

***IGE+XAO***

*Société Anonyme with a capital of 5,497,030 euros  
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**REPORT FROM THE CHAIRMAN OF THE BOARD OF  
DIRECTORS ON THE PREPARATION AND  
ORGANIZATION OF THE WORK OF THE BOARD OF  
DIRECTORS**

In this report, the Chairman of the Board provides you with a full account of the conditions related to the preparation and organization of the work of the Board and of the internal control and risk procedures managed by IGE+XAO and its subsidiaries during fiscal year 2014/2015. This document is presented to you in addition to the management report contained in the Annual Financial Report.

This report is issued in accordance with article LM. 225-37 subparagraph 6 of the French Commercial Code and with the recommendations of the ‘Autorité des Marchés Financiers’ contained in particular in its report on corporate governance and internal control dated 8 December 2009.

The Chairman of the Board has put the Financial Manager in charge of the preparatory work for this report. This report was then approved by the Board of Directors during its meeting on 21 October 2015.

## **A. General information regarding the meetings of the Board of Directors**

The Board of Directors is a collegial body which collectively represents all the shareholders and which must always act in the Company’s best interests. It relies on a mode of operation that ensures good corporate governance while complying with legal requirements.

Note 1. — Background

### **Company and Board of Directors’ organization**

IGE+XAO is a limited company managed by a Board of Directors. IGE+XAO’s shares have been listed on Euronext Paris (Compartment C) since 1997.

The Company executive function is performed by the Chairman of the Board who is also Managing Director.

Due to its size, the Company has been referring to the MiddleNext Code since December 2010.

### **Composition of the Board of Directors**

The Company’s Board of Directors is composed of the 5 following members appointed by the General Meeting for 6 years:

✓	Mr. Alain Di Crescenzo	Chairman and Chief Executive Officer
✓	Mr. Charles Baudron	Director
✓	Mr. Jean Baudron	Director
✓	Mr. Pierre Revel-Mouroz	Independent Director
✓	Mrs. Anne Varon	Independent Director

Regarding the notion of Independent Director, the Company retained the independence criteria indicated by the AFEP-MEDEF.

The summary table on the appointments and a more detailed presentation of the corporate officers and managers are reported in the management report.

The list of the functions performed by the members of the Board of Directors is reported in the management report.

## **Applicable rules and Board of Directors**

In 2014/2015, the Board of Directors noted the consolidation efforts of the project related to corporate social responsibility – sustainable development.

In parallel, it was decided to extend the updates of the Rules of Procedure and the process regarding the market ethics that could not have been dealt with during the last fiscal year.

## **Evolution of the Board of Directors**

### Consolidated turnover

The consolidated turnover is presented at the Audit Committee, submitted to the Board of Directors and approved by its members every quarter and before disclosure to the Market.

This meeting is generally preceded by conference calls between the Company executive and the subsidiary management in order to validate the achievements in terms of turnover compared to the objectives and forecasts.

### Closing of accounts

After review by the Audit Committee, the Board of Directors approves IGE+XAO's social accounts and IGE+XAO Group's consolidated accounts twice a year on 31 January and on 31 July of each year. Its members can hear the Auditors. They also examine the risks linked to the Company activities, its balance sheet commitments and other financial information the Board of Directors then submits to the Shareholders' General Meeting.

### Press releases and other communication supports

Draft press releases or drafts of any other financial communication support are generally subject to prior review from the Members of the Audit Committee and the Board of Directors. These members can make remarks on both form and substance. These remarks may be then added in the definitive version.

In 2014/2015 the Board of Directors continued its analysis of the strategy and the activity monitoring, in the presence of its managers.

## **Dedicated Directors**

In 2014/2015, the Board of Directors met 10 times, with an average attendance rate of 92%.

The distribution of attendance fees, which is partly made according to attendance at Board of Directors' meetings, is detailed in the management report.

In 2014/2015, an amount of 6,000 euros was allocated to the Company's three non-remunerated Directors.

## **Motivated Board Committees**

The Board of Directors finalized the set up of an Audit Committee and sought the help of the Remuneration Committee in particular for the analysis of the Executive officer's remuneration.

The missions and the mode of operation of the Committees are presented in the Rules of Procedure. The Remuneration Committee and the Audit Committee have been operational respectively since 2004 and 2011.

### Note 2. — Evaluation of the Board of Directors

The Board considers possible improvements and takes ameliorative measures it finds helpful. This evaluation takes place within the framework of the MiddleNext Code which the Board refers to.

The Board considers that the meeting quality is still improving. It steadily measures the Group's different strategic stakes and makes the relevant decisions.

At the beginning of each fiscal year, the Board provides its members with a schedule of the meetings and the corresponding draft agenda it has established for the following 12 months.

#### Note 3. — Board of Directors' Rules of Procedure

The work of the Board of Directors is organized around the Rules of Procedure, the purpose of which is to supplement the legal, regulatory and statutory rules the Board and the Directors are subject to.

The Rules of Procedure specify the Board's operating procedures in the interest of the Company and of all the shareholders.

The Rules of Procedure may be modified by the Board of Directors in view of legal and regulatory changes and the evolution of the way it operates. The internal regulations are available on the Company's website.

#### Note 4. — Audit Committee and Remuneration Committee

The Board of Directors' debates and decisions are based on preliminary works from Audit and Remuneration Committees. These Committees act within the framework of the tasks assigned by the Board of Directors. These Committees are a source of ideas but have no decision-making power.

The Audit Committee is led by its President Pierre Revel-Mouroz, General Manager at CEVA and former partner at Ernst & Young Audit and Anne Varon, former General Manager at Moeller Electric.

The Remuneration Committee is chaired by Pierre Revel-Mouroz and Jean Baudron.

#### Note 5. — Remunerations of the Executive Officers

The principles and rules decided by the Board of Directors to determine the remunerations and benefits of all kinds granted to the executive officers are specified in the Board's management report.

The remuneration of the executive directors only applies to the Chairman remuneration.

All the executive managers are employees and receive remunerations or benefits in kind only from the company they are connected to. They benefit, like the other employees of the French companies (parts of a Social and Economic Unit), from the employee profit sharing arising from the Company agreement.

## **B. Report of the Chairman of Board of Directors on internal control risk management**

Upon request of the Chairman of the Board, the Corporate Finance Manager gathered the building blocks of this report on the basis of the different works achieved within the scope of internal control in the Group.

#### Note 1. — Definition and goals of internal control

IGE+XAO has defined and set up a scope of internal control based mainly on AMF's reference framework on these issues.

Thus, internal control aims at providing a reasonable assurance in order to reach the following objectives: performance and optimization of the operations, reliability of financial and accounting information, compliance with laws and regulations.

The purpose of the system and the internal control procedures in force within IGE+XAO are to:

- ✓ Ensure that the management decisions or the transactions carried out and people's conduct comply with applicable laws and regulations and with the orientations defined by the governing bodies and the Group's internal values, norms and rules.
- ✓ Check that the accounting, financial and management information communicated to the Company's governing bodies sincerely reflects the activity and situation of the Group.
- ✓ Prevent and control error or fraud risks, and in particular in the accounting and financial areas.

#### Note 2. — General organization and main actors

All the structures involved in the corporate governance participate in implementing internal control. Due to IGE+XAO's size, the internal control organization is mainly based on the Group's organization and on the responsibility of each department and subsidiary of the Company in their field of competence.

#### Company Executive and management

The Management Committee is composed of the Chairman of the Group (for the aspects of Trade and the Corporate organizations: Communication, Administration, Finance and Quality divisions) and R&D Directors. This Committee regularly meets at the head office or wherever else, with, if needed, the presence of Group managers in order to:

- ✓ Implement the strategy decided by the Board of Directors,
- ✓ Define the actions and make the decisions enabling objectives to be reached,
- ✓ Ensure the application and the compliance with internal laws and rules.

These meetings are organized once a month.

The Management Committee also organizes once a year at the beginning of the fiscal year a plenary meeting during which:

- ✓ The Group's strategy, approved by the Board of Directors, is presented;
- ✓ The objectives and missions are operationally stated within each division;
- ✓ The hierarchical and functional charts are decided;
- ✓ The Group managers' individual objectives are defined.

The Chairman conducts a monthly information meeting ('Info meeting') according to a calendar decided for the fiscal year - but subject to the activity hazards - which gathers together physically or by telephone, the key members of the Group. This aims to inform the latter about IGE+XAO main evolutions. The Management Committee decided that there would be no formalized report at the end of these information meetings due to the confidentiality of the topics dealt with.

Two to three times a year, the Company Executive organizes a meeting (Quarterly meeting) according to an agenda previously decided. It gathers together the Chairman of the Group, the managers of the subsidiaries, and if needed their sales managers and the Group activity support managers (corporate). It aims to review the objectives defined during the plenary meeting and to deal with specific topics (big projects, market evolution, human resources, finances, ...) presented by the Company Executive or the participating members. These meetings lead to reports and action plans.

Every 45 days or so, the Trade Management with corporate organizations conducts a meeting (Corporate meeting) in the presence of all the Corporate managers during which every subsidiary manager is called by phone. This meeting aims at reviewing the operational follow-up of each company of the Group. These meetings do not lead to written reports except action plans.

Finally, follow-up meetings are regularly set up in every country.

### Note 3. — Management and financial organization

IGE+XAO employs a Corporate Finance Manager who directly reports to the Chairman and Chief Executive Officer. Her duties include the following:

- ✓ Fixing the closure dates for the half and annual accounts and monthly turnover and setting corresponding Group reports;
- ✓ Supervising accountancy services within the Group and the external accountancy services which look after the accounts in many foreign subsidiaries;
- ✓ Is in charge of putting together the consolidated accounts of the Group;
- ✓ Ensures the smooth liaison with the Group's Appointed Auditors, the subsidiaries and other independent experts;
- ✓ Prepares the financial information for the market;
- ✓ Watches over the correct application of the law, the internal rules and procedures in force and makes every possible improvement;
- ✓ Is involved in setting up the rules and procedures within the Group, the methods of management of accounts, financings, borrowings, guarantees and deposits;
- ✓ Supervises the legal follow-up in the subsidiaries;
- ✓ Is involved in studying the changes in accounting principles & rules, the changes in the legal scope of the Group and its organization;
- ✓ Supervises the establishment of budgets for the companies within the Group.

#### Budget and management information – Procurement

Reporting directly to the Company's Corporate Finance Manager, the Group's Financial Controller Department is mainly in charge of overseeing the budgets of companies within the Group, but he also has a horizontal management responsibility for projects supporting Key Account activities and Group's subsidiaries.

Accordingly, the completed budgets are approved by the Company Executive. They allow an ongoing analysis comparing the actual monthly figures cumulatively with both the budget and the previous year and put the corrective actions in place in order to more closely achieve the objectives and the development of the business. The tables of the monthly figures are presented to the Corporate Finance Manager and the Company Executive every month.

The financial controller team is also in charge of the purchase management and of its application within the Group.

### Note 4. — Financial and accounting information systems

The Group has reporting and information systems enabling regular and specific follow-up of the Group's performance.

The information technology tools evolve according to the Group top management requests.

The financial and accounting system is mainly based on the Sage software, and on a management information technology tool called SIE (Système d'Information de l'Entreprise), developed by the Company.

Rules have been established regarding system access, data back-up and preservation, and checking data records.

Data is regularly stored and back-ups are clearly identified. Back-ups are kept in a place different from the source building.

Electronic procedures, in particular interfaces, are configured to warn in case of malfunction.

#### Note 5. — Internal control and risk management

The main controls for limiting IGE+XAO activities for specific risks are the following:

- Commercial risk

IGE+XAO pursues a policy of monitoring in order to closely fit its organization to the evolution of its business and its market and is always attentive to its customers and their expectations. In this respect, the Trade management regularly monitors the Group's commercial activities and the objectives defined during the plenary meeting.

A part of IGE+XAO's growth is based on sophisticated technologies, complex to develop, and may not function accordingly to the specifications defined. Unforeseen delays in new product development could have a negative impact on the Company's capacity to launch new products on the market on time. The Company's future revenues and operating results could be affected by these events. To limit these risks, IGE+XAO regularly performs reviews in terms of project and development progress and of the innovative nature of the latter.

IGE+XAO has signed distribution contracts with partners in order to increase its turnover. The interruption of one or several of these partnerships may have a negative effect on the Company's revenues. To prevent this, IGE+XAO includes, in its organization, the management of distributors and pays particular attention to the monitoring of them.

- Reliance on key personnel

There is no guarantee the Company will manage on a long-term basis to retain its main managers or employees who are helpful for continued operation. Nevertheless, some measures have been taken (targeted wage policy) in order to keep, within the Group and at a high level, key personnel. Career management policy is being extended within the Group.

- Risks linked to information processes

In order to limit the risk linked to the directors or the persons close to them regarding information of which they are aware and the Company's shares, IGE+XAO has set up and communicated to the people concerned, and in priority to the directors, an information procedure.

At the same time, pursuant to the law dated 20 July 2005, the Company set in place on a permanent basis a list of persons called insider persons that is submitted once a year to the Board of Directors. An information procedure is systematically given to each person concerned.

- Legal risks

IGE+XAO protects against the main legal risks by subscribing to insurance policies that cover these risks. Premiums related to insurance contracts do not represent significant amounts on the fiscal year. These contracts are referenced in the reference document (or annual financial report).

If necessary, IGE+XAO seeks lawyer's advice in order to secure transactions or any other operation in the Group's life.

To its knowledge, IGE+XAO has not incurred any governmental, legal or arbitration proceedings that would have or would have had during the previous twelve months significant consequences on the Group's financial situation or profitability.

- Risks linked to revenue recognition

Invoicing the service provided or the right to use the license does not necessary lead to the recognition of this invoicing as an operating income, in particular if the Company is linked by an obligation of results not yet achieved or technical constraints whatsoever.

The Accountancy Manager for France and the Financial Controller for the Group's companies ensure the correct recognition of revenue according to the nature of the customer contracts. An information tool for invoicing and accounting management has been developed by the Company. This system's correct operation is regularly tested, at least once a year.

Recovery of overpayment is made in France by the Accountancy department and assisted by a support team situated in Morocco and in the subsidiaries by the person in charge of the administrative work; these persons apply the « follow-up procedure » set up within the Group.

Tools for monitoring of recovery have been deployed and related reports are communicated to the Company Executive every month for France and every quarter for the Group.

▪ Risks linked to financial information

Internal control daily operations are made by the Corporate Finance Manager with the help of the Financial Controller both in the scope of financial and accounting information process and in the control of it:

- ✓ Controls of financial statements: instructions of financial reporting composed of a reminder of accounting principles, the information transmission agenda and the financial report matrix (including the balance sheet, the profit and loss account, flow tables and qualitative data) are communicated every year to the subsidiaries.
- ✓ Every quarter, the subsidiary managers or their external accountants send their financial reporting according to the aforementioned predefined agenda to the Corporate Finance Manager by email and by mail. This financial information, the correct application of the closing procedures, reprocessing and intercompany account reconciliation are thoroughly controlled and then are used for the consolidation needs and for the validation of management data (turnover monitoring, follow up of the budgets in particular- cf. hereinafter).
- ✓ Accounting firms of the very small subsidiaries directly transmit the accounting documents extracted from their system every month to the Corporate Finance Manager, after validation by the Subsidiary Manager.
- ✓ Control of the monthly reports: the Financial Controller makes consistency checks compared to the budget data and to last year's ones. Gaps and evolutions are analyzed. He also controls the turnover basis completed by the Group's companies.

The reliability of IGE+XAO consolidated account production is ensured by:

- ✓ Consolidation process managed by the Corporate Finance Manager (cf. aforementioned procedures);
- ✓ The accountancy of the subsidiaries are managed by independent accounting professionals;
- ✓ The consolidation is carried out in-house thanks to dedicated software.

The financial statements and the account consolidation are subject to a complete audit on 31 July and to a limited review on 31 January.

Due to its listing on a stock exchange of the European Union and in accordance with regulation EC 1606/2002 dated 19 July 2002, IGE+XAO Group's consolidated accounts have been drawn up since 1 August 2005 according to international accounting norms: International Financial Reporting Standards (« IFRS ») applicable from fiscal year beginning after 1 January 2005, as adopted by the European Union.

Accounting principles are regularly updated.

#### Note 6. — Specific operations

##### Specific operations made during the fiscal year

During the 2014/2015 fiscal year, operations made regarding organization, control and internal audit principally related to:

- ✓ Continuing the mission started on information system and Group organization;
- ✓ Continuing the formalization of internal procedures.

##### Short and medium term objectives

In 2014/2015, the Group will work toward ongoing adaptation of its internal control procedures. The objectives will be the same as the ones of last fiscal year.

#### Note 7. — Limits of the internal control

The internal control framework cannot provide an absolute guarantee that the Company objectives as such will be reached. There are limits inherent in any internal control system due in particular to the uncertainties of the outside world, individual judgment or malfunctions resulting from human failure or a simple error.

Colomiers, 21 October 2015

Chairman of the Board of Directors