Chairman's report on internal control and corporate governance

Pursuant to Article L. 225-68 of the Commercial Code, we remind you of Somfy SA's corporate governance principles and inform you of on-going projects relating 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 submitted to the Supervisory Board for its approval on 27 February 2012 and passed on to the Statutory Auditors.

I – Corporate governance

Corporate governance code

Somfy SA now refers to the Middlenext corporate governance code for listed companies issued in December 2009 (the Middlenext Code hereafter), available at: www.code-middlenext.com.

The Supervisory Board meeting of 27 February 2012 decided to adopt the Middlenext Code in preference to 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 the light of its share ownership structure, with family shareholders owning more than 50% of the share capital and voting rights.

This change of governance code will be the subject of a future press release.

The Supervisory Board took note of items set out under the "Guidelines" heading of the Middlenext Code.

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.

1. Composition of the Management Board

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

At 31 December 2011, Paul Georges DESPATURE chaired the Management Board.

Wilfrid LE NAOUR - Chief Executive Officer of Somfy Participations and Jean-Philippe DEMAËL, Chief Executive Officer of Somfy Activities, were members of the Management Board.

2. Composition of the Supervisory Board

The Supervisory Board of Somfy SA is made up of seven members:

Name	Position	Date appointed	Date term expires
Jean-Bernard GUILLEBERT*	Chairman	15 May 2007	2013 General Meeting
Jean DESPATURE	Vice-Chairman	15 May 2007	2013 General Meeting
Victor DESPATURE	Member	15 May 2007	2013 General Meeting
Xavier LEURENT	Member	15 May 2007	2013 General Meeting
Anthony STAHL	Member	15 May 2007	2013 General Meeting
Martine CHARBONNIER*	Member	18 May 2011	2017 General Meeting
Valérie PILCER*	Member	18 May 2011	2017 General Meeting

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

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 is made up of seven members, who, since 18 May 2011, include two women and therefore complies with the 20% minimum female representation that will be in force by the end of the first Ordinary General Meeting to be held in 2014. The Company obviously 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.

Conditions of preparation and organisation of the work of the Supervisory Board

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

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

1. Independence of the members of the Supervisory Board

A group of family shareholders holds the majority stake in Somfy SA.

As provided by the Middlenext framework, the Board has assessed the independence of its members.

Based on the independence criteria suggested by the Middlenext 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:

- has not been an employee and has not held a general management position within 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 Director 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 Martine CHARBONNIER, Valérie PILCER and Jean-Bernard GUILLEBERT qualified as independent members.

Martine CHARBONNIER and Valérie PILCER provide Somfy Group with their experience in the fields of finance and risk monitoring. Jean-Bernard GUILLEBERT continues to provide the Somfy Group with all his experience in the fields of finance, strategy and risk monitoring.

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.

2. Operation of the Supervisory Board

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 six years.

All outgoing Supervisory Board members may be re-appointed.

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 seventy five 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 five times during 2011 and the rate of attendance was 100%.

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. For the approval of the half-year financial statements, only the consolidated financial statements are prepared and submitted within this deadline. The Board then presents its observations on the Report of the Management Board as well as on the financial statements to the General Meeting.

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 may request the Management Board and Management for any information or analysis it deems necessary, or for a presentation on any specific subject.

Pursuant to 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 Board is required in every case where a commitment does not meet these conditions.

The rules of operation of the Board are specified in the Board's internal regulations, which are available on the Company's website and will soon be updated following the change of Corporate Governance Code to which the Company refers.

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

In this respect, internal regulations specify that in a situation in which 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 should:
- inform the Board of this conflict of interest as soon as he/she is aware of it;
- draw any conclusion in relation to exercising his/her term of office.

Depending on the case, he/she therefore should:
- 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 to suspect that they 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:
- adoption of a Code of Ethics;
- adoption of Audit Committee Internal Regulations;
- revision of Supervisory Board Internal Regulations;
- annual update on the assessment of the Board's work;
- appointment of Martine CHARBONNIER and Valérie PILCER as members of the Audit Committee.

For Somfy Activities:
- budget and key development areas;
- quarterly highlights by brand and operation;
- update on risk mapping, including a detailed presentation of three risk factors;
- presentation of achievements following the acquisition of a majority shareholding in Dooya (China);
- follow-up on the disposal of Spirel and presentation of planned disposals;
- presentation of the "Let's 2015" strategy and corporate project.

For Somfy Participations:
- quarterly highlights by shareholding;
- disposal of shares held in the capital of agta record AG and securities held in the capital of Société Financière de Performance (Babeau Seguin);
- acquisition of a minority shareholding in Pellenc;
- presentation of LBO technics and a benchmark for private equity players;
- presentation of the strategy.

3. 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 chairmanship of the Committee, the competence of its members and definitions of their independence, the evaluation and reporting on the work undertaken, as well as the recommendations relating to the execution of its legal responsibilities, have been observed.

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

In 2011, 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. Three major risks were also selected for a detailed presentation of action plans to the members of the Supervisory Board by the persons in charge of operations for the processes concerned.

The Audit Committee currently comprises four members: Jean-Bernard GUILLEBERT who chairs the Committee, Victor DESPATURE, Martine CHARBONNIER and Valérie PILCER. Jean-Bernard GUILLEBERT, Martine CHARBONNIER and Valérie PILCER are independent in accordance with the above-mentioned criteria.

Jean-Bernard GUILLEBERT has the necessary financial and accounting expertise due to his academic education (HEC) and his professional career, during which, specifically, he served as Investment Banker and Head of Capital Markets for a major international bank.

Victor DESPATURE also has accounting expertise, having practised as a Chartered Accountant and an auditor from 1983 to 2004. 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 has been a member of the Remuneration Committee since 2002. He has also been managing a medium-sized company in the aeronautic sub-contracting sector since 2002.

Martine CHARBONNIER is a graduate of ESCAE Dijon and SFAF. She started her career with the FIDAL practice and then worked for 25 years with SBF-Bourse de Paris, which subsequently became Nyse Euronext, her last position being Executive Vice President in charge of "European listing". Her expertise extends to the financial field, with experience in stock markets and in-depth knowledge of listed companies.

Valérie PILCER, a graduate of the Paris Ecole des Mines, was entrusted with various operational management duties by Société Générale, in both the international financial market division and in the Group Risk Management department. She then joined the Oddo Group as Chief Risk Officer and is currently Chief Executive Officer of independent consulting company PILCER & Associés. Her expertise also extends to the financial field, with substantial experience in risk management.

The Committee's mission is to monitor the preparation of the consolidated and parent company accounts, and the efficiency of internal 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 2011 financial year, the Audit Committee met on five occasions, and the rate of attendance was 100%.

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 and the audit plan and the procedures to update the risk mapping.

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, while making all relevant observations on the valuation methods used in their preparation; possible irregularities and errors discovered and the conclusions leading to the observations and corrections above to the results of the period compared to those of the previous period.

In addition, the Statutory Auditors communicate every year 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 use the possibility of calling on 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 2 members: Victor DESPATURE and Jean-Bernard GUILLEBERT (independent member). Its mission is to submit proposals to the Supervisory Board, in particular in respect of the amount and calculation of Director and senior management remuneration and to provide advice on 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 four times. The rate of attendance by the members was 87.5%.

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

Remuneration and benefits of senior executives

1. Principles and rules drawn up by the Supervisory Board to determine the remuneration and all benefits granted to senior executives

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.

A. 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 pro rata to their attendance at meetings of the Board and Audit and Remuneration Committees.

The Chairman of the Supervisory Board received a specific fixed remuneration that was set and revised by the Board meeting of 24 February 2011.

B. Remuneration of senior executives

At 31 December 2011, 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 between the sales growth of a range of reference points comprised of nine companies considered 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 level of achievement of quantitative criteria, as well as the qualitative criteria, which are predetermined, are not publicly disclosed.

The variable remuneration based upon quantitative criteria may not exceed 120% of the fixed remuneration.

Other benefits, approved by the Supervisory Board, 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 introduced in May 2011 for the benefit of certain Group executives. The Directors are not beneficiaries of this plan;
- a so-called "Article 39" supplementary retirement scheme for members of the Management Board, senior managers and senior executives of the Group. This scheme was set up by CMC SARL.
  By virtue of their employment contract with this company prior to their appointment to the Management Board, Jean-Philippe DEMAËL and Wilfrid LE NAOUR, members of the Management Board, are potential beneficiaries of this retirement scheme;
- 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. It is also by virtue of their employment contracts with this company that Jean-Philippe DEMAËL and Wilfrid LE NAOUR, members of the Management Board, are beneficiaries of these benefits. 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 situation of the Chairman of the Management Board is different as he does not benefit from either stock options or performance-based shares. He is only remunerated in his capacity as Board member, without any other particular benefits.

2. Condition of shareholders' participation in General Meetings

The bylaws allow 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 provide for this at the time of the notice of the meeting, all shareholders may 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 be, in this case, deemed to be present for calculation of quorum and majority;
- the right to participate in Meetings is subject to the proof by shareholders of their identity and the registration of the securities in their names (or the name of the intermediary recorded on their behalf if they reside abroad) at midnight Paris time on the third 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. As for bearer shares, the authorised intermediary must provide a certificate of shareholding;
- the attendance of the shareholder cancels all proxy or remote voting.

3. 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 2011.

II – Internal control

Internal control and risk management procedures implemented by the Company

1. Company's objectives in respect of internal control

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 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 any 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 Cotherm Participations SA, NMP SAS (Zurflüh-Feller) and Financière Nouveau Monde SA (Sirem).

As concerns 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.

2. 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 two 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 covered by the audit. The assignments included in the audit plan provide an independent appreciation 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 each 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 on 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.

3. Key elements of the internal control process

The processes and organisation described hereafter were implemented by the Management Board, as internal control is 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 essential objectives, in line with the strategic guidelines set by General Management.

The overall budget is prepared as part of a repetitive 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 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 a number of bases (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. This is:

- a product master plan that relates to the development of the product offering;
- 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 results in the definition and application to all subsidiaries of a Group chart of accounts, as well as the definition and application 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 pursues 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 at least annual visits to subsidiaries, 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 over financial statements comprises the Group Financial Department and Accounting, Controlling and Tax Department, represented by their managers and comprising:

- the consolidation team;
- the central financial control team.

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

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

The Group endeavours to lead this network via international meetings and on-going training of the accountants and management 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 stock-taking procedure.

Trade receivables are the subject of credit risk analyses with respect to the measurement of provisions. In addition, the Company hedges this 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 has the purpose of identifying 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 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 on a regulatory business publishing network (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 now installed at most distribution subsidiaries, excluding Asia, where ERP Accpac has been rolled out in all subsidiaries.

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 the uniformity and facilitates the analysis of information.

In 2011, the migration from the GPAO Tolas tool to the BaaN Manufacturing module was completed with the implementation of BaaN on the WAY site in Italy. All of the Somfy Group's main production sites (Cluses, Gray, Zriba, Way) will now function with the same information system integrated with logistics and finance.

Furthermore, the CrossRoads system, aiming at setting up a unique data management system for the development of products throughout their life cycle was rolled out in 2011 at the Group's various development centres. It will contribute to the efficiency of the development processes and to the improvement of product quality.

The 2010 implementation of a unique Identity and Access Rights Management tool further improved the already strong level of control of IT security.

Lastly, a major investment was made in 2011 to support our online strategy with the change and improvement of the technical platform hosting our websites, in order to guarantee a better service level and to accommodate a substantial increase in visitors.

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, at the same time as 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;
- the organisation of a plan to make half-year closings more secure: including a subsidiary visits schedule, identification of matters requiring attention, review of visit reports and action plan follow-up.

The monitoring of the internal control ensuring a 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 monitoring programmes are carried out on an annual or biennial basis;
- a dedicated software tool dedicated to the follow-up of the recommendations, which more specifically allows Internal Audit to centralise the recommendations resulting from their audits, the entities audited to take hold of 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.

In 2011, biannual reporting was 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 identified.

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

The Internal Control Department also contributes to various projects, such as for instance the implementation of a system devoted to managing and monitoring the order commitments of Somfy SAS in 2011.

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

Other corporate functions are also involved, depending on the scope of the risks in question (crisis management, fire risk, treasury, hygiene and safety plans, etc.).

Mapping of risks

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

- creating and preserving the value, assets and reputation of the Company;
- ensuring the Company's decision-making and processes to facilitate the achievement of targets;
- encouraging consistency of actions with the Company's values;
- motivating Company staff by offering a common approach to major risks.

An initial mapping of Group risks was conducted in 2005 and is regularly updated. A link exists between the risks included in this analysis and the Internal Audit plan, where relevant.

Strategic risks are included in the bi-annual process of the Group's strategic review, and operational risks are followed up by Group executives to ensure the existence of action plans. An officer has been appointed for each of these operational risks.

The results of risk mapping carried out in 2010 were updated at the end of 2011, in particular through interviews conducted with the majority of Group executives. The action plans implemented or in progress enabled a reassessment of the positioning of part of these risks. A final presentation was submitted to the Executive Committee, as well as to the Management Board and the Audit Committee.

Treasury Committee / Group Cash Management

The Treasury Committee comprises:

- the Chief Financial Officer of Somfy Group;
- the Administrative and Financial Manager of Somfy Activities;
- the Head of Financing and Cash Management Transactions;
- the Financial Manager of holding companies;
- the Group Treasurer.

Amongst these members are the Chairman of the Management Board and the two Chief Executive Officers.

This Committee meets once a month to fulfil its role of observation, decision and implementation of the cash management policy.

Its two main objectives are:

- strategic: to define the overall policy in terms of Group Cash Management, financing, interest and exchange rate and deposit rate 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.

Since 1 June 2010, 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 September 2011. The findings were favourable.

In addition, since 1 January 2011, hedge accounting applies to foreign exchange transactions.

Lastly, as part of the final termination of the bank communication protocols ETEBAC 3 and 5, a new Cash Management tool was set up in the 3rd quarter of 2011. The bank communication protocols EBICS-T and EBICS-TS were selected.

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 and BFT Spa Schio.

These companies represent the vast majority of the operations directly managed by the Group.

All personnel of these companies are thus involved in this process, including the R&D service, as well as the purchasing, manufacturing, production, selling and logistics departments.

Internal quality audits are implemented following an annual quality audit plan, defined according to the Company's strategic direction 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 provisions specified in the various items 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 partnership with its brokers and insurers. The vast majority of facilities is insured by Group policies with the objective of guaranteeing adequate coverage of risks at the best market conditions. These risks specifically include direct risks (fire, theft, etc.), loss of profit, general civil liability (including Directors' civil liability) and transported goods. Other facilities are covered by local insurance policies.

Projets completed and in progress

Supported by the Audit Committee and the Group's financial Department, in 2011 Internal Audit launched a project aimed at making this department work more professionally and made up of the following three mainstays:

- the use of a tool dedicated to monitoring recommendations and action plans (Enablon), which will in particular allow for the centralisation of audit assignments and all recommendations issued, ensure the direct involvement of individuals audited and the preparation of reports for Management;
- the use of the data analysis software ACL (comprehensive data analysis, large volumes, sampling techniques, statistics, detection of gaps, search for duplicates, specific analyses to detect fraud, etc.) in order to improve the productivity of Internal Audit (saving time on zero-added value tasks that can be automated, identification of matters/areas that need to be looked into further and complete focus of these, more comprehensive audit coverage);
- the implementation of an Internal Audit Department self-assessment, to standardise audit practices and reports, identify areas of improvement and to ensure compliance with professional standards (standard 1300 specifically).

All these steps will contribute to further increasing the added value of Internal Audit to the organisation and will be completed in 2012 by the addition of further elements (such as the detailed review and assessment of the internal control and risk management process), as part of a continuous improvement approach.

The Chairman of the Supervisory Board