

05

SUPERVISORY BOARD CHAIRMAN'S REPORT

P.46 Corporate governance

P.51 Internal control

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 7 March 2016 for review, and to the Supervisory Board on 9 March 2016 for approval.

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.

On 27 February 2012, the Supervisory Board adopted 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 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 2015, the Management Board was chaired by Jean-Philippe Demaël; other members included Jean Guillaume Despature and Pierre Ribeiro, the latter also being Group CFO.

The Supervisory Board of 9 March 2016:

- Took note of Jean-Philippe Demaël's resignation from his office as a member and Chairman of the Management Board with effect from 9 March 2016;
- Unanimously appointed Jean Guillaume Despature, a member of the Management Board, as Chairman of the Management Board with effect from 9 March 2016 for the term of the Management Board offices which expire on 26 November 2017, the date when the Management Board will be renewed.

As from 9 March 2016, the Management Board consists of:

- Jean Guillaume Despature – Chairman of the Management Board, and
- Pierre Ribeiro – Group CFO.

COMPOSITION OF THE SUPERVISORY BOARD

The Somfy SA Supervisory Board consists of seven members:

Name	Position	Age	Nationality	Date appointed/renewed	Date term ends
Michel Rollier*	Chairman	71	French	(Member of the Supervisory Board: 15 May 2012/ Chairman of the Supervisory Board: 16 May 2013)	2018 AGM
Victor Despature	Vice-Chairman	66	French	16 May 2013	2017 AGM
Paule Cellard*	Member	60	French	16 May 2013	2017 AGM
Jean Despature	Member	65	French	16 May 2013	2017 AGM
Bernard Hours*	Member	59	French	13 May 2015	2019 AGM
Anthony Stahl	Member	42	French	13 May 2015	2019 AGM
Valérie Pilcer*	Member	52	French	18 May 2011	2017 AGM

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

The following changes to the composition of the Supervisory Board occurred during the financial year just ended and up to the date of this report (31 January 2016):

Name	Nature of change	Date	Impact on Board diversification
Xavier Leurent	End and non-renewal of term of office	AGM 13 May 2015	–
Anthony Stahl	End and renewal of term of office	AGM 13 May 2015	–
Bernard Hours	Appointed to replace Xavier Leurent	AGM 13 May 2015	Independent member

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.

Self-assessment of the Supervisory Board

At its meeting of 10 November 2015, the Board carried out an assessment of its operation and its work. No particular issue was raised by the members of the Board at this time. An assessment to be completed via questionnaire sent out to each member of the Board is scheduled to take place in 2016.

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 Middennext framework, the Board has assessed the independence of its members.

Based on the independence criteria suggested by the Middennext 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.

In light of these criteria, the Supervisory Board considered that Paule Cellard, Valérie Pilcer, Bernard Hours 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. Bernard Hours provides Somfy Group with international experience gained with the Danone Group particularly in the fields of 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.

Summary table:

Independent members of the Supervisory Board	Michel Rollier	Paule Cellard	Valérie Pilcer	Bernard Hours	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	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	X	
Is not a significant shareholder of the company	X	X	X	X	
Is not closely related to a corporate officer or major shareholder	X	X	X	X	
Has not been a statutory auditor of the company over the previous three years	X	X	X	X	
Conclusion on independence	Independant	Independant	Independant	Independant	

* Where necessary, the material nature 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. During the 2015 financial year, it met on five occasions with all members in attendance.

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, the 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 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, the 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, 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 members 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:

- Quarterly highlights by brand, activity and geographic region,
- Review of the project Let's! 2015; presentation of the new project Believe! 2020,
- Presentation of the new Group branding, the new vision "Inspiring a Better Way of Living Accessible to All" and the new brand platform,
- Focus on Brazil: return of the usufruct of the Garen Automação S.A. securities,
- Presentation of the Central Europe BA,
- Review of the R+T 2015 trade show,

- Presentation of the main budget priorities for 2016,
- Presentation of the connected products strategy,
- Regular update on the Quality project,
- Presentation of the results of the survey of Group employees: Somfyscope 2014,
- Presentation of the Group Information System "Acting Simply",
- Withdrawal by Somfy SA from the stake held in the share capital of Faac SpA and by Faac SpA from the share capital of Somfy SA and Damartex SA and, subsequent to the buyback of Somfy shares from Faac SpA, cancellation of a total of 436,800 Somfy shares,
- Disposal of securities held by Somfy SA in the share capital of CIAT Group SA,
- Update on the Foundation and on the "Les Petites Pierres" platform,
- Review of the policy regarding equality in the workplace and equal pay,
- Review of Audit Committee reports,
- Findings of the Remuneration Committee,
- Allocation of attendance fees,
- Update on the assessment of the Supervisory Board's operation and work,
- Update of the Code of Conduct.

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 2015, 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 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, in particular, between 2006 and 2009 she was CEO of Gestion Privée Indosuez, and was subsequently Global Director of Compliance for Crédit Agricole Corporate & Investment Bank, until 2012. Since November 2012, she has been a Director of Crédit Agricole Private Banking Luxembourg and since December 2015 has chaired the Audit Committee. She has also created her own consultancy 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 2015 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. In addition to the recurring subjects mentioned above, the main topics discussed during Audit Committee meetings in 2015 were the following:

- Update on changes in scope,
- Information on the risk of "Grexit",
- Analysis of Internal Audit resources and the organisation of Internal Control,
- Review of the procedures and structure in place to support new acquisitions,
- Information on the proposed new ERP for the Group and for BFT.

Pursuant to Article L. 823-16 of the Commercial Code, the Statutory Auditors presented their general work programme as well as the various surveys 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. The Chairman of the Audit Committee reports to the Supervisory Board on the work carried out by the Audit Committee and its findings during the Supervisory Board meetings called to approve the half-year and annual financial statements.

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 methods for corporate officers' remuneration, including findings on the variable remuneration for 2014 and proposals to be issued for the 2015 financial year, and to issue an opinion concerning the amount of attendance fees. Upon its request, external persons who are not members may attend Committee meetings.

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 83%.

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. As of his appointment as a member of the Supervisory Board, the Board decided to allocate to Bernard Hours, for his participation in Supervisory Board meetings, business reviews and various meetings and business travel undertaken in France and internationally on the company's behalf, a gross annual fixed sum of €60,000 in attendance fees, to the exclusion of any other remuneration. The Chairman of the Supervisory Board receives specific remuneration in relation to his duties as Chairman. This remuneration is fixed and was last revised at the Board meeting of 13 May 2015.

Remuneration of members of the Management Board

Members of the Management Board benefit from an employment contract concluded with Somfy SA's subsidiaries.

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

At 31 December 2015, 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 and qualitative criteria. To strengthen solidarity within the Management Board, the bases and criteria for calculating the variable remuneration have been standardised for the three Management Board members. The criteria used for the

quantitative part (referred to as "financial" criteria) are profit growth, measured by the average growth in COR (Current Operating Result) over two years; the growth in 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. The criteria used for the qualitative part (referred to as "non-financial" criteria) concern the quality performance within the company, the monitoring of the Quality Management System (QMS), and the implementation of the Development Master Plan (DMP). These non-financial criteria are weighted by the Remuneration Committee's assessment of the personal and managerial involvement of the Management Board member concerned. For confidentiality reasons, the expected level of achievement of quantitative criteria, as well as the qualitative criteria, which are predetermined by the Supervisory Board, are not publicly disclosed.

Other benefits, approved by the Supervisory Board, that may be granted comprise:

- The potential allocation of stock options or performance-based shares, which are 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 or performance-based share plans were set up;
- A so-called "Article 39" supplementary retirement scheme for senior executives and directors of the Group, set up by CMC SARL. Jean-Philippe Demaël, Chairman of the Management Board, is a potential beneficiary of this pension scheme, which is described in more detail under "Information on appointments held and remuneration received during the financial year" in the Management Board Report to the Combined General Meeting of 24 May 2016;
- The benefit in kind represented by the use of a company car: those concerned are Jean-Philippe Demaël, Jean Guillaume Despature and Pierre Ribeiro;
- The benefit of the incentive bonus, profit sharing and the additional amount paid to the personal payments made to the employee savings plan applicable within CMC SARL and Somfy SAS for holders of employment contracts. Members of the Management Board concerned: Jean-Philippe Demaël, Jean Guillaume Despature and Pierre Ribeiro.

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.

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 attendance in person 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 2015.

INTERNAL CONTROL

INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES IMPLEMENTED BY THE COMPANY

COMPANY OBJECTIVES IN TERMS OF INTERNAL CONTROL PROCEDURES

The internal control function, inspired in practical terms by the AMF framework available at 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 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.

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 Group CFO, a member of the Management Board.

The department is made up of an Internal Audit Officer and the equivalent of 3.5 full time auditors, and carries out audits in all the Group's subsidiaries, based on an annual audit plan.

This plan, prepared together with the Management of Somfy Group, is approved by the Management Board and then validated by the Audit Committee. It 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. Monitoring of the implementation of the recommendations takes place twice a year, as well as during monitoring assignments on the ground. Every year, a report is presented to the Management Board and to the Audit Committee.

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 all 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 complemented 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 PSMP (Products and Solutions Master Plan) which relates to the development of the range of products and solutions,
- 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 framework 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, planned 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, 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 at least one 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) as well as via a primary information provider (www.lesechos-comfi.fr).

The other regulated information referred to in Article 221-1 of the AMF's General Regulations is also available on both these sites. 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 is installed on the Group's main production sites: Cluses, Gray, Zriba, Bologna and Kraków.

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. An IT Systems transformation programme was also initiated in 2015 to support the digital transformation of internal operational practices and in relation to customers.

In this way, two projects are underway, namely the migration to Microsoft's OFFICE 365 collaborative suite including corporate messaging, and the implementation of the Salesforce solution to manage relationships with our customers and consumers. Both these projects will be spread over 2016 and 2017.

Internal control monitoring

An Internal Control animation 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.

Members of Internal Control meet once a month to discuss the latest audit reports issued and other matters, such as closing visits or training programmes to be provided to financial controllers.

The monitoring of the internal control ensuring better knowledge, smooth communication, and regular 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 unit 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 process has also been established for the benefit of the Group Executive Committee 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 centralised 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 actions that are consistent with the company's values;
- Bringing company staff together around 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 is now 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 Cash Management

The Group Treasury Department reports to the Group 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, and providing technical support to subsidiaries' cross-company functions, in connection with the Group's operations. It has a duty to warn the Group 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 Treasurer, to review:

- Deposits,
- Funding,
- The Group's net debt,
- Off-balance sheet banking commitments,
- Foreign exchange positions,
- A macroeconomic review of the market,
- The Group's cash and debt positions (current and forecast),

- Miscellaneous items: ongoing acquisitions, follow-up of late payments, guaranties/securities, Group loans,
- Miscellaneous projects (multi-currency cash pooling),
- The Group's net financial income/(expense) (twice annually).

This Committee comprises the following members:

- The Group CFO,
- The Administrative and Financial Director,
- The Financial Manager of holding companies,
- The Head of Group Consolidation,
- The Group Treasurer,
- Members of the Group Treasury Department.

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, and interest rate, exchange rate and investment 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's actions. 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 2015.

A Group Treasury Charter has been in place since 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 multi-currency cash pooling project was launched in mid-2014. The consultancy firm bfinance supported the Group in this process. Implementation began in 2015 with HSBC for APAC and Middle East hedging, and with BNP Paribas for North America and Europe. The project is scheduled to end in November 2016.

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, Somfy GmbH, Somfy BV, BFT SpA, LianDa, Domis and SOPEM.

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

The entire 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 control 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 2015 relating to internal control and risk management included:

- Finalisation of the 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. To allow optimal appropriation of this document, it has been translated into 14 languages, and an e-learning platform dedicated to ethics has been created, including a theory section and practical cases based on ethical dilemmas. A network of 30 ethics officers has been set up facilitating local relay and discussions in the Business Areas and the Group's different scopes. An Ethics Committee meets at least three times a year to continue to lead the process and handle ethical alerts reported via a dedicated email address, in strict confidentiality. The rollout of this Ethics Charter will be complete at all levels of the company by the end of March 2016;
- The completion by an external consultancy of an analysis of the Group's internal control and risk management system, in order to set out potential improvements to be made, based in particular on best practices identified in comparable companies. The findings of this analysis were presented to the Executive Committee, Management Board and Audit Committee. Action plans will be implemented in 2016 and 2017;
- The introduction of a Group Customer Credit Committee, which meets twice a year for the purpose of monitoring the principle internal risk taking (excess insurance) and the implementation of support and control procedures (customer risk escalation procedure, provision of a Group tool regarding daily fluctuations in trade receivables, etc.).

The Chairman of the Supervisory Board