

# FOREIGN CURRENCY TRANSACTIONS

## Current Accounting Practice

Foreign currency transactions are converted at the exchange rate ruling on the transaction date. The rate used to convert foreign currency assets and liabilities depends on whether or not the currency risk is hedged.

Unhedged assets and liabilities are remeasured at each period-end at the period-end exchange rate and the resulting conversion difference is recorded below operating margin.

Hedged assets and liabilities are converted as follows, depending on the date when the currency hedge is set up:

### **Hedges of existing transactions – forward foreign exchange contracts**

At the forward exchange rate prevailing on the hedging date.

### **Hedges of forecasted transactions – currency options**

At the option strike price if the option is exercised or at the forward rate prevailing on the hedging date (see above) if it is unexercised.

The conversion difference is recognized in the income statement as follows:

- Commercial transactions: in operating margin;
- Financial transactions: in exchange gains and losses, included in other income and expenses.

Option premiums are included in interest expense in the period when the hedged transaction occurs.

## IFRS

Under IAS 21 – The Effects Of Changes In Foreign Exchange Rates, foreign currency transactions are converted at the exchange rate ruling on the transaction date. Foreign currency assets and liabilities are remeasured at each period-end at the period-end exchange rate and the resulting conversion difference is recognized in the income statement as follows:

- Commercial transactions and Banque PSA Finance financing transactions: in operating margin;
- Financial transactions carried out by the manufacturing and sales companies: below operating margin.

Under IAS 39 – Financial Instruments: Recognition and Measurement, all derivative instruments are recognized in the balance sheet at fair value. Except as explained below, changes in the fair value of derivative instruments are recognized in the income statement.

Derivative instruments may be designated as fair value or cash flow hedges. Fair value hedges protect against a change in the fair value of assets and liabilities, while cash flow hedges protect against a change in the value of future cash flows generated by existing or future assets or liabilities.

Hedge accounting can only be applied if the following conditions are met:

- The hedging relationship is clearly defined and documented at the inception of the hedge;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured.

The effects of hedge accounting are as follows:

- For fair value hedges of existing assets and liabilities, the hedged portion is remeasured at fair value. Changes in fair value are recognized in the income statement, neutralizing the earnings impact of changes in the fair value of the hedging instrument, to the extent that the hedge is effective;
- For cash flow hedges, the effective portion of the change in the fair value of the hedging instrument is recognized directly in equity. Cumulative gains and losses recognized in equity are included in the income statement as the hedged asset or liability affects net income.

Derivative instruments acquired as hedges of currency risks on foreign currency transactions are recognized in balance sheet and remeasured at fair value at each period-end. The offsetting debit or credit is recognized as follows:

- In the income statement:
  - Commercial transactions and Banque PSA Finance financing transactions: in operating margin;
  - Financial transactions carried out by manufacturing and sales companies: in interest income and expense;
  - Forecasted transactions: directly in equity (for the effective portion, corresponding to the intrinsic value of the options). Gains and losses recognized in equity are included in the income statement in the period when the hedged items affect net income. The changes in the fair value of the ineffective portion of the hedge (corresponding to the value of the options net of their intrinsic value) are recognized below operating margin.

## Impact On The Group Accounts

### Group currency risk management policy

The manufacturing and sales companies manage currency positions arising from foreign currency transactions with the aim of hedging against changes in exchange rates.

These transactions mainly concern the Automobile Division, which purchases forward foreign exchange contracts when the foreign currency invoices are recorded in the accounts. The majority of contracts are purchased from the Group's specialized subsidiary, PSA International S.A. (PSAI).

PSAI has also set up hedges of currency risks on future transactions in yen and sterling.

In addition, PSAI carries out proprietary transactions on currency products other than for hedging purposes. These are the only non-hedging transactions carried out by Group companies and the related exposures are strictly limited and continuously monitored. Their effect on consolidated net income is not material.

### **Accounting impact**

Hedging instruments are recognized in the IFRS balance sheet. Operating margin includes:

- Changes in the value of hedged instruments and offsetting changes in the value of the hedging instruments;
- Exchange gains and losses on unhedged commercial transactions.

The impact of IFRS below operating margin concerns changes in the ineffective portion of options and exchange gains and losses on financial transactions other than Banque PSA Finance financing transactions.

Stockholders' equity in the opening IFRS balance sheet at January 1, 2004 is increased or reduced by the change in the intrinsic value of cash flow hedges, and reduced by the change in the time value of outstanding options.

Changes in the intrinsic value of cash flow hedges are recognized directly in equity and then included in income when the hedged transactions are executed.