**2012**	**2011**
Consolidated revenue	55,446	58,509
Net contribution to consolidated revenue by region		
Europe	68.1%	72.9%
Russia	3.2%	2.5%
Asia	6.2%	4.7%
Latin America	9.6%	9.3%
Rest of the world	12.9%	10.6%
TOTAL	**100%**	**100%**

2.4.1.2. Recurring Operating Income

The following table shows recurring operating income (loss) by business.

(in millions of euros)	**2012**	**2011**
Automotive	(1,504)	(92)
Faurecia	514	651
Banque PSA Finance	391	532
Other Businesses and intersegment eliminations	23	2
TOTAL	**(576)**	**1,093**

The Group reported a recurring operating loss of €576 million in 2012, compared with income of €1,093 million in 2011. The decline stems primarily from the Automotive Division's worsening performance, with a recurring operating loss of €1,504 million that reflects lower demand in Europe, contracting unit sales and sustained price pressure. It is also a result of the discontinuation of spare parts sales in Iran since February, as well as the deconsolidation of Gefco. The 21% drop in Faurecia's performance, to €514 million, was also impacted by the crisis in Europe. BPF's operating income, which was down 26.5% at €391 million, was affected by the revision of its retail receivables statistical provisioning method in November, which resulted in an exceptional impact of €136 million.

2.4.1.3. Analysis of revenue and recurring operating income by division

Automotive Division

(in millions of euros)	**2012**	**2011**
Revenue	38,299	42,710
Recurring operating income (loss)	(1,504)	(92)
As a % of revenue	*-3.9%*	*-0.2%*

Revenue

In 2012, the global automotive market expanded by 6.1%. This growth was driven by booming markets in Russia and China which grew by 10.6% and 6.6% respectively, in the US and Japan (growth of 13% and 26% respectively) and by the Latin American and Indian markets which recorded growth of 5.6% and 12%.

In Europe, where the economic environment was very weak, the market recorded an 8.6% drop but with countries experiencing very mixed fortunes: France: -13.3%, Germany: -3.1%, United Kingdom: +3.8%, Spain: -14.9%, Italy: -20.9%, Portugal: -40%.

With its strong presence in Europe, particularly in France, Spain and Italy, PSA Peugeot Citroën experienced a 16.5% drop in global unit sales, to 2,965 million assembled vehicles and CKD units.

In 2012, unit sales of assembled vehicles fell by 14.8% in Europe and grew by 3.3% outside Europe. Sales outside Europe accounted for 38% of the total, up from 33% in 2011.

Unit sales of assembled vehicles were down 11.5% excluding China (operations in China are accounted for by the equity method). Sales of CKD units were down 68.3%. The increased sanctions against Iran made it impossible to finance Iran-bound sales of CKD units, which led the Group to suspend these sales in compliance with international regulations in February 2012.

Automotive Division revenue, at €38,299 million, was down 10.3% on 2011, in a European market which shrank by 8.6%.

Revenue from new vehicles fell by 12.4% to €27,765 million from €31,677 million in 2011, impacted mainly by the steep 11.4% contraction in volumes and by a negative 1.2% price effect over the year. A favourable +2.2% product mix effect, after an already strong +6.5% in 2011, was not enough to offset these factors. The exchange rate effect was mildly favourable over the year (+0.4%), offsetting a negative country mix (-0.4%).

Market share in Europe dipped by 0.6 points to 12.7% from 13.3% in 2011 but remained stable compared with the second half of 2011 (12.7%). This decline in performance was attributable, to a large extent, to an unfavourable market mix, with the most promising markets for the Peugeot and Citroën brands (France, Spain and Italy) all suffering from deep recession.

The proportion of sales made outside Europe continued to expand, rising to 38% over the period:

- The Chinese passenger car market grew by 6.6% in 2012. Group sales were up 9.2%, with growth outperforming the market. Underpinned by expanding distribution networks, the Group sold a total of 442,000 vehicles in China in 2012. Its market share, up by 0.1 points, stood at 3.5%.
- In 2012, the Russian market continued to expand rapidly. A total of 2.935 million vehicles were sold, 10.6% more than in 2011. The 78,000 vehicles sold by PSA Peugeot Citroën represented an increase of 4.9%. The Group's market share stood at 2.6%, down by 0.1 points. Sales were underpinned by network expansion and 2012 launches.
- Due to the improvement in the Brazilian economy in the second half, the Latin American market recorded 5.6% growth in 2012: Brazil: +6.1%, Argentina: -1.6%. Performance was impacted by technical difficulties at the Porto Real plant following capacity extension work and by the increase in Brazil's IPI tax on imported vehicles. In addition, volume growth was dampened by the renewal of the B segment line-up. Against this backdrop, the Group sold 283,000 vehicles in the region, down 13.0%. Market share narrowed from 5.5% to 4.8% in 2012. The Porto Real plant is now fully operational.

In this difficult environment, the Group maintained the steady pace of new model launches and made further advances in the strategy of moving the model range mix up market. In 2012, Premium vehicles accounted for 18% of sales, practically unchanged from 2011.

Recurring operating income (loss)

The Automotive Division reported a recurring operating loss of €1,504 million in 2012, up from the €92 million loss recorded the previous year. The unfavourable operating environment accounted for €1,022 million of this decline, while the Group's underlying performance accounted for €391 million.

The change in the Automotive Division’s reported performance was due to the following factors:

Operating Environment

The worsening operating environment had a negative impact of €1,022 million.

- Shrinking market demand had a negative impact of €729 million.
- Higher raw materials costs and other external costs had a negative impact of €394 million. The increased cost of raw materials stood at €119 million.
- Other performance factors had a positive impact of €101 million, including in particular, changes in exchange rates which added €84 million, mainly due to the euro's depreciation against the pound sterling, and exceptional items (including the impact of Fukushima in 2011) which had a positive impact of €238 million.

Underlying Automotive Division performance

The Automotive Division's underlying performance had a negative impact of €391 million over the period.

- The Group exceeded its cost reduction target, with €1,181 million in savings in 2012.
- The Group continued to improve its product mix with a €321 million gain built on a high 2011.
- However, these positive effects did not fully offset the negative €559 million impact of losing market share in neither the deeply depressed European markets, nor the heavy €1,155 million impact from price pressure with, in particular, product enhancements driven by the highly competitive market.
- The guarantees had a negative impact of €179 million, reflecting mainly the reversal of a provision made in 2011.

Faurecia

(in millions of euros)	**2012**	**2011**
Revenue	17,365	16,190
Recurring operating income (loss)	514	651
As a % of revenue	*+3.0%*	*+4.0%*

Revenue

Product sales (parts and components delivered to automakers) totalled €13.30 billion, compared with €12.39 billion in 2011, reflecting a 7.3% increase (+1.4% at constant exchange rates and scope). They posted an 8.0% increase in the second half of 2012. The Saline plant in the USA, which was acquired from Ford and consolidated from June 2012, represents €281 million of the Group's sales.

Faurecia's total sales for 2012 stood at €17.36 billion (+2.0% at constant exchange rates and scope) compared to €16.19 billion in 2011, an increase of 7.3%. During the second half of 2012, total sales were up 7.0%.

Outside Europe, product sales grew by 30% and outpaced automotive production in all regions. This allowed the Group to accelerate the rebalancing of its product sales by region. For the year, North America accounted for 27% of product sales, with 10% in Asia and 5% in South America. Faurecia also continued to diversify its customer base: German automakers represent 39% of sales, followed by North American at 28%, French at 21% and Asian at 7%. The share of product sales outside Europe stood at 48% in the second half of 2012, an increase of 8 percentage points over the same period in 2011. Ford has become Faurecia's second-biggest customer, after Volkswagen.

By geographic region, product sales in 2012 break down as follows:

- in Europe[2], product sales totalled €7.41 billion, compared to €7.86 billion in 2011. This represents a decline of 6%, in line with the drop in automotive production. During the second half, product sales fell 7%, to €3.42 billion ;
- in North America, product sales reached €3.65 billion, a 41% increase (19% at constant exchange rates and scope) over the 2011 figure of €2.58 billion, outpacing the 17% rise in automotive production. This performance was buoyed by the acquisition of Saline and the development of Faurecia's commercial vehicles business with Cummins. Product sales in the second half of 2012 rose 44% to € 1.95 billion ;
- in Asia, product sales stood at €1.39 billion, versus €1.12 billion posted in 2011. This represents an increase of 24% (+14% at constant exchange rates and scope), with automotive production up 12%. Product sales in China increased 25% to €1.1 billion. In Asia, product sales in the second half rose 21% ;
- in South America, product sales came to €662 million, compared with €639 million in 2011. This represents an increase of 4% (+10% at constant exchange rates and scope), with automotive production declining by 1%. Product sales in the second half rose 16%.

<u>Sales by business group</u>

Growth was strongest in Interior Systems, reflecting market share gains in North America, and Emissions Control Technologies, where growth was particularly strong in Asia and in the commercial vehicles activity which demonstrated its strong development potential. Growth in Automotive Seating and Automotive Exteriors was more adversely affected by the drop in automotive production in Europe, although Automotive Exteriors had a good development in North America.

- Product sales for the Automotive Seating Business Group stood at €4.9 billion, compared to €4.8 billion in 2011, up 3%. Product sales rose by 1% in the second half.
- Product sales for the Interior Systems Business Group totalled €3.6 billion, compared with €3.1 billion in 2011, an increase of 17%. Product sales rose 25% in the last half of the year.
- Product sales excluding monoliths for the Emissions Control Technologies Business Group came to €3.2 billion, representing an increase of 10%. The increase in the second half was 6%.
- Product sales for the Automotive Exteriors Business Group totalled €1.6 billion. This was a 3% decline from 2011 levels. Product sales fell 1% in the second half.

Recurring operating income (loss)

Operating income for 2012 stood at €514 million, or 3.0% of total sales, compared with €651 million in 2011. Operating income in the second half of 2012 came to €211 million, equivalent to 2.5% of total sales. This drop was driven primarily by a rapid slowdown in European automotive production. In North America, strong growth in sales was not sufficiently translated into

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[2] *Following Russia's inclusion in the Europe geographical region in 2012 (previously reported under "rest of world"), 2011 published data were restated to ensure comparability.*

higher operating income as a result of exceptional items linked to the launch of new programs. Operating income remained high in Asia.

Banque PSA Finance

(in millions of euros)	2012	2011
Revenue	1,910	1,902
Net banking revenue	1,075	1,032
Recurring operating income (loss)	**391**	**532**
As a % of revenue	*20.5%*	*28.0%*

Revenue

In a challenging economic environment, Banque PSA Finance delivered a healthy marketing and financial performance thanks to the quality and robustness of its business model.

The Bank saw its penetration rate among the Group's customers rise by 2 points to a historic high of 29.8%, confirming its role in actively supporting the carmakers' sales. Developing synergies with the brands' marketing organisations is an essential factor in the Bank's sales strategy.

A total of 805,143 new and used vehicles were financed in 2012, 4.6% down on 2011, reflecting lower registrations across all markets.

A growing proportion of the Bank's revenue is generated outside Europe, with the year seeing solid contributions from Brazil, Argentina and Russia. Markets outside Europe accounted for 19.4% of new vehicle financing volumes in the year versus 18% the previous year.

New retail financing granted in 2012 totalled €8,461 million, down 3.7% from €8,790 million in 2011, reflecting the weak sales environment for the Peugeot and Citroën models and the unfavourable economic environment's front line impact on consumers.

At 31 December 2012, the retail loan book stood at €17,007 million, down from €17,474 million at 31 December 2011. The wholesale loan book at 31 December 2012 came to €6,054 million, down 11.5% from €6,840 million at 31 December 2011. Outstanding retail and wholesale loans totalled €23,061 million at 31 December 2012, down 5.2% on the €24,314 million recorded at the previous year-end.

The penetration rate for insurance and services offerings rose during the period, with 1.65 insurance/service contracts sold for every financing contract in 2012, up from 1.61 in 2011.

Banque PSA Finance's revenue for 2012 totalled €1,910 million, up 0.4% from the €1,902 million recorded in 2011.

(in millions of euros)	2012	2011
Outstanding loans (including securitised loans) by customer segment		
• Corporate Dealers	6,054	6,840
• Retail and Corporate & Equivalent	17,007	17,474
TOTAL BANQUE PSA FINANCE*	**23,061**	**24,314**

(in millions of euros)	2012	2011
Outstanding loans (including securitised loans)		
• France	8,572	8,868
• Rest of Europe	12,626	13,473
• Rest of the world	1,863	1,973
TOTAL BANQUE PSA FINANCE	**23,061**	**24,314**

* *Excluding the effect of remeasuring interest-rate instrument portfolios.*

Recurring operating income (loss)

Banque PSA Finance reported recurring operating income of €391 million in 2011 versus €532 million the previous year.

- Net banking revenue rose 4.2% to a new record high of €1,075 million from €1,032 million in 2011, despite the slowdown in Automotive Division sales. This change is mainly due to an increase in retail lending margins, reflecting high production quality over the past years, and the maintenance of average net loans outstanding and lending margins on the Corporate Dealers segment.

- Net additions to provisions for loan losses for the year came at €290 million, or 1.23% of average net loans outstanding, compared with €115 million in 2011, or 0.49% of average net loans outstanding. Banque PSA Finance's net additions to provisions for retail loan losses (individual customers and small businesses) amounted to €260 million in 2012. This amount included an €136 million impairment loss recognised in the last quarter of 2012 as a result of reviewing the statistical provisioning method applicable to the retail loan portfolio. Net additions to provisions for loan losses in 2012 also included the €25 million impact of increased impairment rates, especially for Southern European countries, due to the change in the observation period for the loss rates used to calculate the expected losses. In 2011, net additions to provisions for retail loan losses stood at €107 million.
- General operating expenses totalled €394 million in 2012 versus €385 million in 2011. The increase was primarily due to costs incurred in connection with new development projects and the impact of a revised statutory tax on French financial institutions applicable to BPF's consolidated equity (€4 million).

More detailed information about Banque PSA Finance is provided in the Bank's Annual Report, which can be downloaded from its website at www.banquepsafinance.com

2.4.2. Other Income Statement Items

2.4.2.1. Operating income (loss)

Non-recurring operating expenses amounted to €4,528 million in 2012 versus €463 million in 2011.

- Impairment losses on CGUs and other assets and net additions to provisions for Automotive Division onerous contracts totalled €3,864 million. These primarily comprised an impairment loss on the CGU's assets;
- Automotive Division's €3,009 million , against the backdrop of a deteriorating European market (see Note 8.1. to the consolidated financial statements for the year ended 31 December 2012), in connection to yen-denominated contracts for vehicles produced under cooperation agreements, provisions for inventories in Iran and the writedown of assets at the Aulnay plant;
- Restructuring costs came to €528 million in 2012, of which €440 million concerned the Automotive Division and €84 million Faurecia. The former relate primarily to France, in particular the plan to restructure the Automotive Division's production base and to redeploy its workforce (see paragraph 2.1.4.). Restructuring costs for Faurecia included €79 million for employee separations.

Non-recurring operating income stood at €406 million, compared with €46 million in 2011, consisting in particular of gains on real estate disposals.

For further information, please refer to the notes to the consolidated financial statements at 31 December 2012 (Note 8 - Non-recurring Income and Expenses).

As a result of these factors, the Group ended 2012 with a consolidated operating loss of €4 698 million, compared with operating income of €676 million in 2011.

(in millions of euros)	**2012**	**2011**
Automotive	(5,760)	(439)
Faurecia	426	593
Banque PSA Finance	390	532
Other Businesses and holding company	246	(10)
TOTAL PSA PEUGEOT CITROEN	**(4,698)**	**676**

2.4.2.2. Net financial income

Net financial expense came to €418 million in 2011 compared with €329 million the previous year. This amount includes interest income from loans and on cash and cash equivalents, finance costs and other financial income and expense.

The increase reflected the increase in finance costs following repayment of the loan from the French State in 2011, which generated a €73 million exceptional expense reversal in the first-half 2011 through two new PSA bond issues of €500 million in September 2011 and of €600 million in April 2012, for which expenses amounted to €60 million in 2012, Moreover, a new Faurecia bond issue of €250 million, together with an additional amount of €140 million on the November 2011 issue, led to expenses of €59 million.

For more information, refer to the notes to the consolidated financial statements at 31 December 2012 (Notes 9, 10 and 11).

2.4.2.3. Income tax expense

The current tax expense stands at €389 million in 2012 compared to €335 million in 2011. Deferred tax in 2012 is a charge of €383 compared to deferred tax income of €450 million in 2011. The deferred tax assets on deficits from the French tax consolidation which are not allocable at 50% to deferred tax liabilities were totally written down for €1,902 million. Secondly, €1,023 million of deferred tax liabilities were included in the result due to the €3,009 million depreciation in the Automotive division CGU's assets.

For more information, please refer to the consolidated financial statements for the six months ended 31 December 2012 (Note 12 - Income Taxes).

2.4.2.4. Share in net earnings of companies at equity

The net income of companies accounted at equity was €160 million for the 2012 fiscal year, compared to €172 million in 2011. The companies accounted at equity are firstly Dongfeng Peugeot Citroën Automobile (DPCA), Changan PSA Automobiles (CAPSA), and secondly cooperations with other car manufacturers, when they have a specific legal structure, as is the case for the joint ventures with Fiat, Toyota and Renault. On 31 October 2012, PSA Peugeot Citroën and BMW announced the end of their partnership in the BMW Peugeot Citroën Electrification joint venture. BMW is taking charge of the business unit's activities. The JV's contribution in 2012 was negative by €35 million, due to the full depreciation of the securities. Cooperation between the two groups on petrol engines will continue.

The DPCA contributed €171 million to income in 2012, compared with €150 million in 2011.

Toyota Peugeot Citroën Automobiles' contributed €15 million to the Group's result, compared to €8 million in 2011. The contribution from the companies created by the cooperation with Fiat was negative by €1 million, compared to the negative contribution of €3 million in 2011.

For more information about the Group's share in the net earnings of companies at equity, please refer to the notes to the consolidated financial statements for the six months ended 31.12.12 (Note 16 - Investments in Companies at Equity).

2.4.2.5. Consolidated profit (loss) from continuing operations

The Group ended the year with a consolidated loss of €5,728 million compared to a profit of €634 million in 2011.

2.4.2.6. Profit (loss) from discontinued operations

The Group ended the year with a profit from discontinued operations of €803 million, compared to a profit of €150 million in 2011, being mainly the capital gains from the deconsolidation of Gefco (see Note 2 of the consolidated Financial statements on 31 December 2012).

2.4.2.7. Consolidated profit (loss) for the period

The Group ended the year with a consolidated loss of €4,925 million compared with earning of €784 million in 2011.

2.4.2.8. Consolidated loss attributable to equity holders of the parent

The consolidated loss attributable to the parent company's equity holders -€5 010 million in 2012 compared to €588 million on 2011.

2.4.2.9. Earnings per Share

The basic loss per share amounted to €15.80 compared with basic earnings per share of €2.64 in 2011.
Diluted loss per €1 par value share was €15.60 versus earnings of €2.56 in 2011.

Please refer to the notes to the consolidated financial statements to 31 December 2012 (Note 13 - Earnings per Share).

2.5. Outlook

The 2013 European automotive market is expected to contract by a further 5% in this context, while the other key markets are expected to grow by around 8% in China, 2% in Latin America and 2% in Russia.

Free cash flow in 2012 was -€1,387 million. Operational free cash flow (excluding exceptional items and restructuring) amounted to -€3 billion, including -€2.5 billion in respect of the Automotive Division and -€0.5 billion for Faurecia.

In 2013, the Group aims to reduce the rate of operational free cash flow consumption by half and confirm its target of returning to equilibrium for free operational cash flow by the end of 2014.

3. CASH AND CAPITAL RESOURCES

3.1. Equity

Consolidated equity amounted to €10,557 million at 31 December 2012, down on the €14,494 million recorded at the previous year-end. This difference is mainly due to taking into account the result of the fiscal year which was particularly impacted by the depreciation of the Automotive Division's assets.

At 31 December 2012, the share capital comprised 354,848,992 shares with a par value of one euro each. The increase compared with the number of shares outstanding at 31 December 2011 resulted from the issuance of 120,799,648 new shares as part of the capital increase. At the period-end, the Group held 12,788,628 treasury shares to cover its requirements for (i) a future liquidity contract, (ii) outstanding stock option plans, and (iii)) the partial issue of June 2009 Oceane convertible bonds . No shares were bought back in 2012, however 4,398,821 treasury shares were sold to General Motors as part of the strategic alliance with the US carmaker.

For further details of the capital increase, please refer to the *Significant events in 2012* 2.1.2 Rights Issue.

3.2. Net financial position of manufacturing and sales companies and net debt-to-equity ratio

Consolidated current and non-current financial liabilities of the manufacturing and sales companies amounted to €10,692 million compared with €9,779 million on 31 December 2011 (see Note 30 to the consolidated financial statements at 31 December 2012). The increase primarily reflected the €600 million bond issue by Peugeot S.A. and the two bond issues by Faurecia, for amounts of €140 million and €250 million. Manufacturing and sales company financial assets rose to €7,586 million at 31 December 2012 from €6,490 million at 31 December 2011.

As a result, the manufacturing and sales companies' the net financial position was -€3,148 million on 31 December 2012 compared to -€3,359 million on 31 December 2011 (see Note 34 to the consolidated financial statements on 31 December 2012). Faurecia's net debt stands at €1,892 million, higher than the €1,391 million recognised in 2011. Automotive net debt (manufacturing and sales companies excluding Faurecia) was down by €712 million for the period to €1,256 million.

Funds from operations totalled €1,033 in 2012, down from €2,395 million in 2011 due to the Automotive Division's underperformance over the year.

The WCR had a negative impact of -€602 million, despite good stock control (+€339 million compared to 31 December 2011), which returned to 2010 levels. Trade receivables fell by -€9 million compared to 31 December 2011. Trade payables fell by -€835 million compared to 31 December 2011, reaching lower than normal levels due to production cuts. The Other Changes in Working Capital Requirements item fell by -€97 million compared to 31 December 2011.

Capital expenditure and capitalised research and development costs amounted to €3,814 million in 2012, due to the commitment to supporting the increase in production capacity in Russia, China and Latin America, as well as the Group's expansion in Europe and globally and product launches.

In addition, the Group made a number of financial investments totalling €69 million, primarily in the CAPSA joint venture in China.

Banque PSA Finance paid a total dividend of €533 million, including an exceptional dividend of €360 million.

The exceptional sale of real estate assets released an inflow of cash of €634million, whilst the sale of 75% of Gefco's capital generated a net cash injection of €897 million.

Free cash flow[3] ended the year at -€1,387 million, versus -€1,763 million a year earlier.

The sale of Citer, which generated €448 million in cash, the €967 million in proceeds from the capital increase and the €89 million from the sale of preferential subscription rights on the financial market and from the sale of treasury shares to General Motors helped to reduce the Group's net debt which was €3,148 million at the end of 2012.

The net debt-to-equity ratio stood at 29.8% at 31 December 2012, compared to 23% a year earlier.

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3 Free cash flow of industrial and commercial companies: the dividends received from Banque PSA Finance have been included in Free Cash Flow since 2010. *In 2012 the exceptional dividend paid by Gefco was treated in a similar way.*This is equal to : operating flows - investment flows + net dividends received from the Group's companies..

3.3. Origin, Amount and Description of Consolidated Cash Flows

3.3.1. Consolidated Cash Flows

For more information, please refer to the consolidated financial statements - Consolidated Statements of Cash Flows for the year ended 31 December 2012.

3.3.2. Manufacturing and Sales Companies

The following table presents the manufacturing and sales companies' cash flows for 2012 and 2011:

	Manufacturing and sales companies	
(in millions of euros)	**2012**	**2011**
Net Profit	**(6,021)**	**280**
Working capital provided by operations	1,033	2,395
Change in working capital	(602)	(678)
Net cash from (used in) operating activities	**431**	**1,717**
Net cash used in investing activities	**(2,450)**	**(3,635)**
Net cash from/(used in) financing activities	**2,387**	**(2,663)**
Effect of changes in exchange rates	(6)	5
Net increase (decrease) in cash and cash equivalents from continuing operations	**362**	**(4,576)**
Net cash from discontinued operations	345	15
Cash and cash equivalents at beginning of year	4,692	9,253
Net cash and cash equivalents at end of period	**5,399**	**4,692**

Cash flows from operating activities of the manufacturing and sales companies

Funds from operations of the manufacturing and sales companies came to €1 033 million in 2012 compared with €2 395 million the previous year, representing 1.9% of their revenue versus 4.2% the year before. The generation of funds from operations was adversely affected by the Automotive Division's weaker performance in 2012. See section 2.4.1.3 Automotive Division.

The €602 million negative change in working capital mainly reflects the fall in trade payables of €835 million.

Consequently, funds from industrial and commercial companies present a positive balance of €431 million compared to €1,717 million in 2011.

The table below shows new vehicle inventory levels for the Group and in the independent dealer network:

(in thousands of new vehicles)	**2012**	**2011**	**2010**
The Group	178	234	222
Independent dealer network	238	259	223
TOTAL	**416**	**493**	**445**

The new vehicles inventory at December 2012 totalled 416,000 new vehicles, representing a ratio of 65 days' sales[4], in line with the announced objective. At 31 December 2011, there were 493,000 new vehicles in inventory, representing 69 days' sales.

Cash flows from manufacturing and sales company investment activities

The flows connected to investment in industrial and commercial activities stand at €2,450 million at the end of 2012, compared to €3,635 million at the end of 2011. In addition to those carried out by the Automotive Division, these include investments made by Faurecia, asset disposals and the sale of 75% of the capital interest in Gefco.

Capitalised development costs amounted to €1,262 million versus €1,227 million in 2011 (see Note 7 to the consolidated financial statements at 31 December 2012).

4 *Sales ratio* : ratio calculated on the basis of sales forecasts for the next 3 months

Cash Flows From Financing Activities of Manufacturing and Sales Companies

The flows from the financing activities of the manufacturing and sales companies total €2,387 million, as opposed to -€2 663 million to 31 December 2011. This change reflects the following factors:

- changes in other financial assets and liabilities totalling €675 million, including a €1,944 million increase in loans ;
- capital increase and premiums of €1,028 million;
- €89 million in proceeds from the sale of treasury shares to General Motors and preferential subscription rights on the market
- the BPF dividend of €532 million, and the Gefco dividend of €100 million ;

Net Cash and Cash Equivalents at End of Period - Manufacturing and Sales Companies

Given the flows from operations, investment flows, and flows from financial operations explained above, and after taking the negative foreign exchange rate conversions of €6 million into account, net cash and cash equivalents at the year end totals €5,399 million, compared with €4,692 million at 31 December 2011.

Liquidity reserves for the manufacturing and sales companies amounted to €10,574 million at end-2012 versus €9,302 million at end-2011, with €7,324 million in cash and current & non current financial assets, and €3,250 million in undrawn lines of credit.

3.3.3. Net Cash and Cash Equivalents at End of Year - Finance Companies

At the year-end, the Bank had cash and cash equivalents of €1,669 million versus €1,154 million at year-end 2011 (see Note 35 to the consolidated financial statements at 31 December 2012), due in particular to net cash from operating activities of €1,050 million.

3.4. Liquidity and Funding

3.4.1. Manufacturing and sales companies

In the prevailing economic environment, the Group kept up its proactive and diversified financing strategy and conservative liquidity management in order to meet its general needs, particularly the financing of its activity and development projects. This strategy enabled the Group to refinance its 2013 debt maturities on favourable terms. The refinancing transactions strengthened the balance sheet by maintaining the average life of debt.

Refinancing transactions carried out during 2012 were as follows:

- On 11 April 2012, Peugeot S.A. issued €600 million of 5.625% bonds due July 2017;
- On 21 February 2012, Faurecia carried out a €140-million tap on its €350-million issue of 9.375% senior notes due December 2016;
- On 3 May 2012, Faurecia issued €250 million of 8.75% senior notes due June 2019;
- On 18 September 2012, Faurecia issued €250 million of Oceane 3.25% bonds due January 2018;

Peugeot S.A. and GIE PSA Trésorerie also have access to a €2,400 million confirmed line of credit originally expiring in July 2013 that was initially extended in July 2011 by one year to July 2014. In July 2012, Peugeot S.A. obtained a second one-year extension to July 2015 for a €2,225 million tranche. It was undrawn at 31 December 2012 (see Note 35.2). The drawdown of this line of credit is conditional on the ratio of the net debt of manufacturing and sales companies to equity being under one. Faurecia has undrawn confirmed lines of credit amounting to €850 million at 31 December 2012.

3.4.2. Banque PSA Finance

At 31 December 2012, 23% of funding was provided by bank facilities, 42% by the capital markets, 20% by loan securitisations placed on the financial markets and 15% by public sources such as the ECB (European Central Bank) and SFEF (Société de Financement de l'Economie Française, created during the recent crisis and tasked with raising funds through bond issuances in order to lend these to banks and financial institutions). At 31 December 2011, these sources had contributed 19%, 59%, 18% and 4% of bank funding respectively.

As part of the BPF's financing strategy implemented in 2012, Banque PSA Finance decided to increase recourse to securitisation and ECB REPOs to at least offset by end-2012 the disappearance of short-term financing on the capital markets as a result of the loss of the A2/P2 rating in July 2012.

At the same time, discussions were entered into with the French State to explore other avenues of financing for BPF: in particular, a French State guarantee for future bond issues of Banque PSA Finance under its EMTN programme. This was the only solution which would enable access to the financial markets without being affected by BPF's rating.

Under Article 85 of the Amending Finance Act of 29 December 2012, the Minister for the Economy is authorised to provide a State guarantee for a fee for securities issued between 1 January 2013 and 31 December 2016 by Banque PSA Finance in order to enable it to refinance itself. It is a guarantee for a maximum of €7 billion in capital, and does not represent a transfer of funds from the French State to Banque PSA Finance. It is only in the event of Banque PSA Finance defaulting that the Bank's counterparties could ask the State to honour the guarantee.

The French State notified the European Commission of this guarantee on 7 January 2013. The Act provides for an agreement to be signed by the French State, Peugeot SA and Banque PSA Finance, which will notably describe the commitments made by the Group to the French State in return for this guarantee.(cf Note 41 of the consolidated financial statements).

On February 11, 2013 the European Commission temporarily authorised the guarantee described in Note 37.1 for an initial amount of €1,200 million. A guarantee agreement shall be signed between the French State, Peugeot S.A. and Banque PSA Finance. This will set out the commitments made by the PSA Peugeot Citroën Group to the French State

Under this same agreement, Banque PSA Finances will undertake to pay the French State a commission on a monthly basis, equal to 260 base points calculated annually on the principal outstanding and interest incurred by the debt benefitting from the guarantee. The matter has been referred to the European Commission for definitive authorisation under state restructuring aid rules.

A second guarantee agreement corresponding this time to the residual amount of €5,800 million will be signed once definitive authorization has been received from the European Commission under state restructuring aid rules

BPF renegotiated with its banking pool in parallel to obtain similar commitment and financing periods to those expected via the State guarantee on new bond issues. Throughout 2012, Banque PSA Finance rolled over most of its drawn-down and revolving bilateral lines of credit on expiry. These rollovers enabled the Bank to maintain its bank financing. At 31 December 2012, drawdowns on the Bank's lines of credit amounted to €4,915 million, down from €4,058 million at 31 December 2011.

In late 2012, Banque PSA Finance carried out a review of its syndicated lines of credit to extend the maturity of its revolving back-up facilities in the amount of €3 billion to three years, and to set up a credit facility with a maximum five-year maturity. The first extension was agreed in late December 2012 and the second, carried out using a Forward Start Facility, was signed on 11 January 2013. The credit facility was also signed on this date, in the amount of €4,099 million, with a large international banking pool.

Borrowings under short and medium-term capital markets programmes fell from €12,926 million at 31 December 2011 to €9,080 million at 31 December 2012.

Borrowings under short-term programmes (Sofira commercial paper issues and Banque PSA Finance CD issues) dried up following the downgrading of BPF's short-term notes by the rating agencies to A3/P3, falling from €3,754 million at 31 December 2011 to €147 million at 31 December 2012.

Responding to market demand for medium-term paper, Banque PSA Finance carried out two EMTN issues and two private placements in 2012. In June, as part of the continued drive to diversify its sources of financing, the Bank successfully placed its first Swiss-franc denominated bond issue. This issue raised CHF 225 million (€188 million at date of issue). In all, the issues represented an aggregate €1,528 million with an average maturity of around three years.

Upon completion, EMTN, BMTN and similar outstandings stood at €8,846 million at 31 December 2012, up from €9,172 million at 31 December 2011.

In addition, Banque PSA Finance accelerated its securitisation programme in 2012, with five successful securitisation operations carried out in four markets (France, the United Kingdom, Spain and Italy) amounting to €3,101 million of senior notes.

The first Auto ABS securitisation transaction, compartment 2012-1, was agreed in July 2012 on Crédipar leasing receivables and carried out via the French compartmentalised securitisation fund (Fonds Commun de Titrisation à compartiments) 'Auto ABS FCT'. A second Auto ABS 2012-2 S.r.l transaction on Italian credit sales was carried out using an Italian entity in October 2012.

In November, an Auto ABS 2012-3 securitisation transaction was agreed on Spanish credit sales receivables and carried out using a Spanish asset securitisation fund (FTA).

In December, an Auto ABS French Loans Master securitisation transaction was agreed on Crédipar credit sales receivables and carried out using the new French master securitisation fund (Fonds Commun de Titrisation Master). An Auto ABS UK Loans PLC securitisation transaction on UK credit sales receivables was carried out using a UK securitisation entity.

Liquidity reserves

Banque PSA Finance constantly endeavours to strike the best possible balance between securing liquidity, which is an ongoing priority, and optimising its refinancing costs.

At 31 December 2012, 85% of refinancing had an initial maturity of twelve months or more (versus 80% at end-2011), ensuring continued solid coverage of potential liquidity risk.

Refinancing is arranged with maturities that comfortably cover the maturities of the retail financing portfolio. The average maturity of medium and long-term financing raised in 2012 is some 2.4 years.

Banque PSA Finance endeavours to maintain a certain level of cash reserves and undrawn lines of credit covering at least six months' financing needs. The 6-month target corresponds to the results of a stress test assuming continued financing of projected new lending without recourse to the financial markets. At 31 December 2012, the liquidity reserve amounted to €1,066 million. Banque PSA Finance has €6,726 million worth of undrawn committed credit facilities, including syndicated lines of credit amounting to €5,755 million.

At 31 December 2012, the syndicated back-up facilities expire on four dates: June 2013 (€1,755 million), June 2014 (€2,000 million), December 2014 (€277 million) and December 2015 (€1,723 million). These were obtained from syndicates of leading banks. These back-up facilities had not been drawn down at 31 December 2012.

The facilities in place at 31 December 2012 do not require BFP to comply with any financial ratios or other financial covenants, other than the customary negative pledge, cross default and similar clauses. They provide for the cancellation of the credit facilities if Peugeot S.A. does not directly or indirectly own a majority of Banque PSA Finance's outstanding shares.

The syndicated credit facilities were renegotiated and signed on 11 January 2013 in the reduced amount of €3,000 million (breaking down as €1,800 million expiring December 2015 and €1,200 million expiring January 2016), in light of the need to secure short-term borrowings at large discounts following the reduction in CD and commercial paper borrowings, BPF is required to respect additional covenants which provide that BPF must be able to provide a guarantee from the French State for its euro bond issues and must comply with a Common Equity Tier One ratio of at least 11%.