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# 05 / SUPERVISORY BOARD CHAIRMAN'S REPORT

Pursuant to Article L. 225-68 of the Commercial Code, we remind you of Somfy SA's corporate governance principles and inform you of developments and procedures established in relation to internal control and risk management.

The company's Financial and Legal Departments and its Internal Audit Department are the major contributors to the preparation of this report under the authority of the Chairman of the Supervisory Board.

This report was forwarded to the Statutory Auditors, submitted to the Audit Committee of 2 March 2015 for review, and to the Supervisory Board on 4 March 2015 for approval.

And, as of 1 January 2015, the Management Board of Somfy SA is composed of Jean-Philippe Demaël, Chairman of the Management Board, Jean Guillaume Despature and Pierre Ribeiro, the latter also being CFO.

The terms of office of the members of the Management Board expire on 26 November 2017, the date on which the Management Board is renewed.

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE CODE

Somfy SA refers to the Middlednext corporate governance code for listed companies issued in December 2009 (the Middlednext Code hereafter), available at: [www.middlednext.com](http://www.middlednext.com).

The Supervisory Board meeting of 27 February 2012 decided to adopt the Middlednext Code in place of the AFEP/ MEDEF corporate governance code for listed companies, as it considered that its recommendations and guidelines were better suited to the company, particularly in view of its share ownership structure, with family shareholders owning more than 50% of the share capital and voting rights.

### COMPOSITION OF CORPORATE GOVERNANCE BODIES

Somfy SA is a French limited company (société anonyme), whose organisation is based on the "Management Board and Supervisory Board" formula, which entrusts company management to the former under supervision of the latter.

### COMPOSITION OF THE MANAGEMENT BOARD

Management Board members are appointed by the Supervisory Board in accordance with legal provisions.

At 31 December 2014, the Management Board was chaired by Paul Georges Despature; Wilfrid Le Naour – CEO, Somfy Participations and Jean-Philippe Demaël – CEO, Somfy Activities, were members of the Management Board and CEOs.

As part of the separation of the Group's two lines of business, marked by the creation of Edify SA last September, the latter receiving all of Somfy Participations' assets in the form of a transfer, with the exception of CIAT and FAAC securities, the governance of Somfy SA has changed.

Thus, Paul Georges Despature and Wilfrid Le Naour have resigned from their positions as respectively, member and Chairman of the Management Board, and member of the Management Board and CEO of Somfy Participations, with effect from 31 December 2014.

Paul Georges Despature and Wilfrid Le Naour have been appointed Chairman of the Board of Directors and CEO of Edify respectively.

## COMPOSITION OF THE SUPERVISORY BOARD

The Somfy SA Supervisory Board consists of seven members:

Name	Position	Date appointed/renewed	Date term ends
Michel Rollier*	Chairman	(Member of the Supervisory Board: 15 May 2012/ Chairman of the Supervisory Board: 16 May 2013)	2018 AGM
Victor Despature	Vice-Chairman	16 May 2013	2017 AGM
Paule Cellard*	Member	16 May 2013	2017 AGM
Jean Despature	Member	16 May 2013	2017 AGM
Xavier Leurent	Member	16 May 2013	2015 AGM
Anthony Stahl	Member	16 May 2013	2015 AGM
Valérie Pilcer*	Member	18 May 2011	2017 AGM

\* Independent member according to the definition of independence adopted by the company.

There was no change to the composition of the Supervisory Board during the last financial year and as of the date of this report (31 January 2015). The list of other appointments held outside Somfy SA is included in the Management Board report in accordance with disclosures required by Article L. 225-102-1 of the Commercial Code.

### Male and female representation on the Board

The Board consists of seven members, including two women, and complies with minimum female representation on the Board as required by current legislation. The company intends to continue to comply with subsequent application requirements introduced by the Law of 17 January 2011 relating to the equal representation of men and women in governance bodies. At its meeting of 6 November 2014, the Board carried out an assessment of its operation and its work, with no specific issues being raised.

In light of these criteria, the Supervisory Board considered that Paule Cellard, Valérie Pilcer, and Michel Rollier qualified as independent members. The Board noted that there was no business relationship between the independent members and Somfy Group.

Paule Cellard provides Somfy Group with international experience in the fields of finance and risk monitoring and compliance. Valérie Pilcer provides Somfy Group with experience in the fields of finance and risk monitoring. Michel Rollier provides Somfy Group with industrial and international experience gained with the Michelin Group particularly in the fields of finance, strategy and marketing.

The other members of the Supervisory Board are members of the family and therefore have a family code of ethics, which reinforces the shared respect for the shareholders' agreement. Moreover, their own individual substantial investment naturally motivates their long-term commitment to the Group, their aim being the creation of value on a sustainable basis for all the stakeholders of Somfy SA.

## CONDITIONS OF PREPARATION AND ORGANISATION OF THE SUPERVISORY BOARD'S WORK

The Supervisory Board performs its control mission in accordance with the conditions prescribed by law.

A Chairman and a Vice-Chairman are elected from among its members, and they may call meetings of the Supervisory Board by any means, including verbally.

## INDEPENDENCE OF THE MEMBERS OF THE SUPERVISORY BOARD

A group of family shareholders holds the majority stake in Somfy SA. As provided by the Middenext framework, the Board has assessed the independence of its members.

Based on the independence criteria suggested by the Middenext framework, the Supervisory Board notes that, to date, an independent member of the Board is a member who has no relationship of any nature whatsoever with Somfy SA or its management, or with a company consolidated by the Somfy Group, that may affect his/her freedom of judgement, and who meets the following criteria:

- Is not and has not been an employee or executive corporate officer of Somfy SA or any other Group company during the last three years;
- Is not a significant customer, supplier or banker of Somfy SA or its Group, or for which Somfy SA or its Group represents a significant share of his/her business activity;
- Is not a significant shareholder of Somfy SA;
- Is not closely related to a corporate officer or major shareholder;
- Has not been a statutory auditor of Somfy SA over the past three years.

**Summary table:**

Independent members of the Supervisory Board	Michel Rollier	Paule Cellard	Valérie Pilcer	Explanation in the event of non-compliance
Is not and has not been an employee or an executive corporate officer of the company or any other Group company during the last three years	X	X	X	
Is not a significant customer, supplier or banker of the company or its Group, or for which the company or its Group represents a significant share of his/her business activity*	X	X	X	
Is not a significant shareholder of the company	X	X	X	
Is not closely related to a corporate officer or major shareholder	X	X	X	
Has not been a statutory auditor of the company over the previous three years	X	X	X	
Conclusion on independence	Independent	Independent	Independent	

\* Where necessary, the materiality of relationships may be debated and the assessment criteria clarified at a Board meeting. To date, no business relationship exists.

**OPERATION OF THE SUPERVISORY BOARD**

The company bylaws define and specify the terms and conditions governing the composition of the Supervisory Board. The main provisions are the following:

Supervisory Board members, the number of which can never fall below the legal threshold nor exceed the legal limit, are appointed in accordance with the conditions specified by law for a term of office of four years. By exception and solely to enable the implementation or maintenance of staggered terms of office, the Ordinary General Meeting may appoint one or more members of the Supervisory Board for a term of one, two or three years.

All outgoing Supervisory Board members may be reappointed.

The term of office of a Supervisory Board member ceases at the end of the Shareholders' Ordinary General Meeting called to approve the financial statements for the financial year just ended and held in the year that the term of office of the said member of the Supervisory Board expires.

No one may be appointed as a member of the Supervisory Board, if, being over 75 years old, his/her appointment leads to over a third of the members of the Supervisory Board being over that age.

The Supervisory Board meets at least once quarterly on an agenda drafted by its Chairman. It met six times during 2014 and the rate of attendance was 100% except for one meeting not attended by one member.

At each ordinary meeting, the Management Board presents a report on the operations and results of the Group and its major subsidiaries for the quarter just ended. A detailed income statement with commentary is presented by the Management Board for every half-year and annual closing. In addition, the Supervisory Board receives a monthly sales report.

Within 90 days following the end of each financial year, parent company and consolidated financial statements approved by the Management Board are sent to the Supervisory Board for review.

The Board then presents its observations on the report of the Management Board as well as on the financial statements to the General Meeting.

For the approval of the half-year financial statements, only the consolidated financial statements are prepared and submitted to the Supervisory Board within three months of interim closing.

The Chairman of the Supervisory Board also benefits from monthly meetings with the Chairman of the Management Board on the current operations of the Group.

The Supervisory Board asks the Management Board and Management to provide any information or analysis they deem necessary or a presentation on any specific subject.

In accordance with the law, the Supervisory Board provides guidelines to the Management Board so that commitments to deposits, sureties or guarantees are validly provided by the company. The authorisation of the Supervisory Board is required in every case where a commitment does not meet these conditions.

The rules of operation of the Supervisory Board are specified in the Supervisory Board's internal regulations, which are available on the company's website.

The Board's internal regulations also include provisions aimed at preventing and managing conflicts of interest.

In this respect, internal regulations specify that should a situation arise where there appears to be a conflict of interest between corporate and direct or indirect personal interests, or the interests of the shareholder or group of shareholders he/she represents, or which may be perceived as such, the Board member concerned must:

- Inform the Board of this conflict of interest as soon as he/she becomes aware of it;
- Take all appropriate action in relation to exercising his/her term of office.

Depending on the case, he/she therefore shall:

- Abstain from voting on the relevant deliberation;
- Refrain from attending Board meetings during the period he/she is in a position of conflict of interest;
- Resign from his/her duties as a member of the Board.

The Board member may be held liable for failing to comply with these abstention and non-attendance rules.

Furthermore, the Chairman of the Board is not obliged to disclose information or documentation relating to the matter in dispute to member(s) whom he has strong grounds of suspecting are in a position of conflict of interest within the meaning of this paragraph, and will inform the Supervisory Board of this act of non-disclosure.

The principal subjects discussed at meetings of the Supervisory Board during the year were the following:

- Analysis and appraisal of the Group's organisational project which involves dividing Somfy SA's lines of business into two distinct companies; transfer by Somfy SA to a new company (Edify SA) of the assets which make up the Somfy Participations business, with the exception of the FAAC SpA and CIAT Group SA securities; review of the independent expert report; approval of the proposed exceptional

distribution; approval of the submission to admit Edify SA shares for trading on the Euro MTF market of the Luxembourg stock exchange and of the initial share price,

- Presentation of the draft Group Ethics Charter,
- Regular updates of ongoing tax, social security and customs duties inspections within the Group,
- Review of the policy regarding equality in the workplace and equal pay,
- Review of Audit Committee reports,
- Findings of the Remunerations Committee,
- Allocation of attendance fees,
- Update on the assessment of the Board's operation and work.

#### For Somfy Activities:

- Quarterly highlights by brand and operation,
- Analysis of and lessons from past acquisitions,
- Presentation of acquisition projects,
- Presentation of the main budget priorities for 2015,
- Update on the "2015 Let's project"; presentation of "2020 Let's project",
- Presentation of the Asia & Americas BMA and China focus,
- Presentation of the Home & Building strategy and the major new products to be presented at R+T 2015,
- Human resources: update on gender equality.

#### For Somfy Participations:

- Quarterly presentation of results and highlights by shareholding,
- Presentation of planned equity investments,
- Purchase of a controlling interest in Usines Métallurgiques de Vallorbe, purchase of a minority interest in Lacroix Emballages,
- Planned disposal of shareholding in CIAT Group SA,
- Focus on Pellenc; project to change the equity relationship with Pellenc SA – purchase of the usufruct of the entire share capital of Pellenc SA,
- Presentation of the updated business plan and strategy,
- Analysis of the stock exchange indices over five years as a benchmark to assess the financial performance of Somfy Participations.

### COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

#### Audit Committee

With regard to the Audit Committee, the company applies the recommendations of the AMF's working group chaired by Mr Poupart Lafarge at the Audit Committee meeting of 22 July 2010. The recommendations in respect of the composition and chairmanship of the Committee, the competence of its members and definitions of their independence, the operation (information, evaluation and reporting on the work undertaken), as well as the recommendations relating to the execution of its legal responsibilities have been followed.

The follow-up on the effectiveness of the internal control and risk management systems has also been carried out.

In 2014, as part of its assignment relating to risks, the Audit Committee monitored risks and updated the risk mapping at an extraordinary meeting of the Audit Committee, during which the Internal Audit Officer presented the relevant information.

The Audit Committee currently comprises three members: Victor Despature, Committee Chairman, Paule Cellard and Valérie Pilcer. Paule Cellard and Valérie Pilcer are independent members in accordance with the aforementioned criteria.

Victor Despature has accounting expertise. He was a Chartered Accountant and an Auditor from 1983 to 2000. Since then, he served as the General Manager of a major family-owned group from 2002 to 2006 and as the Chairman of the Legal Committee from 2002 to 2008. He is currently Chairman of the Supervisory Board of this family-owned group since 2012 and member of the Remuneration Committee since 2000. He has also been managing a medium-sized company in the aeronautic sub-contracting sector since 2000.

Valérie Pilcer, a graduate of the Paris École des Mines, was entrusted with various operational management duties by Société Générale from 1987, in both the international financial market division and in the Group Risk Management Department. She joined the Oddo Group in 2008 as Chief Risk Officer and then independent consulting company Pilcer & Associés in 2011. In 2012, she joined the MACIF Group as Head of Risk Management and the OFI Group's Executive Committee as Director of Innovation, Methods and Processes. Her expertise also extends to the financial field, with substantial experience in risk management.

Paule Cellard, graduate of ESC Paris (Business School) and with a master's degree from the Paris Assas Law School, has held various operational roles in Corporate and Investment Banking, notably as Chief Executive Officer of Indosuez Private Banking Services from 2006 to 2009, then Global Head of Compliance at Crédit Agricole Corporate and Investment Bank until 2012. Since November 2012, she has been a Director and member of the Audit Committee of Crédit Agricole Private Banking Luxembourg and has founded the consulting firm KLEFI CONSEIL. She has expertise in the financial field and strong experience in risk management.

The Committee's mission is to monitor the preparation of the financial information and the efficiency of internal control and risk management systems. It is also informed of due diligence carried out by the Statutory Auditors in their legal assignment to audit the parent company and consolidated financial statements, ensures the latter's independence and is involved in their selection.

The Audit Committee supervises the work of Internal Audit and approves the annual audit plan. It proposes, directs and ensures the follow-up of Internal Audit assignments.

Since its creation, it has met at each half-year and year-end balance sheet date.

During the 2014 financial year, the Audit Committee met on four occasions with all members in attendance.

During the various Audit Committee meetings, the Chief Financial Officer presented the financial position of the Group, the accounting options adopted, the risk exposure and significant off-balance sheet commitments; Internal Audit presented the results of audits carried out, the annual audit plan and the results of the risk mapping update.

Pursuant to Article L. 823-16 of the Commercial Code, the Statutory Auditors presented their general work programme as well as the various tests they carried out; the changes that they felt should be made to the financial statements or other accounting documents before their approval, along with any relevant comments about the valuation methods used in their preparation; possible irregularities and errors discovered and the findings leading to the above observations and corrections on the results of the period compared with those of the previous period.

In addition, every year the Statutory Auditors communicate to the Audit Committee a declaration of independence and an update of the information described in Article L. 820-3 detailing the services carried out by the members of the network to which the Statutory Auditors are affiliated, as well as the services carried out in respect of due diligence directly related to the assignment.

With regard to the work methods: pursuant to the recommendations of the AMF, a minimum time period for the examination of the financial statements was complied with to enable the Audit Committee to avail of the option of using external experts, as well as interviewing the Chief Financial Officer, the Statutory Auditors and the Internal Audit Officer. Minutes of each Audit Committee meeting are provided to the Supervisory Board so that it is aware of matters discussed.

#### Remuneration Committee

The Remuneration Committee currently comprises two members: Michel Rollier, Committee Chairman (independent member), and Victor Despature. Its mission is to submit proposals to the Supervisory Board, in particular in respect of the amount and calculation of corporate officers' remuneration and to provide advice concerning the amount of attendance fees.

At least once a year, the Committee calls on a firm specialised in the subject of senior executive remuneration, which provides advice on the practices that are generally applied in companies of a comparable size. During the year just ended, it met three times. The rate of attendance by the members was 100%.

The members of the Remuneration Committee report verbally to the Supervisory Board on their work and on the opinions they have issued, thus helping the Board to prepare and make decisions in terms of corporate officers' remuneration.

## REMUNERATION AND BENEFITS OF CORPORATE OFFICERS

### PRINCIPLES AND RULES DRAWN UP BY THE SUPERVISORY BOARD TO DETERMINE THE REMUNERATION AND ALL BENEFITS GRANTED TO CORPORATE OFFICERS

Directors' remuneration, which is detailed in the Management Board report, is proposed by the Remuneration Committee. It is revised each year on the basis of expert advice and is in line with the market.

#### Remuneration of members of the Supervisory Board

The General Meeting sets the overall amount of attendance fees.

The Supervisory Board members share the said fees on a pro rata basis according to their attendance at meetings of the Board and the Audit and Remuneration Committees: €1,100 per member per meeting of the Supervisory Board, €1,600 per member per meeting of the Audit Committee and €1,300 per member per meeting of the Remuneration Committee.

The Chairman of the Supervisory Board receives specific compensation in relation to his duties as Chairman. This remuneration is fixed and was last revised at the Board meeting of 16 May 2013.

#### Remuneration of members of the Management Board

The members of the Management Board, with the exception of the Chairman, have an employment contract.

It has become apparent to the company that, in order to attract and retain talent, members of the Management Board, with the exception of the Chairman, must enjoy the protection guaranteed by an employment contract.

At 31 December 2014, the remuneration of the members of the Management Board comprised a fixed part and a variable part. These amounts are reviewed annually.

The variable part is based on the achievement of objectives that take account of quantitative criteria specific to the scope of operations covered:

For the Chief Executive Officer of Somfy Activities, this includes profit growth, measured by the average growth in COR (Current Operating Result) over two years; the profitability of capital used, measured by the average level of ROCE (Return On Capital Employed) over two years; and lastly, business development, measured by sales growth and by its differential with the sales growth of a range of benchmarks consisting of nine companies deemed to be comparable.

For the Chief Executive Officer of Somfy Participations, this includes growth in the net asset value of investments; the coefficient of achievement of annual budgets; and lastly, the improvement in the financial position of the Somfy Participations division.

For the Chairman of the Management Board, this includes the performance of both divisions, Somfy Activities and Somfy Participations, weighted by the contribution of each division to the Group's net profit. An additional specific criterion measures the level of Group debt.

This process is accompanied by qualitative criteria. For confidentiality reasons the expected level of achievement of quantitative criteria, as well as the qualitative criteria, which are predetermined, are not publicly disclosed.

Other benefits, approved by the Supervisory Board and which can be granted, comprise:

- The potential allocation of stock options or performance-based shares, which is the subject of a special report as prescribed by Articles L. 225-184 and L. 225-197-4 of the Commercial Code. During the year just ended, no stock option plans were set up. A performance-based share plan was established in February 2014 for the benefit of certain of the Group's senior executives. Corporate officers do not benefit from this plan;
- A so-called "Article 39" supplementary retirement scheme for senior managers and senior executives of the Group, set up by CMC SARL. Jean-Philippe Demaël, member of the Management Board, is a potential beneficiary of this pension scheme, which is described in more detail under "Information on appointments held and on remuneration received during the financial year" in the Management Board report to the Combined General Meeting of 13 May 2015;
- Benefits in kind consisting of the use of a company car, as well as profit sharing, employee shareholding and contributions to the Group savings scheme in force within CMC SARL for holders of an employment contract. Members of the Management Board concerned: Jean-Philippe Demaël and Wilfrid Le Naour. Their value is separately disclosed in the Management Board report, just as the remuneration mentioned in this report is disclosed in its entirety and includes the salaries paid under employment contracts.

The position of the Chairman of the Management Board was different during the year just ended as he did not benefit from either stock options or performance-based shares. He was only remunerated in his capacity as Board member, without any other particular benefits, and had no employment contract.

### CONDITIONS OF SHAREHOLDERS' PARTICIPATION IN GENERAL MEETINGS

The bylaws allow for the following arrangements:

- All shareholders have a right to attend General Meetings and participate in their deliberations, in a personal capacity or by proxy;
- They may vote remotely. If the Management Board or Supervisory Board provides for this at the time of notice of the meeting, all shareholders may also participate in General Meetings by video-conference or by any communication means that enable their identification according to the terms and conditions set out by the law and regulations and that are specified in the notice of the meeting; the shareholder will, in this case, be deemed to be present for the calculation of quorum and majority;
- The right to participate in Meetings is contingent upon the shareholder providing proof of his/her identity and the registration of the securities in his/her name (or in the name of the intermediary recorded on their behalf if he/she resides abroad) at midnight Paris time on the second working day preceding the Meeting, either in a nominative account or in the records of bearer shares held by an authorised intermediary, and this in one of the places mentioned in the notice of the meeting. The next General Meeting will be asked to bring the company's bylaws into line with these new provisions arising from Decree n°2014-1466 of 8 December 2014 which amended Article R. 225-85 of the Commercial Code;
- The attendance of the shareholder cancels all proxy or remote voting.

### ELEMENTS LIABLE TO HAVE AN IMPACT IN THE EVENT OF A PUBLIC OFFERING

The disclosures referred to by Article L. 225-100-3 of the Commercial Code relating to elements liable to have an impact in the event of a public offering are published in the paragraph entitled "Elements liable to have an impact in the event of a public offering" of the Management report prepared by the Management Board in respect of the financial year ended 31 December 2014.



## INTERNAL CONTROL

### INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES IMPLEMENTED BY THE COMPANY

#### COMPANY OBJECTIVES IN RESPECT OF INTERNAL CONTROL

The internal control function, inspired in practical terms by the AMF framework available at [www.amf-france.org](http://www.amf-france.org), has the following purposes:

- To ensure that management action and the completion of transactions as well as the behaviour of personnel is in line with the framework defined by the Management Board under the control of the Supervisory Board in conditions defined by the bylaws, applicable laws and regulations, and by the internal values, standards and rules of the company;
- To verify that the accounting, financial and management information reported to the Management Board and Supervisory Board or to Committees formed within them, fairly reflects the operations and position of the company by checking their reliability, traceability and availability;
- To prevent and control the risks arising from the business and the risk of errors or fraud, particularly in the accounting and financial areas;
- To secure the property, plant and equipment and intangible assets.

Thus, it strives to ensure: a) compliance with laws and regulations; b) the application of instructions and directions set by General Management or the Management Board; c) the proper operation of the internal processes of the company, notably those concerning the safeguarding of its assets; d) the reliability of financial information.

It cannot provide an absolute guarantee against human error.

As far as Somfy Participations is concerned, it should be noted that the companies in which Somfy SA has invested as part of LBO projects and where it holds a majority shareholding are NMP SAS (Zurflüh-Feller) and Financière Nouveau Monde SA (Sirem).

With regard to financial investments, the attention given by Somfy SA to these companies relates particularly to their financial statements, in particular compliance with their banking covenants as well as a follow-up of their strategies.

In the event that areas of progress are identified in other domains by the Management of the company or Somfy SA, the latter proposes to the company concerned the resources or contacts to contribute to its development.

In this respect, Internal Audit may form part of the resources provided.

As a result of the above, the developments that follow relate virtually exclusively to Somfy Activities.

#### INTERNAL CONTROL STRUCTURES

##### Supervisory Board

Under French law, this is the body that controls the management of the company carried out by the Management Board.

##### Internal Audit

Under the supervision of the Audit Committee, the Internal Audit Department reports to the Chairman of the Management Board, and by delegation to the Group's Chief Financial Officer.

The Department, comprising the Internal Audit Officer and the equivalent of 3.5 full-time auditors, carries out audits that evaluate the correct application of accounting principles, the organisation and the systems put in place within the entity subject to audit.

An annual audit plan, prepared together with the Management of Somfy Group, is approved by the Management Board and then validated by the Audit Committee. This audit plan is in particular based on an assessment of the level of risk of each entity and the significance of areas to be covered by an audit. The assignments included in the audit plan provide an independent assessment of the efficiency of the system of internal control in each entity.

Where appropriate, the principal weaknesses identified in internal control are reported and recommendations are issued. A follow-up of the implementation of recommendations is made twice a year. A report is presented to the Management Board and to the Audit Committee each year.

In addition, urgent assignments that were not provided for in the audit plan may be carried out during the year at the request of the Management Board or the Audit Committee.

Twice a year, the Internal Audit Officer presents a report on the activities of the Department to the Management Board and to the Audit Committee.

#### KEY ELEMENTS OF INTERNAL CONTROL PROCEDURES

The processes and organisation described hereafter were implemented by the Management Board, as internal control falls within its jurisdiction.

##### Description of internal control procedures in relation to the preparation of accounting and financial information

##### Strategic, budgetary and reporting processes

The preparation of the budget is part of an annual strategic process involving all the Activities, Business Areas and Business Units as well as the Divisions, which define their own key objectives, in line with the strategic guidelines set by General Management.

The overall budget is prepared as part of an iterative process involving all Group players. It is the result of the consolidation of local budgets.

After approval by the General Management of the Group, every manager becomes responsible for meeting his/her own budget.

The measurement of the achievement of objectives set out in the budgets is carried out through a system of matrix reporting on a monthly and quarterly basis, which enables results to be produced on several axes (Business Area, Business Unit and Activity). It comprises the standard financial data: operating accounts and balance sheet indicators, and non-financial performance indicators.

Reporting is completed by strategic reports and quarterly updates of forecast sales and profit for the current year. These measurements enable a follow-up of the achievement of objectives and provide corrective actions on a matrix basis and at all levels of responsibility (consolidation, Business Areas, Business Units, Activities, Legal Companies, Departments and Services).

In addition, three three-year plans, in line with Group strategy and revised annually, are overseen by Management. They include:

- A product master plan that relates to the development of the product range,
- An industrial and logistics master plan for production facilities,
- A master plan for information systems.

##### Preparation of financial statements

The Somfy Group has defined a unique and common system for the recording of accounting and financial information.

It resulted in the definition and implementation within all subsidiaries of a Group chart of accounts, as well as the definition and implementation of the main management procedures (inventories, non-current assets, trade receivables, etc.), which are formalised in the Group Procedure Manual relayed through and updated on the Group's 'Teepee' intranet. Furthermore, the Group is pursuing its policy of rolling out common software and a joint ERP.

The proper application of the chart of accounts, procedures and reporting reliability is monitored by visits to subsidiaries at least annually, planned by head office Accounting and Controlling Departments, within the context of year-end and half-year closing. It is also verified during the budget preparation and monthly reporting processes.

The Group team responsible for the development and control of financial statements comprises the Group Financial Department and the Financial Department of Somfy Activities, represented by its manager, and comprising:

- The consolidation team,
- The central financial control team.

This team relies on financial controllers, based in each Business Area, reporting to the Group in its ten geographical areas.

In addition, each of the Activities benefits from a dedicated financial controller.

The Group endeavours to lead this network via international meetings and on-going training of accountants and financial controllers.

Particular care is taken with risk analysis, through a review of asset provisions and provisions for liabilities and charges, as well as off-balance sheet commitments.

At each year-end, inventories are verified either through a complete physical stock-take or by a rolling physical stocktaking procedure.

Trade receivables are the subject of credit risk analyses with respect to the measurement of provisions. In addition, the company hedges the majority of its risk by entering into customer credit insurance contracts, both in France and abroad.

Intragroup purchases, sales and balance sheet items are confirmed monthly.

Inventory amounts originating from the Group are determined in all entities in order to eliminate internal profit margins on inventories.

A pre-closing meeting is organised each half-year with the Legal Department to identify all liabilities and possible or stated litigation and to calculate, with reference to the progress of cases, corresponding provisions for liabilities and charges.

The review of various contracts, deposits, sureties and guarantees also serves to identify off-balance sheet commitments.

The consolidation packages, including: balance sheet, income statement, cash flow tables and related data, are then sent to the Consolidation Department according to a predefined planning schedule.

#### **Financial statements control**

The Consolidation Department, after verifying the completeness of financial information, the proper application of closing procedures and restatements, performing the intragroup account reconciliations and verifying the net equity justification, performs financial statement consolidation using dedicated software.

The consolidated financial statements are prepared in accordance with IFRS. In addition, accounting options selected are presented to and approved by the Audit Committee.

#### **Financial communication**

Following their approval by the Supervisory Board, the half-year and full-year financial statements are presented to the financial community under the auspices of the SFAF (French financial analyst society) and published in a report posted on the financial issuer's website ([www.somfyfinance.com](http://www.somfyfinance.com)) as well as on a regulatory business publishing network ([www.lesechos-comfi.fr](http://www.lesechos-comfi.fr)).

The other disclosures required by the Transparency Directive, in particular quarterly information and reports on internal control and corporate governance are also posted on these two websites. Relevant information relating to the company's business activities is presented to the Audit Committee.

#### **IT systems**

The BaaN integrated management package is installed in most distribution subsidiaries, excluding Asia, where ERP Accpac has been rolled out in the majority of cases.

For the companies that have an ERP (BaaN or Accpac) installed, standard parameters are included (comprising a chart of accounts, analytical follow-up and procedures).

Completion of the budget, monthly reporting, margin analysis by product family and legal consolidation are all carried out on the same platform (Hyperion), which improves uniformity and facilitates the analysis of information.

The BaaN Manufacturing module has been installed at the Group's main production sites (Cluses, Gray, Zriba, Bologna) including Krakow, Poland in the Group's new factory which began operating at the start of 2014.

Furthermore, the various Group development centres use the CrossRoads tool, a unique data management system for the development of products throughout their life cycle. It contributes to the efficiency of development processes and to the improvement of product quality.

Lastly, the Ariane tool, which helps manage and monitor general expenses liabilities, was also rolled out at Somfy SAS, SITEM and Simu.

#### **Internal control monitoring**

An Internal Control Department is in place and has the following objectives:

- The maintenance of reliable internal control within the Group: ensuring statutory financial and reporting data is secure and reliable (risk identification, definition of control procedures), validating the Group's accounting and management methods, while ensuring these can be accommodated by IT systems;
- Internal Audit assignment follow-up: review of Internal Audit reports, identification of action plans to be implemented, action plan follow-ups via biannual internal control reporting;
- The development of a plan to secure half-year closings (in line with the Consolidation Department): including a schedule for visiting subsidiaries, identification of matters requiring attention, review of visit reports and action plan follow-up.

An Internal Control Committee is held once every two months to discuss the latest audit reports issued and other matters, such as year-end visits or training programmes to be provided to financial controllers for instance.

The monitoring of the internal control, ensuring better knowledge, communication and follow-up of risks and associated controls, is initiated through the following dedicated tools:

- A self-assessment tool for subsidiaries through which Internal Audit may launch monitoring programmes on specific areas;
- A software tool dedicated to the follow-up of recommendations, which more specifically allows Internal Audit to centralise all recommendations resulting from their audits, the entities audited to capture their corresponding action plans, and the Group's Internal Control Department to follow their implementation.

The use of all these resources is closely monitored by the Audit Committee, which is regularly informed of the progress achieved and the results obtained.

A biannual reporting has been established for the benefit of the Executive Committee of Somfy Activities and the managers of all subsidiaries in relation to the progress of action plans and the resolution of weaknesses that have been identified.

Certain improvements are directly addressed by entities at a local level, while others are looked into centrally by the Internal Control Department and/or in collaboration with the Group's IT Department.

Lastly, the Internal Control Department is also responsible for the central monitoring of risks and the update of risk mapping, in collaboration with the Internal Audit Department specifically in relation to the methodology.

#### **Mapping of risks**

Group management firmly believes that risk management and control contributes to:

- Creating and preserving the value, assets and reputation of the company;
- Securing the company's decision-making and processes to facilitate the achievement of targets;
- Encouraging that actions are consistent with the company's values;
- Make company staff take ownership by setting out a common approach to major risks.

The mapping of Group risks is updated every year. In 2013, the methodology for identifying operational risks changed. This mapping will



now be carried out during the first quarter (post budgetary planning) to include the inputs resulting from this process into the year. A risk owner is appointed for each operational risk.

Strategic risks are examined during the biannual process of the Group's strategic review.

Where relevant, a connection is made between the risks included in this mapping and the internal audit plan.

The results of this risk evaluation are presented each year to the Executive Committee, as well as to the Management Board and the Audit Committee.

### **Treasury Committee/Group Treasury**

The Group Treasury Department reports to the Group's Chief Financial Officer.

The Group Treasury Department is responsible for carrying out transactions in cash management, financing and managing risks of a financial or banking nature related to the Group's operations.

It has a duty to warn the Group's Chief Financial Officer, the Treasury Committee or the Management Board of developments in the relevant markets and the fair assessment of risks.

A Treasury Committee meeting is held each month, chaired by the Group's Chief Financial Officer, to review:

- Deposits,
- Funding,
- The Group's net debt,
- Off-balance sheet banking commitments,
- Foreign exchange positions,
- The Group's cash and debt positions (current and forecast),
- Miscellaneous items: ongoing acquisitions, follow up of late payments, guaranties/securities, Group loans,
- The Group's net financial income/(expense) (twice annually).

This Committee comprises:

- The Chief Financial Officer of Somfy Group,
- The Chief Financial Officer of Somfy Activities,
- The Chief Financial Officer of Somfy Participations,
- The Financial Manager of holding companies,
- The Group Treasurer,
- The Treasurer.

Members of the Management Board are ex-officio members and have a standing invitation to Committee meetings.

The role of the Treasury Committee is twofold:

- Strategic: to define the overall policy in terms of Group Cash Management, financing, interest and exchange rate and deposit risk management. They also include the follow-up of Group subsidiaries' equity balance sheet items;
- Operational: to guarantee the regular monitoring of Group Cash Management. These are detailed in a monthly trend chart.

The rules and procedures relating to Somfy Group's Cash Management have been formalised in the Cash Management Charter, which covers the following:

- Ethics,
- Liquidity/exchange rate/interest rate risk,
- Deposit of excess cash,
- Counterparty risk,
- Governance.

This charter was subject to a quality review in the second half of 2013.

A Group Treasury Charter was also introduced on 1 November 2013 to define best practices and list in a single document the guidelines that ensure the secure, economical and efficient management of financing and deposit operations, and more generally of cash management within the Somfy Group.

This Group Treasury Charter is applicable to all subsidiaries controlled directly or indirectly by Somfy SA and specifies their roles and responsibilities regarding the management of their financing, deposits, banking flows and more broadly speaking their cash management transactions.

An international cash pooling project was launched in mid-2014. It will be implemented during 2015.

### **Accreditations and quality procedures**

The Somfy Group has been implementing an approach to Quality Management by following ISO 9001 processes since 1995.

Companies that are currently ISO 9001-certified by Lloyd Register Quality Assurance (LRQA), or by other local organisations, are Somfy SAS, Simu SAS, WAY (merger of Asa and Mingardi), SITEM, Harmonic, Somfy GmbH, Somfy BV, BFT SpA, LianDa and Domis.

These companies represent the vast majority of the operations consolidated by the Group.

The whole personnel of these companies are thus involved in this process, including the R&D Department, as well as the Purchasing, Manufacturing, Production, Sales and Logistics Departments.

Internal quality audits are implemented in accordance with an annual audit plan, defined according to the company's strategic priorities and in a manner so as to review the risks inherent in operational processes. Corrective or preventive actions are managed within each operating or support department.

The list of operational and support processes falling within the scope of application of Quality Management, as well as their indicators, reference documents and monitoring committees, are defined in the company's quality manual.

Process control is implemented through compliance with the requirements specified in the various parts of the quality framework (guidelines, procedures, departmental methodological guides, etc.) and the continuous improvement principle applied to each of them.

The Quality approach is a key area of the Group's strategy and the Management of the company is committed to its rollout and monitoring.

### **Risk coverage – Insurance**

The Group risk prevention and protection policy is determined by Corporate Services, in collaboration with insured entities and in partnership with its brokers and insurers. The vast majority of facilities are insured by Group policies which include direct risks (fire, theft, etc.), loss of profit, general civil liability (including corporate officers' civil liability) and transport of goods. Other units and risks are covered by insurance policies that fall within the remit of local managers, and if necessary, with the support of Corporate Services.

### **PROJECTS COMPLETED AND IN PROGRESS**

Projects carried out in 2014 relating to internal control and risk management included:

- Developing a tool called Dashboard Supply Chain, which allows the performance of the supply chain to be measured centrally and consistently, from departure from the factory to arrival at the distribution subsidiaries. This application is also designed to be an operational management tool for local logistics coordinators. The scope involved to date comprises subsidiaries managed under BaaN ERP, i.e. mainly sites located within the EMEA and North America region;
- Initiating the introduction of an Ethics Charter enabling the Group to formally set out its principles of ethical conduct to ensure their operational application. This document applies to all Group employees, and where relevant also refers to other existing charters and procedures. An Ethics Committee has also been introduced, as have local ethics officers for each of the Group's business areas and reporting scopes. Deployment and training initiatives began at the end of 2014 and will continue over the first half of 2015.

### **The Chairman of the Supervisory Board**