

## 7.4.2 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The purpose of this report is to provide the information required under article L. 226-10-1 of the French Commercial Code (*Code de commerce*) concerning the membership of the Supervisory Board, the application of the principle of balanced representation of women and men on the Board, the conditions under which the Board's work is prepared and organised and the internal control and risk management procedures applied by the Company.

This report was prepared under the responsibility of the Chairman of the Supervisory Board and with the assistance of the Board Secretary. It was reviewed by the Appointments and Remuneration Committee at its meeting of 27 February 2015 and by the Audit Committee at its meeting of 5 March 2015 for matters within their remit.

All preparatory work for this report (including interviews with Management) was presented to the Supervisory Board which approved the terms of the report at its meeting of 11 March 2015.

### 1. MEMBERSHIP OF THE SUPERVISORY BOARD

In accordance with the Company's Articles of Association, the Supervisory Board is composed of a maximum of 15 members.

The following diagram illustrates these objectives:

Around one-half of the Board members were replaced every two years. In 2014, this rate was increased and it was decided that one-third of the Board would be replaced each year with effect from 2016. Members are appointed for a maximum term of four years.

At 31 December 2014, the Board was composed of 15 members: Xavier de Sarrau (Chairman), Nathalie Andrieux, Martine Chêne, Georges Chodron de Courcel, François David, Yves Guillemot, Pierre Lescure, Jean-Claude Magendie, Soumia Malinbaum, Hélène Molinari, Javier Monzón, François Roussely, Aline Sylla Walbaum, Susan M. Tolson and Patrick Valroff.

These members (listed in section 7.2.3 of the Reference Document) form a competent, independent and attentive Supervisory Board, fully able to represent shareholders' interests.

Further to the recommendation of the Appointments and Remuneration Committee, the Board defined a set of criteria for the selection of members. Members are therefore chosen first and foremost based on their expertise and experience (managerial, financial, strategic and/or legal) as well as their knowledge of the Group's businesses so that it can exercise its supervisory duties in full. Moreover, the Board complied with the provisions of the Copé Zimmerman law concerning gender parity in advance as the 40% quota was met at the 2013 Annual General Meeting.

In view of its supervisory duties, the Board must have a majority of independent members.



(1) Media/Distribution/Innovation/New technology.

(2) Legal/Governance/Social relations/Diversity.

A review of each member of the Supervisory Board's position by the Appointments and Remuneration Committee has concluded that all Supervisory Board members qualify as "independent" members in the light of the "criteria" for independence, applied by the Supervisory Board and contained in the AFEP-MEDEF code of corporate governance for listed companies, which it has taken as a benchmark framework for analysis.

The Board ruled that François Roussely could qualify as an independent member despite his role as Deputy Chairman of Crédit Suisse Europe, as the business dealings between this bank and the Group are negligible.

## 2. BOARD'S INTERNAL RULES AND OPERATION (PREPARATION AND ORGANISATION OF THE SUPERVISORY BOARD'S WORK)

The terms and conditions of the Supervisory Board's organisation and operations are set forth in a set of internal rules (updated on 11 March 2015) which also define the duties incumbent on each member, and the code of professional ethics each individual member is bound to respect.

These rules concern the following:

- 1. The independence of Board members:** the minimum quota for independent members is fixed at half of the total serving members. Independent members must have no direct or indirect relations of any kind with the Company, Group or Management that could compromise their freedom of judgement or participation in the work of the Board. It lists a certain number of criteria, which form a framework for determining whether or not a member may be considered independent.
- 2. The annual number of meetings:** a schedule for the coming year is fixed annually, based on a proposal by the Chairman;
- 3. The duties of each member:** apart from the fundamental duties of loyalty, confidentiality and diligence, members' obligations also concern knowledge of the law, regulations and Articles of Association, ownership of a significant number of shares, declaration to the Board of any conflict of interest and regular attendance at meetings.
- 4. Trading in shares of the Company and its subsidiaries:** as Board members have access to inside information and in-depth knowledge on certain aspects of the life of the Company and Group, they are expected to refrain from trading in Company shares, except within the following constraints contained in the Board's internal rules:
  - no trading in shares may take place during certain defined periods;
  - it is recommended that acquisitions should take place once a year, at the end of the Annual General Meeting, in the form of a block purchase carried out through the Company by each Board member;
  - the Chairman, Managing Partners and the French financial markets authority (*Autorité des marchés financiers* – AMF) must be informed of any transactions in shares within five days of their completion.
- 5. The existence of an Audit Committee:** in addition to the tasks described below, this Committee is also responsible for preparing the Board meetings for subjects within its remit.
- 6. The existence of an Appointments and Remuneration Committee:** in addition to the tasks described below, this Committee is also responsible for preparing the Board meetings for subjects within its remit.

\*\*\*

The Supervisory Board meets regularly to review the financial situation and operations of the Company and its subsidiaries, the annual and interim financial statements, the outlook for each of the business activities and the Group's strategy. It also defines an annual schedule for its meetings: four meetings are planned for 2015. During 2014, the Supervisory Board met five times with an average attendance rate of 93% (see the attendance table below):

- ▶ on 12 March, with an attendance rate of 93%, mainly to examine the parent company and consolidated financial statements and the general business position and outlook, undertake preparatory work for the Annual General Meeting, approve the report of the Chairman of the Supervisory Board and finalise his report to the shareholders – during this meeting, the internal rules of the Supervisory Board were amended to adapt, as necessary, the operations and organisation of the Board to the new provisions of the AFEP-MEDEF code of corporate governance;
- ▶ on 6 May, following the Annual General Meeting and with an attendance rate of 80%, to re-elect the Chairman of the Board and appoint members to the Audit Committee and the Appointments and Remuneration Committee;
- ▶ on 4 June, with an attendance rate of 93%, mainly to examine recent developments within the Group and the Investor Day which took place on 28 May 2014. Presentations were also given on the Group's financial communication and the study carried out by Board members on the succession plans in place within the Group;
- ▶ on 3 September, with an attendance rate of 100%, mainly to examine the interim parent company and consolidated financial statements and the business position and outlook, examine Lagardère Publishing's strategic view (presentation given by Arnaud Nourry and his team);
- ▶ on 3 December, with an attendance rate of 100%, mainly to examine the Group's general situation and strategy and the reorganisation of Lagardère Active's Press business (presentation given by Dennis Olivennes). Presentations were also given on corporate social responsibility, the Legal Department and the Group Compliance Department.

Following this Supervisory Board meeting, the members met without the Managing Partners in attendance.

## Members' attendance at Supervisory Board and Committee meetings in 2014

Members of the Board	Attendance rate at Supervisory Board meetings	Attendance rate at Audit Committee meetings	Attendance rate at Appointments and Remuneration Committee meetings
Nathalie Andrieux	100%	83%	
Martine Chêne	100%		
Georges Chodron de Courcel	80%		100%
François David	80%	66%	100%
Yves Guillemot	75%		
Pierre Lescure	100%		100%
Jean-Claude Magendie	100%		
Soumia Malinbaum	100%		
Hélène Molinari	100%		
Javier Monzón	60%		
François Roussely	100%		
Xavier de Sarrau	100%	100%	
Aline Sylla-Walbaum	100%	66%	
Susan M. Tolson	100%		
Patrick Valroff	100%	100%	

### 3. SUPERVISORY BOARD COMMITTEES

#### 3.1 AUDIT COMMITTEE

In application of its internal rules, the Audit Committee meets at least four times a year, mainly to:

- ▶ review the accounts and the consistency of the accounting methods used for the Lagardère SCA parent company and consolidated financial statements, and monitor the process for preparing financial information;
- ▶ monitor the audit of the parent company and consolidated financial statements by the Statutory Auditors;
- ▶ monitor the Statutory Auditors' independence;
- ▶ issue a recommendation on the Statutory Auditors nominated for appointment at the General Meeting;
- ▶ ensure that the Company has internal control and risk management procedures, particularly procedures for (i) preparation and processing of accounting and financial information used to prepare the accounts, (ii) risk assessment and management, (iii) compliance by Lagardère SCA and its subsidiaries with the main regulations applicable to them; the Audit Committee is informed of any observations and/or suggestions from the Statutory Auditors regarding these internal control procedures and examines the report of the Chairman of the Supervisory Board on internal control and risk management procedures;
- ▶ monitor the efficiency of internal control and risk management systems;
- ▶ more specifically, examine all matters pertaining to internal auditing of the Company and its activities, audit programme, organisation, operation and implementation;
- ▶ review the agreements directly or indirectly binding the Group and the senior managers of Lagardère SCA: the Managing Partners' salaries are paid by Lagardère Capital & Management, which is bound to the Group by a service agreement. Application of this agreement, which has been approved by the Board and the shareholders as a related-party agreement, is monitored regularly. The Board has delegated the Audit Committee for

this task, which among other points concerns the amount of expenses invoiced under the contract, essentially comprising the Company's executive corporate officers' remuneration;

- ▶ prepare an annual summary of business over the past year for release to the shareholders (through the report of the Supervisory Board and the report of the Chairman of the Supervisory Board).

Audit Committee members are appointed for their financial and/or accounting skills, assessed with particular regard to their past career (positions held in general or financial management or in an audit firm), academic background or specific knowledge of the Company's business. The expert knowledge of the members of the Audit Committee is described in section 7.2.3 of the Reference Document.

At 31 December 2014, the Audit Committee comprised Xavier de Sarrau (Chairman), Nathalie Andrieux, François David, Aline Sylla-Walbaum and Patrick Valroff, all of whom are independent members (see section 1 of this report).

The members of the Audit Committee interview the Group's main senior managers when necessary, and the Statutory Auditors also present a report on their work.

In addition, Audit Committee members reserve the right to interview the Statutory Auditors without Management in attendance and to consult external experts.

The Chairman of the Audit Committee reports to the members of the Board on the work conducted by the Audit Committee.

With an average attendance rate of 83%, the Audit Committee met six times in 2014, including two meetings to examine the annual and interim financial statements more than five days before the Supervisory Board's meetings. The attendance rate was 100% for the 6 March and October meetings, 80% for the 4 March, May and November meetings and 60% for the meeting in July.

The meeting of 4 March involved a review of the impairment tests on intangible assets for the purposes of the financial statements for the year ended 31 December 2013 as well as a presentation of the Group's financial communication policy.

The meeting of 6 March was held to examine the consolidated financial statements for 2013, and for the presentation and examination of the Chairman's draft report on internal control and risk management.

In May, the Committee focused on the internal audit activity during the first half of 2014 and reviewed the remuneration of the Statutory Auditors. In addition, the Chief Human Relations, Communications and Sustainable Development Officer presented Human capital risk monitoring – the succession plan to the Committee excluding members of Lagardère Media's Operating Committee. Lastly, the Committee reviewed the state of relations with Lagardère Capital & Management.

In July, it reviewed the Group's consolidated financial statements for the first half of 2014.

In October, a review of the self-assessment of Internal Control, monitoring of recommendations on IT surveys, as well as a report on the Group's financing policy were presented by the Treasury and Financing Department to the Committee.

At the meeting in November, the Committee reviewed internal audit activities during the second half of 2014 and the audit plan for 2015. It was also given a report on legal disputes by the Legal Department.

When the Audit Committee reviewed the financial statements, the Chief Financial Officer gave a presentation of the Group's risk exposure and significant off-balance sheet commitments.

These meetings took place in the presence of the Chief Financial Officer, Deputy Chief Financial Officer, the Internal Audit Director and the Statutory Auditors. Depending on the issues discussed, other executives and, in particular, the Group Secretary General, Chief Human Relations, Communications and Sustainable Development Officer, Central Accountancy Director, Director of Risk and Internal Control, Group Director Treasury and Finance, the Group's IT Department Director and Legal Department Director, as well as certain members of their teams were asked to give their input on an as-needed basis.

### 3.2 APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee was created on 27 April 2010 by the Supervisory Board which decided on 11 March 2015 to extend its scope of duties to governance and sustainable development issues and as a result to change its name to the Appointments, Remuneration and Governance Committee as well as its internal rules. The Appointments, Remuneration and Governance Committee's main tasks now include the following:

- ▶ *Regarding Board and Committee membership:*
  - defining the selection criteria of future members;
  - selecting and nominating Supervisory Board and Committee members for proposal to the Supervisory Board.
- ▶ *Regarding remuneration:*
  - monitoring, where relevant, any components of remuneration that are not paid under the agreement with Lagardère Capital & Management (which, being a related-party agreement is monitored by the Audit Committee – see above) and may be allocated to Lagardère SCA's executive corporate officers from Group companies. Under current laws, this concerns share options and performance shares and the proportion they represent of the executive corporate officers' total remuneration;
  - proposing the overall amount of attendance fees to be paid to members of the Supervisory Board and Committees as submitted to the Annual General Meeting, and the rules for determining and distributing the amount of attendance fees, in particular based on members' attendance at meetings.

- ▶ *Regarding governance:*

- regularly reviewing the independence of Supervisory Board members in the light of independence criteria defined by the Supervisory Board;
- managing the annual assessment of the operations of the Board and its Committees;
- carrying out advance assessments of potential risks of conflicts of interest between Supervisory Board members and the Lagardère group.

- ▶ *Regarding sustainable development (CSR):*

- examining the main labour, social and environmental risks and opportunities for the Group and the CSR policy in place;
- reviewing the reporting, assessment and monitoring systems allowing the Group to prepare reliable non-financial information;
- examining the Group's main lines of communication to shareholders and other stakeholders regarding CSR issues;
- examining and monitoring the Group's rankings attributed by non-financial rating agencies.

The members of the Committee interview the Chairman of the Supervisory Board, the Managing Partners or any other person they may choose when necessary.

The Chairman of the Committee reports to the members of the Board on the work conducted by the Committee.

At 31 December 2014, the Appointments and Remuneration Committee comprised François David (Chairman), Georges Chodron de Courcel and Pierre Lescure, who are all independent members (see section 1 of this report).

In 2014, the Committee met twice in January and March and all members were present at both meetings.

During its meeting in January, the Committee analysed the composition of the Board and its Committees, and the independence of its members and prepared the re-appointment and replacement of members whose terms of office were expiring. The Committee reviewed the background of a preliminary selection of candidates proposed by an independent recruitment agency entrusted with the task of assisting and advising it in this respect.

The Committee also reviewed the report of the Chairman relating to membership of the Supervisory Board, the application of the principle of balanced representation of women and men on the Board and the conditions under which the Board's work is prepared and organised.

In addition, following the amendments to the AFEP-MEDEF code of corporate governance in June 2013, the Committee decided on two changes to be made to the Board's method of operation and the internal rules: (i) an increase in the variable portion of attendance fees in order to make them more significant and (ii) an increase in the number of shares that the members of the Supervisory Board must hold.

The Committee conducted the annual review of executives' eligibility to free shares and decided to propose to the Board stricter performance conditions that would be assessed over a three-year period.

During its March meeting, following a pre-selection of the candidates proposed by the independent recruitment agency which took into account the personal qualities of the potential candidates as well as age, risks of a conflict of interest and number of offices held, the Committee decided to propose to the Supervisory Board to appoint Yves Guillemot, co-founder and Chief Executive Officer of the listed company Ubisoft, to replace Antoine Arnault and the re-appointment of all the members whose terms of office were due to expire. The Committee also proposed to the Board different terms of office for the appointed and reappointed members based on the seniority of each member which would allow one-third of the Board members to be renewed every year.

The self-assessment survey was submitted to the members of the Committee for review.

These meetings took place in the presence of the Group's Secretary General, with the Chairman of the Supervisory Board present at the second meeting.

#### 4. EVALUATION OF THE MEMBERSHIP AND OPERATION OF THE SUPERVISORY BOARD

As recent regulations have significantly increased the workload for both the Board and its Audit Committee, leading to a progressive rise in the number of meetings, and in accordance with the recommendations of the AFEP-MEDEF code of corporate governance, since 2009 the Supervisory Board has assessed the membership, organisation and operation of the Board and its Committees every year in order to give an assessment of the preparation and quality of their work.

In 2014, the Supervisory Board carried out a self-assessment and presented the findings at a Board meeting.

The members were mostly satisfied with the membership, organisation and operation of the Board and its Committees. The areas of improvement included the continued internationalisation of the Board, strengthening the Appointments and Remuneration Committee and circulating more documents before meetings.

In 2015, the Board will conduct an external assessment.

#### 5. COMPLIANCE WITH FRENCH CORPORATE GOVERNANCE REGULATIONS – AFEP MEDEF

The Company has applied the corporate governance principles brought together in the AFEP-MEDEF code of corporate

governance for Listed Companies (*Code de gouvernement d'entreprise des sociétés cotées*) revised in June 2013. This code is available in the Corporate Governance section of Lagardère's website.

As stated in the introduction to the code, most of the recommendations it contains have been established with reference to companies with a board of directors. Companies with an executive board and supervisory board, and partnerships limited by shares, must make the necessary adjustments. By its very principle, a partnership limited by shares has a strict separation of powers between the Managing Partners who run the company (and thereby the General Partners who have unlimited liability), and the supervisory board, which only reviews management actions after completion and does not participate in management.

Given Lagardère SCA's specificities in terms of French law and its own Articles of Association as a partnership limited by shares, the Board has adopted an organisation structure appropriate to the nature of its work under the law and the recommendations of the AFEP-MEDEF code of corporate governance.

N.B.: Further to the recommendation of the Appointments and Remuneration Committee, at its meeting of 12 March 2014, the Supervisory Board decided to change the way in which attendance fees are allocated. As a result, the variable portion of these fees, which is determined based on attendance, now represents the majority of these fees.

The decision was also taken to increase the number of shares that must be held by Supervisory Board members to 600 (versus 150 shares previously), which represents around 90% of the gross basic share of attendance fees. Accordingly, Board members will be required to invest any attendance fees received in shares until the 600 share quota has been reached.

Provision of the AFEP-MEDEF code of corporate governance set aside or partially applied	Explanation
Independence criteria	
"Not to have been a director of the corporation for more than twelve years"	It is deemed that the fact of having been a Board member for more than twelve years does not disqualify such member as an independent member; on the contrary, it is considered an asset in a control role. However, an individual assessment of the situation of each member is conducted annually by the Supervisory Board which considered that the independence of Georges Chodron de Courcel and Pierre Lescure should not be contested, despite their seniority on the Board.

## 6. SPECIFIC RULES FOR ATTENDANCE AT GENERAL MEETINGS BY SHAREHOLDERS

These rules are set out in the Articles of Association (articles 19 to 22), and included for the most part in Chapter 8, section 8.2.6 – General Meetings, of the Reference Document. The Company's Articles of Association can be consulted on its website (Investor relations – Corporate governance – Articles of Association).

## 7. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

Information on the internal control and risk management procedures used at Lagardère SCA is presented in the Reference Document.

The Group's Risk and Internal Control Department, supported by the Audit and Legal Departments, has been given responsibility for defining a method for presenting internal control and risk management procedures in the Reference Document and monitoring their application.

This includes asking the head of each division of the Lagardère group to draw up a brief report on internal control and risk management procedures existing in the division, based on supporting documents and predefined specifications. I have examined the corresponding reports.

The analysis by the Risk and Internal Control Department, based on these reports, leads to the conclusion that the internal control and risk management procedures in existence in the Group correspond to the description provided in section 7.4.1 of the 2014 Reference Document.

**The Chairman of the Supervisory Board**

1

2

3

4

5

6

7

8

9

10

11

### 7.4.3 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF LAGARDÈRE SCA

To the Partners,

In our capacity as statutory auditors of Lagardère S.C.A. and in accordance with article L. 226-10-1 of the French Commercial Code (code de commerce), we hereby report on the report prepared by the Chairman of the Supervisory Board of your company pursuant to this article for the year ended 31 December 2014.

It is the Chairman's responsibility to prepare and submit for the Supervisory Board's approval a report on internal control and risk management procedures implemented by the company and to provide the other information required by article L. 226-10-1 of the French Commercial Code (code de commerce) relating to matters such as corporate governance.

Our role is to:

- ▶ report on any matters as to the information contained in the Chairman of the Supervisory Board 's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information,
- ▶ confirm that the report also includes the other information required by article L. 226-10-1 of the French Commercial Code (code de commerce). It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

#### **Information on internal control and risk management procedures relating to the preparation and processing of accounting and financial information**

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman of the Supervisory Board 's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- ▶ obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman of the Supervisory Board 's report is based and of the existing documentation;
- ▶ obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- ▶ determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the Chairman of the Supervisory Board 's report.

On the basis of our work, we have no matters to report on the information relating to the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with article L.226-10-1 of the French Commercial Code (code de commerce).

#### **Other information**

We confirm that the report prepared by the Chairman of the Supervisory Board also contains the other information required by article L. 226-10-1 of the French Commercial Code (code de commerce).

French language original signed at  
Courbevoie and Paris-La Défense, on 30 March 2015

#### **The Statutory Auditors**

##### **Mazars**

Thierry Blanchetier

##### **Ernst & Young et Autres**

Jeanne Boillet