

## II. ANNUAL REPORT

### 1. RISK AND UNCERTAINTY FACTORS

#### Principal risk factors specific to the Group and its activity

In its various business lines, the PSA Peugeot Citroën Group ensures that the risks inherent in its activities are controlled. The various operating units 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 specific risk factors to which the Group may be exposed will be described in depth in the 2013 Registration Document that will be published in March 2014, and include notably:

#### 1.1 Operational risks

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They include in particular: risks related to the Group's operating and geopolitical environment, risks related to the development, launch and sale of new vehicles, customer and dealer risks, raw material risks, supplier risks, industrial risks, environmental risks, risks related to occupational health and safety, risks related to cooperation agreements and risks related to information systems.

- **Risks related to the Group's operating and geopolitical environment**

A difficult operating environment is likely to influence the Group's activities and thus its financial results. Therefore, periods of reduced economic activity and, even more so, periods of crisis may contribute to substantial fall in demand in one or more geographic markets. 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: 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 a tight managerial organisation enabling it to react very rapidly to various types of risk situations: thus, in a context of strong commercial competition where the European market is expected to be depressed on a long-term basis, the Group decided to strengthen its performance plan by implementing new cost reduction operations. 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. In addition, please refer to Note 36 in the Notes to the consolidated financial statements at 31 December 2013.

- **Risks related to the development, launch and sale of new vehicles**

The decision to develop new vehicle models or subassemblies and to introduce them in the market is backed by marketing and profitability studies. Profitability calculations are based primarily on unit sales forecasts. Any downward adjustment in a unit sales forecast may lead to the recognition of i) an impairment loss on moulds and tooling or capitalised development costs depreciated/amortised over the commercial life of the vehicle models concerned or ii) a provision to cover any contractual penalties that may be imposed in the event of a breach of take-or-pay clauses included in the Group's cooperation agreements with other carmakers.

The development of new vehicles and subassemblies also exposes the Group to risks arising from constant changes in European and global regulations, particularly in the areas of safety and the environment. The overall trend is towards increasingly strict regulations. New regulations on the CO<sub>2</sub> emissions of light commercial vehicles are expected. China is also reinforcing its regulations on new technologies and CO<sub>2</sub> emissions. In Brazil, the 2013-2017 INOVAR Auto regulatory obligations imposed on vehicle sales (CO<sub>2</sub> level, Local Integration level, R&D expenditure level in Brazil) apply to the Group and to its competitors.

Technical risks related to product quality and safety can lead carmakers to recall vehicles in order to correct the identified defects.

As regards sales risks, the Group is strongly exposed to the mature European market, in a current context of relative economic decline of the European countries, saturation of vehicle fleets and reduced space allocated for vehicles in urban areas. On the European market, given the substantial amounts allocated to selling expenses for promoting sales, there is also a risk concerning the effective use of selling expense budgets.

The strong growth in volumes in China leads the Group to be increasingly exposed to the Chinese market. The main risk concerns reduced growth in this market which would soon lead to a situation of overcapacity given the rate of investment by manufacturers, and thus to tension on prices and margins. The method of developing PSA activities in China via the two 50% joint ventures: Dongfeng Peugeot Citroën Automobile (DPCA) and Changan PSA Automotive Division (CAPSA), nevertheless shares the financial risk with the partners.

Concerning its development in the Southern Common Market, the Group is potentially exposed to all the risk factors described in the paragraph on risks associated with the Group's operating and geopolitical environment.

#### **Risk management and control processes**

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. It ensures in particular that project inductions are carried out in accordance with the Worldwide Master Plan, both by the programme functions (vehicles, modules, services), and by the contributing departments (industrial, human resources, etc.) and that the economic performance of programmes is kept in line with the objectives defined in the strategic planning framework.

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<sub>2</sub> 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. Close consideration of customer after-sales requirements, from vehicle design onwards (ease of repairs, diagnostics, etc.), also contributes to constant quality improvement in the Group's new models.

The Group considers it of great importance that effective time-frames 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. The Group's interaction with the regulatory authorities is designed to ensure this is the case. In Brazil, the Group has set up centralised management of the INOVAR Auto regulatory obligations.

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

In Europe, the Group has strengthened its market forecast process, relying on a cautious approach to the development of European markets. Actions to strengthen internal controls and manage margins and variable selling expenses were also taken in 2013. Thus the Group deployed a self-assessment approach to the internal controls of its subsidiaries over selling expenses, and introduced in all countries a new system for analysing margins and variable selling expenses. Audits targeted by country or by kind of expenditure were also conducted by the Audit and Risk Management Department. Finally, the Group is gradually freeing itself from its dependence on the European market through its growing internationalisation.

To date in China, the development of the market appears well controlled in so far as the developing areas in the country are taking over from saturated cities. The Group is managing the vehicle and subassembly projects of its two joint ventures via dedicated internal governance, as well as via the boards of its two joint ventures. Concerning CAPSA, the industrial and sales development of the premium-oriented DS range are under way and do not contribute any specific alerts. The strengthening of the partnership with DPCA will also enable the Group to have an engineering and export base for the rest of Asia, the activity of which may help compensate for any decline in the Chinese market.

In the Southern Common Market, the specific risk management and control processes were strengthened during 2013, with in particular:

- the introduction of routine risk analyses before validation of the vehicle programming process;
- strengthening Local Integration action plans on vehicle and subassembly projects aiming to reduce the Group's exposure to currency risk;
- strengthening the currency hedging policy on the Southern Common Market;

- introducing crisis management procedures in order to react rapidly (particularly given the macro-economic tensions concerning Argentina).

- **Raw materials risks**

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. Purchases of raw materials thus represented 30% of the Purchasing series budget in 2013. 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:

- for negotiated raw materials: steel (38% of total raw material series purchasing costs), thermoplastics and elastomers (24%);
- for listed raw materials: aluminium (8% of the total cost of raw material purchases), precious metals (3%) and non-ferrous metals (copper, zinc, lead) (3%).

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

1. supply risk associated with the availability of raw materials;
2. financial risk associated with fluctuations in raw material prices.

#### **Risk management and control processes**

To respond to these two risks, the 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 implementation of this materials strategy is managed by quarterly reviews chaired by the Director of Research and Development and the Director of Group Purchasing. It is deployed by technical Purchasing units organised by material, which are responsible for implementing the action points and regularly monitoring the supply risks.

In order to limit the economic risk for listed raw materials, the Purchasing Department and Corporate Finance have set up a medium-term (3-year) financial hedging policy through the subsidiary PSA International. This policy is subject to quarterly review, chaired by the Group's Financial Director and the Purchasing Director, during which decisions on the positions taken are ratified in accordance with the governance regulations, updated consumption estimates and the major market trends. No speculative positions are taken and the principle in periods of rising prices is to secure at least 50 % of requirements for the coming year and 20 % of requirements for the next 2 years.

In addition, please refer to Note 36 in the Notes to the consolidated financial statements at 31 December 2013.

- **Risks associated with cooperation agreements**

To accelerate its development and reduce engineering and production costs, PSA Peugeot Citroën has implemented a policy of entering into cooperation agreements with other carmakers. This policy, based on mutual trust and risk sharing, forms part of the Worldwide Master Plan. This policy applies both to vehicle platforms and subassemblies (gear boxes, engines and electrical components). The Group also regularly grants production licences to certain industrial partners.

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 Peugeot Citroën.

Once the cooperation agreement has been signed, the risk run by PSA Peugeot Citroën is basically financial. It takes the form of potential payment of penalties for failure to take the volumes reserved or to compensate for the negative impact of volume reductions on component purchase prices, for R&D cost overruns or overvaluation, and for investments, when the partner is acting as project manager.

In cases where 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.

Failure to respect intellectual property in cases where the partner grants licences to third parties with no pecuniary consideration for PSA Peugeot Citroën is another form of risk, as is a low-quality product manufactured by the partner, requiring remedial action with customers which could affect the image of PSA Peugeot Citroën products.

The strategic alliance between the PSA Peugeot Citroën Group and General Motors announced on 29 February 2012 (the "Alliance") and signed on 19 December 2012, gave rise to contracts in relation to the implementation of the Alliance. These contracts contain a certain number of termination provisions, such as those relating to a change in control or a material adverse event.

In addition, the estimated amount and timing of the synergies announced by the Group in connection with the Alliance are based on assumptions, including the successful implementation of the next steps of the Alliance, which may not be realised.

The announced amount of synergies may not be achieved, or may be achieved only at a later time than currently expected, which could have a material adverse effect on the business, results, prospects or reputation of the Group.

#### **Risk management and control processes**

To limit risk relating to performance of the contract from the exploratory phase, the Group has strengthened its control processes for projects termed strategic, via stricter regulations in terms of Contract Management, a procedure approved by the Executive Committee in May 2013 specifying the arrangements for responsibility, sequencing (authority and guidelines, monitoring the negotiation, validation prior to signature, monitoring contract performance) and validation (Executive Committee, Managing Board).

At the 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. These entities enable regular activity and joint decision-making, in particular, action plans aimed at rectifying any potential problems or mitigating the related risks.

## **1.2. Financial market risks**

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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 36 to the 2013 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. Risks associated with Banque PSA Finance activity**

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These include in particular risks associated with financial markets and the financial institution status of Banque PSA Finance, operational risks and credit risks. (See Note 36 in the Notes to the consolidated financial statements at 31 December 2013).

*For more detail, please refer to the 2013 annual report of Banque PSA Finance, available on the website, [www.banquepsafinance.com](http://www.banquepsafinance.com)*

## **1.4. Legal and contractual risks**

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These risks include in particular: legal and arbitration proceedings, financial covenants, pension obligations and end-of-career benefits, risks associated with intellectual property rights, commitments made as part of cooperation agreements, whether they are charged to a provision or recognised as off-balance-sheet commitments.

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

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

Like all economic operators, the Group is exposed, in France and in other countries where it is established, to legal risks associated with competition law. The identified risks have been mapped; they concern the fields of purchasing, trade and cooperation agreements.

To prevent these risks, the Group has, both centrally and in the countries where it is established, in-house lawyers and external advisors, experts in competition law, who work closely with the line managers concerned. Furthermore, in 2013 the Group initiated continuing education actions on competition law for the line managers likely to face risks of anti-competitive practices, while at the same time deploying classroom and distance training courses. In 2013, these actions were initiated in the trade field. In 2014, these actions will continue and will be extended within the Group.

- **Legal and arbitration proceedings**

As of 31 December 2013, no Group company was involved in any claims or litigation that had a material impact on the consolidated financial statements.

During the period covering the last twelve months, there were no government, court or arbitration proceedings that could have or have had a material impact on the Group's financial situation or profitability. Similarly, the Group is not aware of any proceedings pending or threatened, likely to have a material impact on its financial position or profitability.

Concerning provisions for claims and litigation, please refer to Note 27.2 to the Consolidated Financial Statements at 31 December 2013.

- **Financial covenants**

The details of financial covenants applicable to debts and undrawn lines of credit are given in Note 36.1 A for manufacturing and sales activities and financing activities.

All clauses are currently complied with.

For more details, please refer to Chapter 4 Risk factors of the 2013 Registration Document, which will be published in March 2014.

## 2. GROUP ACTIVITIES

### 2.1 Significant events in the 2013 financial year

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#### 2.1.1 Sale of BNP Paribas shares

On 14 March 2013, PSA Peugeot Citroën\* announced that it had sold its entire participating interest, representing 4,004,695 BNP Paribas shares, i.e. 0.32% of the capital in BNP Paribas, for a total amount of around €177 million.

These shares were placed at a price of €44.24 per share.

Pursuant to this transaction, PSA Peugeot Citroën will no longer hold any BNP Paribas share. This transaction comes within the framework of its active balance sheet management by PSA Peugeot Citroën.

(\*) Through its subsidiary *Grande Armée Participations*

#### 2.1.2 New milestones in PSA Peugeot Citroën's development in China

On 2 July 2013 in Wuhan, China, Philippe Varin, Chairman of the PSA Peugeot Citroën Managing Board, opened the third plant operated by Dongfeng Peugeot Citroën Automobiles (DPCA), the Group's joint venture with the Chinese manufacturer Dongfeng.

This third plant will enable DPCA to increase its production capacity from 450,000 to 600,000 vehicles/year from 2013, before reaching 750,000 vehicles/year in 2015.

The opening of the Wuhan plant allowed the partners to begin production of the new Citroën C-Elysée, which represents a new step in DPCA's sales offensive. The Wuhan 3 plant started production of the Peugeot 301 at the end of 2013.

DPCA clearly confirms its market share target of 5% for 2015, supported by its on-going sales offensive.

On 28 September 2013, Philippe Varin opened a new plant in Shenzhen in Guangdong province, China. This is the first plant operated by Changan PSA Automobile Co., Ltd (CAPSA), the Group's joint venture with the Chinese manufacturer "China Changan Automobile Group". This plant will give CAPSA capacity to build 200,000 vehicles per year.

The joint venture will also have its own R&D centre - construction started in July 2013 - in which CAPSA invests RMB 500 million. The centre's engineers will work closely with the China Tech Centre, the Group's R&D centre in Shanghai.

The Shenzhen plant, world best in class for its compactness, high technology process and its Excellence Management System, will produce the Chinese version of the DS5, which was unveiled at the Chengdu Auto Show on 30 August 2013. The new model will spearhead the DS brand's market offensive in China.

Since "DS World", an institutional showcase for the brand, opened in March 2013 in Shanghai, the sales network has grown rapidly. Following the successive market launches of the imported DS5, DS4 and DS3, CAPSA is writing a new chapter in its history with the introduction of the locally produced DS5.

#### 2.1.3 New Social Contract: agreement signed

A New Social Contract was signed following the Central Works Council meeting of 24 October 2013. It is designed to involve employees in the Group's recovery and to maintain PSA Peugeot Citroën's industrial and technological base in France, while preserving employees' basic interests.

It focuses on four main pathways:

- Greater involvement by employees and their representatives in the Group's strategic vision and in each department and site's forward-looking projects;
- A new approach that secures jobs while carrying out collective transformations, particularly to improve the utilisation rate of our plants;
- Deployment of a PSA intergenerational contract that provides for senior leave and the hiring, under work-study schemes, of 2,000 young people;
- Flexibility and wage moderation measures (with no decline in remuneration paid).

The New Social Contract also gives employees a stake in the Company's recovery through an improved discretionary profit sharing agreement and an additional profit-sharing payment (discretionary or non-discretionary) in early 2014.

Annual expenses related to the New Social Contract are disclosed in Note 9.3.

## **2.1.4 Carlos Tavares nominated to the Managing Board of PSA Peugeot Citroën to succeed Philippe Varin in 2014**

Appointed in June 2009 as President of the Managing board of PSA Peugeot Citroën, confirmed with a new mandate, Philippe Varin, with his management team, has defined and led an extensive program of upgrading the Group's strategic, industrial, commercial and financial plans, all in the context of the major crisis that the European automotive industry has been enduring.

As the Managing Board, with the support of the Supervisory Board, has begun negotiations with different partners on industrial and commercial projects, Philippe Varin expressed the wish that the next step of consolidation and conquest be undertaken under the leadership of a new pilot, enabling the strategy of the Group to be implemented over the long term.

He asked the Supervisory Board to set up a succession process leading to the rapid appointment of a new member of the Managing Board in order to succeed him in 2014.

After conducting extensive research, the Supervisory Board chose Carlos Tavares to succeed the current President of the Managing Board. With this aim, Carlos Tavares joined the Managing Board on 1 January 2014 pending his appointment as President of the Managing Board during 2014.

During this period Philippe Varin will continue his mission as President of the Managing Board, in particular with the responsibility of carrying out strategic discussions begun with the various partners. Carlos Tavares is working with the Managing Board on the action plans aimed at continuing the recovery of the Group.

## **2.1.5 Impairment loss on Automotive Division assets**

In accordance with IAS36, the Group's 2013 financial statements recorded an impairment charge on Automotive Division assets, reflecting the impact of worsening automobile markets and unfavourable exchange rates in Russia and Latin America. This allowance amounts to €1,009 million (see Note 9.1).

It is also maintaining its objectives for 2014 and to this end is stepping up its action plans to offset the negative impact of exchange rates on operating free cash flow.

## **2.1.6 Implementation of the industrial reorganisation and workforce redeployment plans**

As a result of reduced activity in the Automotive Division in Europe, an industrial activity reorganisation and workforce redeployment plan, announced in July 2012, has been implemented since May 2013, following the consultation procedure with employee representative bodies. It includes the following measures:

- The shutdown of production activities at the Aulnay plant (concerning 3,000 persons);
- Adjustment of the production facilities in Rennes, leading to redeployment of 1,400 workers out of a total of 5,600;

A special process for reorienting the Aulnay and Rennes sites towards new industrial and automotive-related activities was established with all the stakeholders concerned.

- Adjusting the Group's overhead staff.

The Group is continuing to reduce its costs and improve its operational activity, which led to a reduction of 3,600 jobs distributed across all the sites in France. This reduction was achieved through voluntary redundancies.

At the end of December, the Group recorded 7,300 staff members including 2,250 staff departures.

## **2.1.7 End of vehicle production at the Aulnay site**

On 25 October 2013, the last car to be produced at the Aulnay-sous-Bois site came off the assembly line. The car was a Citroën C3, which will join the Citroën brand Heritage Conservation Centre.

The Aulnay site will produce spare parts in its body-in-white workshop until 2014. Citroën C3 production will then be entirely carried out at the Poissy (Yvelines) site.

## **2.1.8 Progress report on the General Motors Alliance**

- Confirmation of the joint development of two vehicles on PSA platforms: a B-MPV segment vehicle and a C-CUV segment vehicle;
- Add a new generation B-segment light commercial vehicle cooperation;
- Announce balanced cross vehicle manufacturing ;
- Proceed with purchasing collaboration and confirm early favourable results;

- After detailed evaluation, the collaboration on a B segment platform and associated small petrol engine is dropped from consideration.

PSA Peugeot Citroen (PSA) and General Motors (GM) announced further steps in their strategic Alliance on 12 December 2013. The Alliance remains structured around the main pillars of joint programs, purchasing, and logistics, focused on Europe and is extended into cross manufacturing.

The two groups confirmed their continuing cooperation for the development of vehicles on PSA platforms: a B-MPV segment model and a C-CUV model. Additionally, the partners will cooperate on new generation products in the light commercial vehicle B-segment, which are based on a PSA new generation platform. The first vehicles from the Alliance are expected to launch starting in 2016.

In addition, the parties will balance manufacturing – with each company producing one vehicle for the other. As announced in October, B-MPVs from both companies will be built in the General Motors Zaragoza plant in Spain.

It was decided that future C-CUV segment vehicles will be produced in the French PSA plant in Sochaux.

The updated synergies expected from the Alliance are estimated at approximately \$1.2 billion by 2018. The synergies will be shared about evenly between the two companies.

GM and PSA also amended certain other terms of the Alliance. They will simplify the joint governance of the Alliance and removed as a ground for terminating the Alliance the failure to achieve a minimum number of cooperation programmes within a specific time. GM also waived its right to terminate the Alliance, under certain conditions, in the event of certain other investors acquiring interests in Peugeot S.A., provided that said investors support the Alliance.

On 12 December 2013, PSA Peugeot Citroën formally noted the transfer by GM of its participating interest of 7% in the Group's capital, as well as GM's strongly reaffirmed commitment to the strategic Alliance.

## **2.1.9 New financing and French State guarantee**

The Group undertook several financing transactions during the year.

For the Automotive division, these transactions chiefly comprised two bond issues by Peugeot S.A. in a total amount of €1.6 billion, and a further loan of €300 million from the European Investment Bank (EIB).

Faurecia also reconstituted its entire syndicated loan by repaying sums drawn in a total amount of €300 million (see Note 31.3).

Banque PSA Finance issued a €1.2 billion bond and carried out seven securitisation transactions.

The bonds issued by Banque PSA Finance since 2013 are covered by a first demand guarantee by the French State, under the authorisation given by the European Commission for a total principal amount capped at €7 billion (see Note 36.1.A. (b)).

To complement its funding sources, Banque PSA Finance launched in March 2013 a savings account offer targeting individual customers in France under the Distingo brand. Deposits totalled €955 million as of 31 December 2013.

Banque PSA Finance also renewed its bank funding facilities in 2013 (see Note 36.1.A. (b)).

## **2.1.10 Development of PSA Peugeot Citroën's participating interest in Faurecia**

On 30 November 2013, Faurecia announced its decision to proceed with early repayment of the bonds convertible into new or existing shares (OCEANE), issued in 2009. Following this operation, PSA Peugeot Citroën now holds 51.7% of the capital and 68% of the voting rights in Faurecia (see Note 29.2).

## **2.1.11 Change in PSA Peugeot Citroën's participating interest in the share capital of Française de Mécanique**

In 2013, PSA Peugeot Citroën and Renault each expressed the desire to acquire full independence in the management of Française de Mécanique and Société de Transmissions Automatiques and take responsibility for the strategic future of an exclusively owned subsidiary.

Henceforth, PSA Peugeot Citroën has exclusive control of Française de Mécanique and sold its equity stake in Société de Transmissions Automatiques in 2013.



## **2.1.12 Products**

### **Successful launches during the year**

2013 was a particularly good year in terms of new products with 17 launches over the year, including nine in the first half, bringing the average age of the range to 3.1 years in 2014.

In particular, these launches include:

- the Peugeot 2008, the new urban crossover from Peugeot, which significantly exceeded its targets, necessitating the setting up of a second production team at the Mulhouse plant;
- the new Peugeot 308, which was a resounding success with nearly 42,000 sales just [three] months after its launch, and a high trim mix;
- the new Citroën C4 Picasso, and Grand C4 - Picasso, best in its category for CO2 emissions.

### **Innovation and technology**

On 22 January 2013, several brand new technologies developed by PSA Peugeot Citroën were presented at the Innovation Day. In particular, in a world first, the Group has unveiled a revolutionary technology: Hybrid Air, a petrol and compressed air full-hybrid solution.

Other brand new solutions to emerging expectations were also presented, available from 2013 on Peugeot and Citroën brand vehicles, including EMP2, the Group's new global modular platform.

On 26 November, and during a Capital Day dedicated to financial analysts and investors gathered together at the ADN Tech Centre in Vélizy, PSA Peugeot Citroën presented the development plan for the Peugeot and Citroën brands and their respective vehicle lines.

This meeting was also the occasion to present the technologies developed by the Group, as well as its innovation strategy.

## **2.1.13 Important events since the year-end**

The Group will announce on 19 February 2014, with three specific press releases, major projects of operations to this effect.

Please refer to Note 40 in the Notes to the consolidated financial statements at 31 December 2013.

## 2.2 Overview of sales activities

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### Significant events in 2013

- Worldwide sales of assembled vehicles and spare parts at 2,819,000 units, a fall of 4.9% over the year, and sales of assembled vehicles stable at -0.1%;
- An annual trend that reversed in the fourth quarter with a rise of 4% in sales of assembled vehicles;
- Further increase in the share of sales outside Europe to 42% versus 38% in 2012;
- Continued upscaling strategy with 19% premium sales, compared with 9% in 2009;
- Success of the Peugeot 2008 and 308;
- Success of the Citroën C4 Picasso and Grand C4 Picasso;
- Successful launch of the DS brand in China;
- PSA Peugeot Citroën remains a leader in CO2 emission reduction, with an average of 116.2 grams/km, i.e. a fall of 6.2 grams compared with 2012.

In 2013, the world's automotive markets showed decidedly mixed trends. Thus, the European and Russian markets continued their fall with drops of 1.6% (Europe 30) and 5.4% respectively. In contrast, the Chinese market experienced a rise of +19.1%, and the Latin American market of +2.9%.

In this context, the Group's worldwide sales (assembled vehicles and spare parts) totalled 2,819,000 units, a fall of 4.9%. Sales of assembled vehicles remained almost stable at 2,818,000 units, a fall of 0.1% compared with 2012, and grew by 4% over the fourth quarter.

### European market recording further decline

After a fall of 8.6% in 2012, the European market (Europe 30) again dropped in 2013 by 1.6%.

In 2013, only a few markets grew, such as Great Britain and Spain (respectively 11% and 4.1%).

Those markets that experienced a recovery are a long way from the 2007 levels: Spain grew in 2013 to 809,000 vehicle registrations compared with 1,892,000 in 2007.

France recorded a decline of 5.5% and Italy of 7.6% to 1,404,000 vehicle registrations - the lowest level since 1979 - compared with 2,739,000 in 2007.

Across Europe, with 304,000 Light Commercial Vehicle (LCV) registrations, the Group retains its leadership and has a 20.7% market share, almost stable compared with 2013.

In this context, the Group is focusing on the most profitable distribution channels and its market share is 11.9% in Europe 30 compared with 12.7% in 2012.

### The Group's internationalisation is confirmed

The internationalisation strategy continues to yield positive results: the share of vehicles sold outside Europe has grown strongly since 2009. With 42% of sales outside Europe in 2013, PSA Peugeot Citroën is on track to achieve its objective of 50% of its sales outside Europe in 2015.

### China: very strong growth

The Chinese market recorded growth of 19.1% in 2013. In this context, Group sales increased by 26.1% to 557,000 units versus 442,000 in 2012. The market share is 3.64%. China is PSA Peugeot Citroën's second largest market after France.

Peugeot recorded another rise of 25.8% with 272,000 units sold compared with 216,000 in 2012. Citroën sales grew by 26.3% to 285,000 units as against 226,000 in 2012.

The Peugeot 3008 and the Citroën C4L, launched at the start of the year, and the Peugeot 301 and Citroën C-Elysée, on sale from the second half of 2013, contributed strongly to the commercial development of the Group in China.

In 2014, PSA Peugeot Citroën's sales are expected to continue to grow, particularly with development of the sales network throughout the country and a wider offer.

The middle classes, the Group's core sales target in China, today represent 25% of the Chinese population but will represent 40% by 2020. To accompany this development, the Group is planning annual production capacity of 950,000 vehicles in its Shenzhen (200,000 units for CAPSA) and Wuhan (750,000 units for DPCA) plants. Construction of a fourth plant by DPCA is being studied.

### **Latin America: still a mixed situation**

The Latin American market (Argentina, Brazil, Chile, Mexico) grew overall by 2.9% in 2013 with 5,937,000 vehicle registrations. Detailed analysis of this figure shows major local disparities.

Thus the Brazilian market fell by 1.5% for the first time in 10 years. This decline appears despite the cut in IPI<sup>1</sup> introduced in 2012 being maintained throughout 2013, and aggressive sales offers, particularly in the second half of the year. However, the exchange rate trend in the area (versus €) was very unfavourable and strongly penalised the Group's economic performance.

The low level of local integration in the Group's activities amplifies this exchange rate effect.

In this context, PSA Peugeot Citroën's sales in the area are up by 7% compared with 2012, with 303,000 units sold in the Latin America area and a market share of 4.9%. In Argentina, the PSA group is continuing its strong growth, with 140,100 vehicle registrations in 2013 representing growth of 25.5% compared with 2012. In particular, the Group successfully launched the Peugeot 208 and the Citroën C4 Lounge, sales of which have already exceeded forecasts. Group vehicle registrations recorded strong growth both in Chile (+31.5%) and Mexico (+33.4%), well above the markets, which rose respectively by +10.3% and +7.9%.

### **Russia: major decline in the automotive market**

In the context of a slowdown in the Russian economy, the automotive market experienced a distinct decline of 5.4% in 2013. The Group's market share dropped by 0.3 points, to 2.3%.

In 2013, the launches of vehicles adapted for the market, the Peugeot 301 and 208 and the Citroën C-Elysée, added to the product range. Note that the Citroën C4 Sedan, produced locally in Kaluga, was launched in June. These models will allow the Group to strengthen its presence in the Russian market in 2014.

### **Rest of the World**

Thanks to the success of the Peugeot 301 and Citroën C4L and C-Elysée, Group sales are also growing outside these three destinations, particularly in Algeria (+6.9%) and Turkey (+7.6%).

### **Premium sales increasing**

The Group's upscaling strategy relies on strong brands, with clearly differentiated customer territories.

Group upscaling takes the form of increased premium sales<sup>2</sup>, which went from 505,000 units in 2012 to 540,000 units in 2013, i.e. 19% of the total sales volume.

Vehicles equipped with the "Hybrid4" diesel hybrid technology contribute to the brand upscaling: In Europe, they represent 11% of Peugeot 3008, 16% of Peugeot 508 and 34% of Citroën DS5 sales.

In total, the Group sold 24,319 Hybrids in 2013, and thus became the number two for hybrid sales in Europe.

### **Successful launches**

In 2013, PSA Peugeot Citroën successfully launched several new vehicles.

The urban crossover Peugeot 2008, launched last spring, and the new Peugeot 308 recorded better results than the objectives, with respectively 82,000 and 34,000 orders.

For Citroën, the new C4-Picasso and Grand C4-Picasso, with 58,000 orders, help to boost brand results.

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<sup>1</sup>"Imposto sobre Produtos Industrializados" (tax on industrial products)

<sup>2</sup> Premium vehicles offer a level of driving pleasure, safety, quality of finish, connectivity and comfort, etc. that serves as a benchmark in their segment. They include distinctive models in segments A, B et C (Peugeot 207CC, 2008, 308CC, RCZ, 3008, 4008 and Citroën DS3, DS3 Cabrio, DS4, C4-AIRCROSS) and models in segments D and E (Peugeot 508, 407 and Citroën DS5, C5, C6).

### **CO2 emission reduction: PSA Peugeot Citroën is leading the way and is ahead of European standards**

The Group is continuing CO2 emission reduction in its vehicles and emerging as one of the European leaders in this field. With an average of 116.2g of CO2 emitted per km<sup>3</sup> in 2013, versus 122.4g CO2 per km in 2012, the objectives set by Brussels for 2015 (130g CO2/km) have already been achieved and exceeded.

55.3% of vehicles sold by the Group in Europe emit less than 111g CO2/km, up from 39.1% in 2012.

CO2 emissions are being reduced through new technologies developed and launched during 2013:

- The new generation modular platform EMP2 deployed from 2013 on the Vigo sites for the new Citroën C4 Picasso and at Sochaux for the new Peugeot 308. This new platform will allow diversified silhouettes to be developed on segments C and D, with unequalled performance, particularly as regards CO2 emissions;
- Optimised internal combustion engines with its family of three-cylinder petrol engines, including the Turbo PureTech 110 and 130 hp versions, were launched at the end of October at the Française de Mécanique site;
- The exclusive emission control technology, Diesel Blue HDi, in order to meet the Euro 6 standard and lower nitrogen oxide emissions from the Diesel engine to the level of petrol. This new exhaust stream, launched at the end of 2013 on the Peugeot 508 and the Citroën C4, will gradually be deployed on the Diesel range of vehicles during 2014;
- Hybrid technologies with broader deployment of second-generation Stop & Start e-HDi on the diesel Peugeot and Citroën ranges;
- "Hybrid4" diesel hybrid technology, which is continuing to be developed in Europe, with over 50,000 Peugeot and Citroën vehicles equipped with this technology sold since their launch.

## **2.3 Capital expenditure and Research & Development**

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Innovation, research and development are priorities for PSA Peugeot Citroën. They are a powerful lever for addressing major auto industry challenges (changing standards and legislation, rising environmental awareness, emerging mobility and networking needs, product appeal, etc.) and thus developing competitive advantages.

In 2013, investments and capitalised R&D expenses amounted to €2,397 million, including €802 million for Faurecia, compared to €3,814 million in 2012, including €861 million for Faurecia. To meet its objective of achieving 50% of its sales outside Europe by 2015, PSA Peugeot Citroën has invested in its priority development areas: Asia, Latin America and Russia with a peak over the 2011-2012 period (additional capacity at Wuhan III and Shenzhen sites in China, Porto Real in Brazil and Kaluga in Russia).

After two years of significant investment associated with increasing international capacity, and investment for the EB engines, the Group returned in 2013 to a more usual level of investment. This level will enable the Group to continue its investment in product R&D and innovation, thanks, in particular, to improved efficiency and sharing development costs with partners, including GM through the Alliance.

In 2013, R&D projects were directed towards:

- solutions to reduce CO2 emissions: solutions to reduce carbon emissions: measures to lower vehicle weight, make more energy efficient powertrains with smaller carbon footprints and pave the way for alternative hybrid and electric powertrain development;
- vehicle development associated with renewal of the Peugeot and Citroën ranges: thus the average age of the range is kept at 3.5 years, with 17 launches in 2013. The rate of change will continue, along with significant innovations;
- the emergence of the communicating car with improved driver assistance systems for even greater safety and comfort and work on the connectivity between the driver and vehicle to integrate new clients uses in the cars.

R&D projects continue to expand internationally to such places as China, Latin America and Russia. They resulted in 17 launches in 2013: the new Peugeot 208 XY, 208 GTI, 2008, 308, Partner Electric, the new 5- and 7-seat Citroën C4 Picasso and the DS3 Cabrio, the electric Berlingo; and also specific launches in China (3008 and 301, C4L, C-Elysée and DS5), Latin America (208 and C4 Lounge) and Russia (C4 Sedan). The Group also launched a new engine in 2013: the EB Turbo Tech and the new manual 5-speed and automatic 6-speed gear boxes.

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<sup>3</sup>Data updated at the end of November 2013

## 2.4 Financial position and results

### 2.4.1 2013 Group Operating Results

The Group financial statements at 31 December 2012, presented for comparison, have been adjusted compared with the previously published financial statements: *Amendment to IAS 19 Employee Benefits*.

For more details, please refer to Note 3 in the Notes to the consolidated financial statements at 31 December 2013.

#### 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 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 Motorcycles. The income from the Gefco group, accounted for by the equity method, is presented under these businesses.

The table below shows consolidated revenue by business.

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>	<b>%</b>
Automotive Division	36,461	38,299	-4.8%
Faurecia	18,029	17,365	3.8%
Banque PSA Finance	1,773	1,910	-7.2%
Other Businesses and intersegment eliminations	(2,173)	(2,128)	-
<b>TOTAL</b>	<b>54,090</b>	<b>55,446</b>	<b>-2.4%</b>

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 2013, PSA Peugeot Citroën consolidated revenue was down 2.4% to €54,090 million from €55,446 million in 2012.

The Automotive Division saw its revenue fall by €1,838 million in a year marked by a declining European market and a negative trend in foreign exchange. Faurecia's revenue increased by €664 million, while Banque PSA Finance revenue fell by €137 million. The performances of each business are commented on in Section 2.4.1.3.

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

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
Consolidated revenue	54,090	55,446
<b>Net contribution to consolidated revenue by region</b>		
Europe	65.8%	68.1%
Russia	3.3%	3.2%
Asia	7.6%	6.2%
Latin America	10.1%	9.6%
Rest of the World	13.2%	12.9%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

### 2.4.1.2 Recurring operating income

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

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
Automotive Division	(1,042)	(1,496)
Faurecia	538	516
Banque PSA Finance	368	391
Other businesses and intersegment eliminations	(41)	29
<b>TOTAL</b>	<b>(177)</b>	<b>(560)</b>

The Group reported a recurring operating loss of €177 million in 2013, compared with a loss of €560 million in 2012. The Automotive Division's recurring operating loss improved by €454 million to €1,042 million over the year. Faurecia's performance rose 4.3% to €538 million. As regards Banque PSA Finance, its operating result fell 5.9% to €368 million.

### 2.4.1.3 Analysis of revenue and recurring operating income by division

#### Automotive Division

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
Revenue	36,461	38,299
Recurring operating income (loss)	(1,042)	(1,496)
<i>As a % of revenue</i>	<i>-2.9%</i>	<i>-3.9%</i>

#### Revenue

Automotive Division revenue totalled €36,461 million in 2013, a fall of 4.8% in a European market down by 1.6%. The second half of the year was less unfavourable with a drop in revenue of 1.8%.

New vehicle revenue declined by 8% to €25,532 million in 2013, down from €27,765 million in 2012. The product mix continues to be favourable at +0.8%, reflecting the success of recent launches (17 in 2013) and with the average age of the range falling. The price effect was also favourable over the year at +0.7%, thanks to the Group's pricing policy. These two effects were not, however, enough to offset the strong contraction in volumes (-5.4%) reflecting in particular shrinking European markets and market share losses, and intensified by the disruptions to Citroën C3 sales due to production shutdowns at the Aulnay plant in the first half of the year. The exchange rate effect was strongly negative (-3.5%), resulting in particular from the unfavourable movements in the Argentinian peso, the Brazilian real and the pound. The country mix was slightly unfavourable over the year, at -0.3%, and the "other" effect at -0.4% was mainly a result of fall in the price of diesel over the year.

The Group's market share fell 0.8 points in Europe, to 11.9% in 2013 versus 12.7% in 2012, impacted by disruptions to the sales of the Citroën C3, the channel and country mix and the Group's pricing policy.

The proportion of sales made outside Europe continued to expand, rising to 42% over the period:

In this difficult environment, the Group maintained the steady pace of new model launches, with 17 launches in 2013, and continued its upscaling strategy.

#### Recurring operating income (loss)

The Automotive Division reported a recurring operating loss of €1,042 million in 2013, up from the €1,496 million loss recorded the previous year. The €454 million difference is associated with an unfavourable environment, for -€886 million, and with the Group's performance, for +€1,340 million.

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

#### Operating Environment

The deteriorating operating environment had a negative impact of €886 million on the recurring operating income.

- The non-recurring exchange rate effect had a negative impact of €500 million, including €526 million in negative foreign currency impact, mainly due to depreciation of the euro against the Argentinian peso, the Brazilian real and the pound;
- The shrinking market demand had a negative impact of €147 million;
- Higher raw material costs and other external costs had a negative impact of €239 million.

## Underlying Automotive Division Performance

The Automotive Division's underlying performance contributed positively to the recurring operating income, at €1,340 million over the 2013 financial year.

- The improvement in production costs and other costs continued for €933 million, as well as a reduction in research and development expenses of €140 million, including the positive impact as a result of the non-recurring depreciation of Automotive Division assets recognised in 2012<sup>4</sup>;
- Improvement in the product mix continued, with €406 million associated in particular with recent launches;
- The price effect was positive, at €287 million, thanks to prices being maintained in Europe and increased in Latin America in order to counter the negative foreign exchange effect;
- These positive effects offset the impact of the fall in market share for €264 million.

## Faurecia

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
Revenue	18,029	17,365
Recurring operating income (loss)	538	516
<i>As a % of revenue</i>	<i>+3.0%</i>	<i>+3.0%</i>

## Revenue

Faurecia's total sales for fiscal 2013 stood at €18.03 billion, up 5.0% over 2012 sales of €17.36 billion.

Product sales (delivery of parts and components to automakers) totaled €13.69 billion, up 3.9% from 2012 sales of €13.30 billion.

In 2013, Asia accounted for 13% of product sales (a 3 point increase), while North America represented 27% and South America 5%. Sales outside Europe represented 46% of the total. Faurecia reinforced the diversification of its customer portfolio, posting substantial growth with Nissan, Daimler and Ford; the latter consolidating its position as Faurecia's second largest customer with 15% of product sales. Business for commercial vehicles rose 17% over the year.

Product sales in 2013 break down as follows:

- in Europe, product sales were stable at €7.41 billion, in line with automotive production evolution ;
- in North America, product sales stood at €3.71 billion, compared to €3.64 billion in 2012, a 1.3% increase, while automotive production rose 5% ;
- in Asia, product sales reached €1.71 billion, compared to €1.39 billion in 2012, up 24.3% while automotive production grew 5%. Sales in China climbed to €1.39 billion. This 27.7% increase is nearly double the growth of the Chinese automobile market (14%) ;
- in South America, product sales stood at €717 million, up from €662 million a year earlier, representing a 26.3% increase compared with a 6% rise in automotive production.

### Product sales by business group

The Business Group with the most dynamic growth was Emissions Control Technologies, where product sales totaled €6.4 billion, up 7.3% driven by growth in Asia (up 22%) and the commercial vehicle segment (up 17%). The increase in the second half was 12.1%.

Product sales for the Automotive Seating Business Group totaled €5.2 billion, compared to €5.1 billion in 2012, an increase of 3.4%.

Product sales at the Interior Systems Business Group totaled €4.6 billion, versus €4.3 billion in 2012, up 4.1%. This growth was driven by a sales increase with Ford in North America and double-digit growth in Asia.

Product sales at Automotive Exteriors stood at €1.9 billion, an increase of 3.9% over 2012.

<sup>4</sup> Non-recurring depreciation of Automotive Division assets recognised in 2012 (IAS 36) generated a reduction in amortisation expenses leading to a positive €595 million effect, recognized in manufacturing and purchasing, R&D and production costs.

## Recurring operating income (loss)

Operating income stood at €538 million, or 3.0% of total sales, compared with €516 million (3.0% of sales) in 2012.

By region, operating income is explained as follows:

- in Asia, at 8.3%, the margin continued to improve over the year, thanks to a business model that combines strong growth and excellence in execution ;
- in Europe, at 2.7%, the margin slipped slightly due to the 4.0% drop in automotive production in the first half. The margin improvement in the second half (up 60 basis points to reach 3.0%), reflects the first effects of the fixed cost reduction plan launched late 2012;
- in North America, at 2.1%, operating income posted a slight gain over the year, but profitability remains below targeted levels. A limited number of product and new technology launches had operational difficulties;
- in South America, at -3.2%, the margin has been impacted by the negative effects of inflation, currency fluctuations and higher costs of raw materials.

By Business Group, operating income evolved as follows:

- Automotive Seating: at 4.2% of sales (€198.7 million) for the fiscal year and 4.5% in the second half, operating income reached benchmark competition levels. The 50 basis points margin increase for the year stems from a good performance in Asia and a strong margin improvement in the mechanisms division;
- Emissions Control Technologies: at 3.1% of sales (€217.4 million), the gap with competition was reduced. The margin increase of 70 basis points is the result of significant progress in North America, a marked improvement in Europe and a margin which remains high in Asia;
- Interior Systems: at 1.8% of sales (€98.3 million) faced some launch difficulties particularly in North America;
- Automotive Exteriors: at 2.0% of sales (€37.9 million), the margin was impacted by launch costs in South America and transformation costs in the composites business. The margin in Europe remained satisfactory at 4.5%.

*More detailed information about Faurecia is provided in the Bank's Annual Report, which can be downloaded from its website at [www.faurecia.com](http://www.faurecia.com).*

## Banque PSA Finance

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
Revenue	1,773	1,910
Net banking revenue	891	1,075
<b>Recurring operating income (loss)</b>	<b>368</b>	<b>391</b>
<i>As a % of revenue</i>	<i>20.8%</i>	<i>20.5%</i>

## Revenue

Banque PSA Finance's revenue for 2013 totalled €1,773 million, down 7.2% from the €1,910 million recorded in 2012.

In what continues to be a challenging economic climate, our end-user financing business continued to perform well overall, with 29.1% new vehicle financing, the best performance in the last ten years, apart from the record high of 29.8% in 2012. Despite this strong performance in terms of penetration, we recorded an 8.0% drop in the number of new vehicle contracts on our eligible market (sales of new Peugeot and Citroën vehicles) which was itself down 5.8%.

Due to wide variances from one country to another depending on the continued effects of the financial crisis on the car market, BPF recorded a decrease in overall volumes of end-user financing for new and used vehicles in 2013, with 731,003 contracts compared to 805,143 in 2012. The table below provides information relating to BPF's end-user financing activity in 2012 and 2013.

New retail financing granted in 2013 totalled €7,256 million, down 10.9% from €8,449 million in 2012.

At 31 December 2013, the retail loan book stood at €15,762 million, down from €17,007 million at 31 December 2012.

Our corporate dealer financing business fell off sharply in 2013. The decrease was particularly significant in the second semester, mainly due to the conservative policy adopted by the brand driven primarily by the decline in the European markets.

We provided corporate dealer financing for a total of 1,619,118 vehicles in 2013, a significant decrease compared with 2012 in volume. Vehicle financing amounts followed the same trend, with a 9.8% drop.



The wholesale loan book at 31 December 2013 came to €5,550 million, down 8.3% from €6,054 million at 31 December 2012.

Outstanding retail and wholesale loans totalled €21,312 million at 31 December 2013, down 7.6% on the €23,061 million recorded at the previous year-end.

Insurance and services margin (excluding net cost of refinancing) increased sharply to €170 million in 2013, compared to €162 million in the previous year.

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
<b>Outstanding loans (including securitised loans) by customer segment</b>		
• Corporate Dealers	5,550	6,054
• Retail and Corporate & Equivalent	15,762	17,007
<b>TOTAL BANQUE PSA FINANCE*</b>	<b>21,312</b>	<b>23,061</b>

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
<b>Outstanding loans (including securitised loans)</b>		
• France	7,991	8,572
• Rest of Europe	11,789	12,626
• Rest of the World	1,532	1,863
<b>TOTAL BANQUE PSA FINANCE</b>	<b>21,312</b>	<b>23,061</b>

\* Excluding remeasurement of interest rate portfolios.

## Recurring operating income (loss)

Banque PSA Finance reported recurring operating income of €368 million in 2013 versus €391 million the previous year. This deterioration is mainly due to the fall in Net banking revenue, partially offset by an improvement in the cost of risk and general operating expenses.

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](http://www.banquepsafinance.com).

## 2.4.2 Other income statement items

### 2.4.2.1 Operating income (loss)

Non-recurring operating expenses amounted to €1,582 million in 2013 versus €4,528 million in 2012.

- Impairment losses on CGUs, provisions for Automotive Division onerous contracts and other assets totalled €1,100 million. This includes in particular an impairment loss on Automotive Division CGU assets of €1,009 million, given the deterioration in the automotive markets and the exchange rate trend in Russia and Latin America (see Note 9.1. in the Notes to the consolidated financial statements at 31 December 2013). Other depreciation from Vehicle CGUs and provisions for Automotive Division onerous contracts amounted to €91 million;
- Restructuring costs amounted to €460 million in 2013, including €365 million concerning the Automotive Division and €91 million related to Faurecia. The former relate primarily to France, in particular the plan to restructure the Automotive Division's production base and redeploy its workforce, as well as costs in relation to the New Social Contract. Restructuring costs for Faurecia included €84 million for employee separations (see Note 9.3).

Non-recurring operating income amounted to €413 million versus €406 million in 2012 and mainly included reversals on CGU impairment losses, contracts for pecuniary consideration and other Automotive Division income.

For more details, please refer to Note 9 in the Notes to the consolidated financial statements at 31 December 2013.

As a result of these factors, the Group ended 2013 with a consolidated operating loss of €1,346 million, compared with operating income of €4,682 million in 2012.

<i>(in million euros)</i>	<b>2013</b>	<b>2012</b>
Automotive Division	(2,111)	(5,752)
Faurecia	431	428
Banque PSA Finance	368	390
Other Businesses and holding company	(34)	252
<b>TOTAL PSA PEUGEOT CITROËN</b>	<b>(1,346)</b>	<b>(4,682)</b>

#### **2.4.2.2 Net financial income (expense)**

Net financial expense came to €658 million in 2013 compared with €430 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.

This increase is explained mainly by the rise in financial expenses associated with bond issues during the year, partially offset by the disposal of BNP securities for €89.3 million.

For more information, please refer to Notes 10 and 11 in the Notes to the Consolidated Financial Statements at 31 December 2013.

#### **2.4.2.3 Income tax expense**

Income tax expense stands at €387 million in 2013 compared to €774 million in 2012. Income tax before impairment losses on the French tax group amounted to €835 million. Unrecognised tax assets corresponding to tax loss carryforwards for the French tax group amounted to €746 million, impairment losses on the French tax group totalled €80 million and other impairment losses amounted to €396 million at 31 December 2013.

The current tax expense stands at €387 million in 2013 compared to €774 million in 2012. New deficits generated in the year amounted to €824 million and were not recognised in income.

For more details, please refer to Note 12 in the Notes to the consolidated financial statements at 31 December 2013.

#### **2.4.2.4 Share in net earnings of companies at equity**

The net income of companies accounted at equity was €176 million for the 2013 financial year, compared to €160 million in 2012. 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 and Toyota. In 2013, the PSA Peugeot Citroën Group took exclusive control of Française de Mécanique, previously 50%-owned.

The DPCA contributed €187 million to income in 2013, compared with €171 million in 2012 (see Note 16.5).

Toyota Peugeot Citroën Automobiles' contributed €4 million to the Group's result, compared to €15 million in 2012. The contribution from the companies created by the cooperation with Fiat amounted to €2 million, compared to the negative contribution of €1 million in 2012. The contribution of Française de Mécanique, previously held in cooperation with Renault, amounted to a loss of €3 million in 2013 compared to a loss of €5 million in 2012.

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 at 31 December 2013 (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 €2,215 million compared to a loss of €5,726 million in 2012.

#### **2.4.2.6 Profit (loss) from discontinued operations**

The net loss from discontinued operations was €3 million in 2013 compared with a profit of €803 million in 2012. The 2012 result mainly included the capital gain on the breakup of GEFCO.

#### **2.4.2.7 Consolidated profit (loss) for the year**

The Group ended the year with a consolidated loss of €2,218 million compared with a loss of €4,923 million in 2012.

#### **2.4.2.8 Consolidated profit (loss) attributable to equity holders of the parent**

The consolidated loss attributable to the parent company's equity holders was €2,317 million in 2013 compared to a loss of €5,008 million in 2012.

#### **2.4.2.9 Earnings per share**

The basic loss per share amounted to €6.77 compared with a basic loss per share of €15.59 in 2012. Diluted loss per €1 par value share was €6.77 versus a loss of €15.60 in 2012.

Please refer to the Notes to the consolidated financial statements to 31 December 2013 (Note 13 - Earnings per Share).

## **2.5 Outlook**

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In 2014, PSA Peugeot Citroën expects growth in automotive demand to be slightly positive at around 2% in Europe and around 10% in China, with a 2% decline in Latin America, and a stable market in Russia.

Continuing the trend of 2013, we will pursue our active cash management to target positive operational free cash flow in 2016 at the latest. Beyond, the operating free cash flow generation should accelerate due to the structural benefit of the projects of transactions.

## 3. CASH AND CAPITAL RESOURCES

### 3.1 Equity

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Consolidated equity amounted to €7,791 million at 31 December 2013, down on the €10,167 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 2013, the share capital comprised 354,848,992 shares with a par value of one euro each. The Group holds 12,788,627 treasury shares, enabling it to cover its requirements under its current stock option plans, and to cover part of the OCEANE bond issue of June 2009. No treasury shares were bought back in 2013.

### 3.2 Net debt of manufacturing and sales companies and net debt-to-equity ratio

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Consolidated current and non-current financial liabilities of the manufacturing and sales companies amounted to €11,120 million compared with €10,734 million on 31 December 2012 (see Note 31.1 to the consolidated financial statements at 31 December 2013). Manufacturing and sales company financial assets amounted to €6,972 million at 31 December 2013 versus €7,586 million at 31 December 2012.

The net debt of the manufacturing and sales companies thus deteriorated at 31 December 2013 to a loss of €4,148 million, compared with a loss of €3,148 million at the end of December 2012 (see Note 31 to the Consolidated Financial Statements at 31 December 2013). Faurecia's net debt represents €1,629 million, compared to €1,892 million in 2012. The net debt of the Automobile Division (manufacturing and sales companies excluding Faurecia) grew by €1,263 million over the period to €2,519 million.

Funds from operations in the 2013 financial year amounted to €700 million (including €588 million used in restructuring) and is down compared with 2012 (€1,033 million).

The Working Capital Requirement (WCR) had a positive impact of €397 million, thanks to good inventory control (up by €323 million compared with 31 December 2012). Trade receivables rose by €9 million compared to 31 December 2012. Trade payables rose by €77 million compared to 31 December 2012. The "Other Changes in Working Capital Requirements" item fell by €12 million compared to 31 December 2012.

Capital expenditure and capitalised Research & Development expenses amounted to €2,397 million in 2013. It fell by €1,417 million following two years of significant investment in increasing the international capacity and investment for the EB engines. This amount includes a reduction in investments of €610 million, in accordance with the objective set by the Rebound Plan at €600 million.

In addition, the Group made a number of financial investments totalling €71 million net, for the most part in relation to the capital increase by the CAPSA joint venture in China.

Payment of Group subsidiary dividends totalled €286 million in 2013, including €281 million from Banque PSA Finance.

Asset sales provided a cash injection of €37 million in 2013. This figure includes additional costs linked to the disposal of Gefco.

Free cash flow<sup>5</sup> ended the year at €-1,048 million, versus €-1,387 million a year earlier. Operational free cash flow, excluding disbursement of €588 million for restructuring, excluding non-recurring items (CAPSA financing and sale of fixed assets) for €34 million, amounted to -€426 million.

The net debt-to-equity ratio stood at 53% at 31 December 2013, compared to 31% a year earlier (see Note 31.3).

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<sup>5</sup> Free Cash Flow of manufacturing and sales companies: the dividends received from Banque PSA Finance have been included in Free Cash Flow since 2010. This is equal to: operating flows + investment flows + net dividends received from Group 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 2013.

#### 3.3.2 Cash flows for manufacturing and sales companies

The following table presents the manufacturing and sales companies' cash flows for 2013 and 2012:

(in million euros)	Manufacturing and sales companies	
	2013	2012
Net Profit	(2,453)	(6,019)
Funds from operations	700	1,033
Change in working capital	397	(602)
<b>Net cash from (used in) operating activities</b>	<b>1,097</b>	<b>431</b>
<b>Net cash used in investing activities</b>	<b>(2,431)</b>	<b>(2,450)</b>
<b>Net cash from/(used in) financing activities</b>	<b>2,204</b>	<b>2,387</b>
Effect of changes in exchange rates	(91)	(6)
<b>Net increase (decrease) in cash and cash equivalents from continuing operations</b>	<b>779</b>	<b>362</b>
Net cash from discontinued operations	(41)	345
Cash and cash equivalents at beginning of year	5,399	4,692
Net cash and cash equivalents at end of period	6,137	5,399

#### Cash flows from operating activities of manufacturing and sales companies

Funds from operations for manufacturing and sales companies stood at €700 million in 2013 versus €1,033 million in 2012. This represents 1.3% of revenue for the manufacturing and sales companies, compared with 1.9% the previous year.

The €397 million change in working capital requirements mainly reflects good inventory management for €323 million.

Consequently, funds from manufacturing and sales companies present a positive balance of €1,097 million compared to €431 million in 2012.

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

(in thousands of new vehicles)	2013	2012	2011
The Group	169	184	234
Independent dealer network	215	232	259
<b>TOTAL</b>	<b>384</b>	<b>416</b>	<b>493</b>

The new vehicles inventory at 31 December 2013 totalled 384,000 new vehicles, representing a ratio of 62 days' sales,<sup>6</sup> inline with the announced objective. At 31 December 2012, there were 416,000 new vehicles in inventory, representing 65 days' sales.

#### Cash flows from manufacturing and sales company investment activities

Flows connected to investment in manufacturing and sales companies stand at €2,431 million at the end of 2013, compared with €2,450 million at the end of 2012. These investments, beyond those carried out by the Automotive Division, include investments made by Faurecia. Capitalised development expenditure stood at €835 million versus €1,262 million in 2012. (See note 8 to the Consolidated Financial Statements at 31 December 2013).

<sup>6</sup> Sales ratio: ratio calculated on the basis of sales forecasts for the next three months.

### Cash flows from financing activities of manufacturing and sales companies

Flows from the financing activities of the manufacturing and sales companies totalled €2,204 million, compared to €2,387 million at 31 December 2012.

### Net cash and cash equivalents at end of year - 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 €91 million into account, net cash and cash equivalents at the year end totals €6,137 million, compared with €5,399 million at 31 December 2012.

Liquidity reserves for the manufacturing and sales companies amounted to €10,121 million at end-2013 versus €10,574 million at end-2012, with €6,571 million in cash and current & non-current financial assets, and €3,550 million in undrawn lines of credit (see Note 31.4).

### 3.3.3 Net cash and cash equivalents at end of year - finance companies

At the end of 2013, Banque PSA Finance cash stood at €1,804 million versus €1,669 million at the end of 2012 (see Note 25.2 to the Consolidated Financial Statements at 31 December 2013).

## 3.4 Liquidity and funding

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### 3.4.1. Manufacturing and sales companies

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

Refinancing transactions carried out during 2013 included the following in particular:

- On 28 February 2013, Peugeot S.A. issued a €1 billion 7.375% bond maturing in March 2018;
- In September 2013, Peugeot S.A. issued a €600 million 6.5% bond maturing in January 2019;
- In December 2013, the Group took out a €300 million 2.283% loan with the EIB, maturing in December 2018.

Peugeot S.A. and GIE PSA Trésorerie also have a confirmed line of credit for €2,400 million, which matures in July 2015 for €2,225 million, leaving a balance of €175 million due in July 2014. This facility was not drawn at 31 December 2013 (see Note 29.1). Faurecia has undrawn confirmed lines of credit amounting to €1,150 million at 31 December 2013.

### 3.4.2. Banque PSA Finance

In 2013, Banque PSA Finance made use of different sources of financing: bank deposits (launch of the "DISTINGO" passbook savings account on March 7, 2013), bonds, securitization, and syndicated backup and revolving bilateral lines. As a regulated credit institution, we also have access to sources of liquidity such as the European Central Bank (ECB).

At December 31, 2013, 22% of the financing came from drawn bank loans, 38% from the capital markets, 25% from securitization transactions on the markets, 10% from financings of public origin such as the ECB or the SFEF ('Société de Financement de l'Economie Française'), which raised funds in 2008 and 2009 in order to lend them to the banks and financial institutions during the previous crisis), and 5% from the bank deposit business started in March 2013. At December 31, 2012, these sources provided 23%, 42%, 20%, 15% and 0% of our financing, respectively.

Furthermore, Banque PSA Finance pursued its securitization program in 2013 with the success of eight securitization transactions completed in three countries (France, Germany and Switzerland) for a total amount at the outset of €1,529 million of senior securities.

In 2013, Banque PSA Finance borrowed from the European Central Bank (ECB) under its long-term refinancing operation (LTRO). At 31 December 2013, this amounted to €1,700 million.

A bank loan collateralised by Belgian credit sale receivables was implemented in April 2013, generating net funding of €92 million at inception.

On 25 March 2013, Banque PSA Finance issued a fixed-rate bond maturing in April 2016 for €1.2 billion, with a coupon of 0.625%. The bond was issued in the context of the European Commission's authorisation to use the French State's guarantee (cf. note 36.1.A(b)).

In March 2013, the Distingo interest-bearing passbook savings account was introduced for private customers in France. The total funds for these accounts at 31 December 2013 were €955 million out of total amounts owed to customers of €1,446 million repayable at any time.

Financial security

Financial security amounted to €8,400 million at 31 December 2013, compared to €8,233 million at 31 December 2012. (see Note 32.8).

*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](http://www.banquepsafinance.com).*