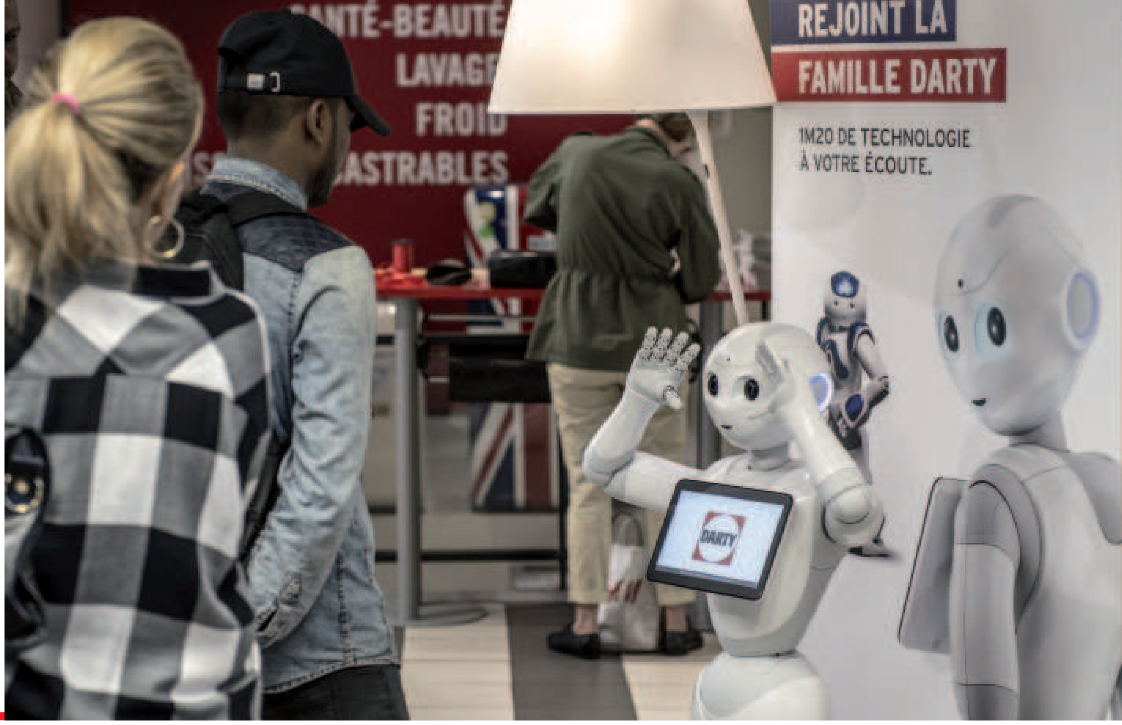
6



Risk factors and internal control

6

The Group conducts its operations in a constantly changing environment and is therefore exposed to both external and internal risks while developing its activities relating to its Confiance+ strategic plan. Moreover, the Group has conducted a review and assessment of the risks that could potentially have a material adverse impact on its activities, its financial position, its net assets, its income, its ability to achieve its objectives, its image and its reputation. This Chapter set outs the main risks identified to which the Group considers itself to be exposed, as well as the internal control and risk management procedures implemented to prevent, manage and mitigate these risks. The risks related to societal challenges are detailed in Chapter 2 of this Registration Document.

Main risks identified to which the Group considers itself to be exposed

6.1 / Strategic and economic risks

Strategic risks – Ability to find new profitable growth drivers

Risk identification	Risk management
The Fnac and Darty banners operate in markets that are undergoing massive change, primarily due to the increasing reach of the Internet and the resulting changes in consumer purchasing patterns, such as the digitalization of physical consumer media. The spread of this new media has given rise to a spectacular boom in e-commerce, which has shaken up the status quo in every market and in every country in which the Fnac and Darty banners operate, by significantly changing modes of consumption, customer behavior (and customer-attraction and retention tools), as well as distribution methods (see section 1.3.2.1 "Digitization of distribution and changes in consumer behavior"). The boom in e-commerce has resulted in new web-only retailers ("pure players") to the detriment of traditional retail banners such as our two Banners. They are generating intense competition in prices and offer an extensive product range, all constituting a serious threat to traditional retailers. Specifically, the development of e-commerce has reduced prices and margins in the markets of our Banners. The Group could also find it difficult to differentiate itself from the competition. These elements could have a material adverse effect on the Group's image, operations, earnings, financial position, market share and outlook. Moreover, the Group may not be able to identify new profitable growth levers, putting its long-term existence at risk.	Adapting Fnac Darty to new developments and the shrinkage in its traditional markets lies at the heart of the Confiance+ strategic plan, the principal aim of which is to: ■ expand the Group's geographical coverage through an ambitious development of franchises; ■ extend the brand's territory by diversifying its product range, primarily by developing its Marketplaces; ■ develop product ecosystems; ■ develop new fast-growing product lines; ■ adapting its business models to customers' expectations, by focusing on an omnichannel, multi-banner approach to distribution and by developing associated services; and ■ develop the kitchen sales network. The Group is constantly developing its customer loyalty program to make it more attractive and competitive. The Strategy Department has implemented an innovation committee with the specific aim of identifying potential targets to drive profitable growth. A multidisciplinary team is established for each project to prepare due diligence work, led by the Strategy Department.

Economic risks – Impact of developments in the transport market

Risk identification	Risk management
As part of its integration projects, the Group has pooled its centralized logistics resources in order to improve efficiency. However, the Group is faced with multiple risk factors in relation to its logistics activities: ■ the increase in online sales and associated multichannel flows, higher customer expectations regarding product availability; ■ ever-increasing transport costs; ■ difficulties in recruiting delivery drivers for “last mile” deliveries; ■ difficulties in recruitment to absorb year-end peak business periods; ■ the challenge of reducing CO_2 impacts in an environment of increased publication of non-financial indicators; ■ restricted access to many town centers, requiring us to revise our logistical planning and transport partnerships; and ■ climatic and social disruptions (strikes, roadblocks, etc.) In light of the factors set out above, the Group may be unable to fulfill its promises to customers, which would damage the reputation of our banners and harm the profitability of their services and their business model and, consequently, their economic sustainability.	In order to anticipate the customized solutions required, the Group simultaneously monitors: ■ the social climate; ■ the risks of transportation strikes; and ■ climatic events. IT systems are also updated regularly to facilitate the fulfillment of promises to customers and the processing of logistics flows by employees. Accordingly, employees receive support in adapting to the required transformations. The Group splits the load of “last mile” deliveries between internal resources and external service providers to enhance flexibility and is also increasing the number of single-crew deliveries made by providing delivery drivers with electric winches. Furthermore, the Group has enhanced its specifications for calls to tender among its transport service providers, particularly with regard to environmental issues.

Economic risks – Acts of terrorism

Risk identification	Risk management
A major critical risk level concerning acts of terrorism was maintained in 2018 following: ■ the terrorist attacks in Paris in 2015, Nice in 2016, Spain in 2017, and Carcassonne, Trèbes, Paris and Strasbourg at the end of 2018; ■ the heightened level of security by the authorities for terrorist attacks in France; ■ the national security plan that is at its highest alert in both France and in Spain; ■ the placement of Belgium at level 2 on a scale of 1 to 4; ■ the continued placement of the Netherlands at level 4 on a scale of 1 to 5; and ■ the risk that also exists in the other countries where the Group is based, particularly Africa. This risk concerns both the threat to the safety of the Group's employees, customers and service providers, and the threat to the goods required to operate its business. An unanticipated risk of an attack on the safety of people and goods in our Group would do great harm to the image of our Banners, and the Group's business could be severely damaged, especially through a decrease in store traffic.	Additionally, the Group, under the supervision of the Security and Risk Prevention Department, has taken steps to strengthen the security of stores located in sensitive areas and has also reinforced its links with the authorities, has obtained "Securi-site" certification for its Paris stores, and has strengthened anti-terrorism patrols in Île-de-France stores. Store employees have received instruction in crisis management and have taken e-learning modules, and posters with anti-terrorism best practices have been put up in stores. Simulation drills are also carried out by site managers.

Strategic risk – Risk linked to change of shareholding structure

Risk identification	Risk management
Upon completion of Ceconomy's purchase of the shares held by Kering, Ceconomy International Group held 24.25% of the share capital and voting rights of the Company. In early February 2018, SFAM bought 11.38% of Fnac Darty shares from the Knight Vinke investment fund. In January 2018, Vivendi announced it had entered into an agreement with Société Générale Group as the underwriting counterparty to place securities with institutional investors. On December 31, 2018, Vivendi exercised its exit option and is no longer a shareholder. To date, no shareholder can influence the adoption or rejection of resolutions submitted for approval by Company shareholders at Ordinary and/or at Extraordinary General Meetings, in particular with respect to the appointment or removal of members of the Board of Directors, approval of the annual accounts and dividend distributions, authorizations related to capital increases, mergers, contributions, or any other decision requiring approval from Company shareholders. However, these recent changes demonstrate that the Group is potentially exposed to the risk of change of shareholding structure that may hinder it in the execution of its strategic roadmap.	The company's bylaws stipulate that shareholders must inform the company when they pass the 3% capital holding threshold, and any multiple of 1% above this threshold. Any shareholder holding more than 5% of the capital must also make a declaration of intention providing the information specified in Paragraph VII of Article L. 233-7 of the French Commercial Code, including a declaration regarding intention to take control of the company and to continue purchasing securities. This declaration is renewable every 6 months. Together with the performance of shareholder identification studies several times per year, these mechanisms ensure that the company is well informed about the various participants that have a stake in its capital. The Group also adheres to a strict policy ensuring that its governing bodies remain independent in the event of potential conflicts of interest with an existing shareholder. Accordingly, following the acquisition by Ceconomy of its equity stake in the Group, the latter entered into a dialog with Ceconomy in order to determine the best way for it to be represented in the company's governance without hindering the proper functioning of operations or impeding execution of the Group's strategy. As such, no director representing Ceconomy is present on the Board of Directors, but the group Ceconomy did participate in the selection of three independent directors. None of the 12 directors on the Board are linked to the company SFAM, a service provider for the group, which therefore has no influence on the Group's decisions.

Economic risks – Slowdown in growth

Risk identification	Risk management
Our banners may be affected by changes in their markets due to an unfavorable macroeconomic or political environment. The markets in which the Group operates are correlated with disposable household income. As such, the Group's revenue depends on the economic conditions of the countries in which it operates, which are primarily the eurozone countries. The difficult economic climate in the eurozone, marked by commercial tensions and Brexit negotiations, has a negative effect on the economy of its member countries. Moreover, austerity budgetary policies, a higher tax burden and the corresponding reduction in disposable household income for secondary consumption, which covers consumer electronics, editorial products and white goods, such as those offered by our banners, have an impact on the Group's markets. Social disturbances, particularly in France with the "yellow vests" movement and the resulting political crisis, have an impact on household sentiment and therefore contribute to the downturn in our banners' markets.	Monitoring and taking into account an unfavorable macroeconomic and political environment at Group level should enable us to anticipate adjustments to our organizations in a flexible way with regard to the economic context. Moreover, our positioning on the second-hand product market, consideration of product usage and the distribution of our branded or licensed products, particularly at entry level, must enable us to meet the needs of households affected by the decline in purchasing power.

6.2 / Operational risks

Operational risks – IT capacity to support group transformation

Risk identification	Risk management
Most of the Group's operations rely on information systems developed or administered by internal resources or outside contractors. Any fragility or failure of these systems could disrupt business operations and potentially have major repercussions on the Group's sales and financial results, particularly with regard to websites and ordering and payment systems, and especially during peak business activity, such as at the end of the year. The ambition of Fnac Darty through its Confiance+ plan and the multiplication of the Group's growth drivers (development of the Franchise, partnerships, the Marketplace, its online platforms, etc.) requires the successful conversion of its information systems enabling it to support the Group's transformation and use agile IT systems in its various projects. In fact, certain applications used by the Group need updating and there is a lack of consistency among the applications used by the different Group entities. Moreover, the Group may not successfully achieve this transformation both in terms of its capacity and its speed of execution.	Fnac Darty's Information Systems Department ensures that all IT applications are consistent throughout the Group as part of a coordinated strategy to anticipate operational incidents, particularly in the context of sharing tools due to the consolidation of the two Banners, and to arrange emergency plans. A three-year master plan set up in 2018 is steered at Executive Committee level in close collaboration with the business lines. The main measures of this include: ■ the implementation of a digital factory aiming to internalize key IT resources, which contributes to the success of this plan; ■ a strengthening of the service continuity system for the most critical applications that are in place; and ■ the modularization the Group's X-Commerce platform, which also represents a key action plan for the success of this digital transformation.

Operational risks – Supplier relations and partnerships

Risk identification	Risk management
Fnac Darty offers a wide range of products and is supplied by a large number of suppliers. In France in particular, the amount of purchases from the top twenty suppliers represented around 50% of the total purchases made in 2018. A major portion of the Group's operations depends on its capacity to negotiate under good conditions and maintain contracts and long-term business relations with its suppliers, especially those (e.g. Samsung, Apple, Microsoft, Sony, etc.) for whose products there is no substitute as far as customers are concerned. Any deterioration in the banners' relationships with their main suppliers, the imposition of stricter conditions by suppliers, or the non-renewal or early termination of its main supply or service agreements may have a material adverse effect on the Group's image, operations, earnings, financial position and outlook. The Group's activities also depend on its relations with its partners, for example regarding consumer credit or the development of its marketing range, and its relations with service providers who play a key role in its operations, such as in transport, delivery and payroll management. Moreover, the increase in partnerships, at the heart of the Confiance+ strategy, could expose us to the risk of loss of independence. The concentration of suppliers on the white goods markets in particular exacerbates the risk of dependence for the Group. Any significant failure, deterioration, sudden termination or non-renewal of the Group's contractual relationships with its partners and contractors could have a material adverse effect on the Group's image, operations, earnings, financial position and outlook.	The Group's sales policy is designed to develop strategic partnerships offering long-term relationships with key franchisees, suppliers, partners and contractors in its primary markets: ■ as regards the franchisees, the terms of the franchise agreement strive for a balance between respect for the reciprocal rights and obligations of each of the parties over a seven-year period, which is conducive to the establishment of a relationship of trust and partnership; ■ agreements with suppliers are periodically negotiated in accordance with local laws and regulations; ■ ad-hoc structures with a specific governance system have been implemented, which aim to rebalance our relations with our suppliers; ■ audits are carried out on the proper execution of partnerships, and the training of in-store sales staff was also reinforced to ensure correct partnership execution; and ■ mystery customer visits contribute to monitoring correct partnership execution.

Operational risks – Relations with employees and their representatives

Risk identification	Risk management
The Group is constantly adapting its human resources and organizational structure. Its capacity to maintain good relations with its employees, the unions and the employee representative bodies is crucial to successfully achieving the reorganization required to adapt to market developments. For example, a worsening of labor relations due to the implementation of a new organizational structure or a new strategy linked to continuous structural optimization could have a material adverse effect on the Group's image, operations, operational efficiency, earnings, financial position and outlook. Moreover, social movement may follow elections of employee representatives in the event of structural changes. Differences between the wage policies of the two banners could persist despite integration having concluded, which could lead to disputes. The economic context may generate tensions within the Group and result in social disputes, particularly in the context of mandatory annual negotiations. Finally, organizational changes could lead to a loss of motivation among employees if they do not belong to the target organization, exposing the Group to a risk of social disputes in the long term.	The Group is a responsible employer, and it pays particular attention to adapting its systems to prevailing issues in terms of human resources, as presented in Chapter 2, section 2.1.1 of this Registration Document, "Key challenge 1: Develop our most valuable asset: people." In particular, the Group has: ■ strengthened social dialog; ■ strengthened meaningful internal communications for employees; ■ favored local management; ■ implemented a new tool during 2018 to measure employee satisfaction, in the form of three questions asked every two weeks. The results are submitted to management and are analyzed in working groups for the implementation of specific action plans; and ■ established a permanent monitoring of changes to the social climate within the Group.

Operational risks – Cost-saving plans and adaptation of our store network to changes in activity

Risk identification	Risk management
The most impactful, simple and readily implementable cost-saving plans have already been accomplished. The projected synergies from the Fnac Darty consolidation have been achieved as reported, but the Group must continually seek out further cost-saving plans to ensure that its operational efficiency and earnings do not deteriorate due to normal cost inflation, particularly logistical costs. As such, the Group may not be able to implement sufficient cost-saving plans to offset the impact of inflation. As part of its expansion strategy and commercial lease renewal, the Group must ensure that its store network remains in line with changes in activity and customer expectations, particularly in terms of size of commercial surface area. The Group could also be affected by a deterioration of its relations with its property owners in the context of lease renewal and renegotiation, or be exposed to the risk of non-renewal of its existing leases. Moreover, the need to combine a significant transformation of the structures while remaining focused on the renewal of its commercial policy intensifies the risk to which the Group is exposed.	The performance culture is central to the Group's strategy, to ensure that all departments contribute to the search for savings while maintaining operational efficiency (see sections 1.4.1 and 1.4.5). Action plans to support its staff are in place, primarily through a matrix structure that permits decision-making without hampering Group-wide development and pays special attention to any potential human resource impacts in its entities. The redesign of our store formats, and the transfer or sharing of space contribute to mitigating the risk. In order to improve operational profitability, the Group, as often as is required, also renegotiates its rents, optimizes indexation terms and renegotiates its leases to make them as flexible as possible (particularly through the installation of shops-in-shop or space-sharing). Fnac Darty's property assets are constantly monitored to ensure optimal use and anticipate any necessary adjustments to preserve a portfolio of prime-quality sites negotiated under the best market conditions. Asset valuation also plays a role in this performance culture.

Operational risks – Risk of brand image deterioration

Risk identification	Risk management
The success of our brands relies in part on the strong reputation and consumers' high opinion of our Fnac and Darty brands. In the context of the development of its network of franchises, the development of the Marketplace, the development of partnerships, increasingly fierce competition and the development of social media that encourages the rapid dissemination of opinions, comments and reviews, the Group's ability to maintain the reputation and distinctive character of its brands, and the loyalty of its customer bases including membership of its loyalty programs, are key factors for longevity. Moreover, our banners' brand image could be affected by exceptional events such as liability incurred for marketing faulty products or non-compliance with applicable regulations.	In order to reduce the aforementioned risks, a permanent monitoring mechanism flags any event likely to affect the Group's image and reputation. This system is based on the coordination of the various departments, in particular the Marketing Department, Internal Communication and the Risk Prevention Department. Moreover, there is regular internal communication to remind operations teams about the crisis management alert procedures. Fnac Darty's Business Code of Conduct, updated at the end of 2018, available on the company's internal network and appended to our contracts and agreements with third parties, sets out the ethical commitments undertaken by the Group and the behaviors to adopt. Furthermore, the IT charter sets out the rules governing the use of the IT tools available to employees in compliance with the Group's ethical rules.

Operational risks – Quality of own-brand products sold/products sold under license

Risk identification	Risk management
Own-brand products and/or products under a trademark license are mainly manufactured abroad and distributed by the Group. The Group is consequently liable for both the regulatory compliance and the quality of the products. Significant non-compliance of these products would result in a product recall and/or a major problem with a customer that might affect the image of our brands and Banners.	Controls are regularly carried out to monitor both the quality of the products and respect of the regulations. Assessments of third parties that we use in foreign countries are carried out on a regular basis prior to and during any business relationship with them. The regulatory framework is constantly monitored at Group level to ensure compliance with local, European and international standards, and to adopt the appropriate standards depending on the product's country of distribution. Also, the crisis management procedures that are in place at Group level will allow for effective tracking of contingent risks, detailed above, if our Banners were faced with them.

Operational risks – Human resources management

Risk identification	Risk management
The Group could be faced with a talent drain, which would prevent it from capitalizing on the experience of employees and could therefore restrict its operational efficiency. The Group could also encounter recruitment difficulties, particularly with regard to digital skills.	The Group has implemented: ▪ face-to-face communication on the roll-out of the Confiance+ strategic plan in particular; ▪ an employee shareholding plan, launched in June 2018; and ▪ development reviews, carried out in order to identify talent and support these individuals in their professional career path within the Group. Furthermore, the development of links with specialized schools, sponsorship, and recruitment under the work-study program with a focus on digital skills are intended to foster employee retention in these areas within the Group.

Operational risks – Cyber attacks/security

Risk identification	Risk management
Our Group's commercial websites could be subject to cyber attacks and our databases might be corrupted. Our Group could also be the subject of internal malicious actions through privilege escalation, particularly due to inadequate security of our logical access controls and network. Our employees and customers could be subject to phishing scams (wrongful use of the Fnac Darty identity) resulting in unlawful data capture.	Fnac Darty's Information Systems Department, underpinned by the network of country or entity IT managers, helps safeguard the security of the information systems and the data they contain. This is achieved through appropriate governance, shared standards, a common policy, the dissemination of the IT charter to employees, verification of external IT service providers by obtaining contractual guarantees that would ensure the confidentiality and security of processed data (in the form of PCI DSS compliance by service providers processing banking data), and through tightened security audits of external service providers. Furthermore, the Group works continuously to raise its employees' awareness of cyber security. Increasingly stringent security solutions are in place on our commercial websites, messaging services, and outflows. Every year, specialist external service providers carry out anti-intrusion audits and, where necessary, draw up immediate action plans.

Operational risks – Operational efficiency in the context of partnerships and integration

Risk identification	Risk management
Our Group is continuing its integration initiatives. At the same time, as part of its efforts to diversify and grow, the Group is building new partnerships and integrating new entities. Managing these new partnerships and integrating new M&A targets could be detrimental to the Group's operational efficiency if an ad-hoc organization is not in place. Management might be faced with conflicts between the various projects carried out at the same time with different prioritization concerns. These factors could have an adverse effect on the Group's business activities and earnings if these operations are not carried out with appropriate governance.	An appropriate system of governance was put in place. Partnership development initiatives as well as initiatives for integrating new M&A targets are central to the Confiance+ strategic plan, which is based on first-rate operational efficiency (see section 1.4.3). Actions undertaken as part of the Confiance+ plan are monitored by the Executive Committee on a monthly basis. Each business initiative is sponsored by a member of the Executive Committee. Key indicators have been defined. These help to ensure closer management of business initiatives, reactivity, and the provision of corrective actions where necessary.

Operational risks – Security of our sites

Risk identification	Risk management
Our physical sites (stores, warehouses, delivery platforms, offices) could suffer losses if we are not sufficiently vigilant in terms of security and maintenance. Employees, service providers, suppliers, and customers could be affected in the event of damage due to inadequate prevention measures by the Group.	As specified in Fnac Darty's Business Code of Conduct, security is imperative for the Group, which hosts employees, customers, and third parties at its various sites. Prevention plans, specifically clearance checks, are also in place on our sites. A strong investment policy has been drawn up for the maintenance of security equipment. Security procedures are in place and their application is checked on a regular basis. Fire drills are carried out twice a year. Training on safety rules is carried out in a classroom or using e-learning modules. A regulatory framework is in place. The incident alert diagram has been communicated internally.

Operational risks – Asset valuation

Risk identification	Risk management
Changes to the assumptions used to determine the book value of some assets, mainly as a result of an unfavorable market environment, could result in an impairment of these assets, especially certain intangible assets like goodwill or the brands. Goodwill is allocated per cash generating unit in each country. The recoverable value of groups of cash generating units is determined on the basis of their value-in-use, which is in turn determined based on certain assumptions. If business operations and forecasts change, the estimated recoverable value of goodwill or the assets themselves may decline materially and require impairment. The absence of material impairment in the future cannot be guaranteed, especially if market conditions were to deteriorate.	Goodwill is tested for impairment annually at the level of the groups of cash generating units that correspond to operating segments during the second half of the year or whenever events or circumstances indicate that the value of those units may not be recoverable. Accordingly, the Group's brands are also tested for impairment every year. The valuation assumptions used primarily include the discount rate, growth rate and change in sales prices and direct costs during the period. Management determines discount rates using pre-tax discount rates that reflect the rate of return expected by the market for investments with a similar risk level. Growth rates are based on the Group's growth forecasts driven mainly by the Confiance+ strategic plan, which are in line with industry trends. Changes in sales prices and direct costs are based on historical data regarding these changes and on estimates of future changes in the market. Details of assumptions and the study of the impacts of impairment test sensitivity are detailed in section 5.2 note 18 to the consolidated financial statements.

6.3 / Legal risks

Legal risks – Compliance with various regulations

Risk identification	Risk management
Because of its in-store and online retail activities, the Group is exposed to changes in the legal and regulatory environment in the countries in which it operates. In particular, the Group's activities are subject to controls, investigations and regulations relating to consumer protection, competition, e-commerce, intermediation in consumer credit and insurance, personal data protection, information technology, book prices (digital and physical), contractual warranties for customers, and store safety and accessibility. The Sapin 2 Law and the law establishing a duty of care places a heavier obligation on our Group to put in place anti-corruption and influence-peddling measures in all our geographic regions (presented in Chapter 2, section 2.4.1 of this Registration Document, "Key challenge 4: Conduct our business in an exemplary manner". The Group's business is also affected by environmental regulations that may have an adverse impact on the Group or increase the restrictions that apply to the products our Banners distribute (such as obligations to dispose of or recycle consumer electronics and household appliances) or to the methods and cost of transporting products distributed, or the costs our Banners incur for the rental of retail space. Moreover, financial penalties and/or the requirement to publish such penalties may be imposed on the Group if its compliance is considered to be insufficiently robust, impacting the Group's earnings and image.	Monitoring and taking account of legal and regulatory requirements are done at the country level by the local Finance and Legal Department with the support of the Group's advisory network, under the supervision of the Group's Legal, Finance and Tax Departments. The Group's Business Code of Conduct reaffirms our commitments on compliance with legal and regulatory obligations towards Group employees and the third parties with which we enter into contracts. This system is supplemented by letters of representation signed in-house by key employees. Employees are reminded of our obligations through internal training courses carried out in a classroom or via e-learning modules.

Legal risks – Confidentiality of key commercial, social and legal information

Risk identification	Risk management
In the context of its current operations and strategic development, the Group processes and stores key information that could be used for malicious purposes.	The Group ensures the confidentiality of its key information by means of: ■ an internal authorization and rights policy for the various shared tools and networks; ■ a reminder of the best practices to adopt when using tools and managing information, provided in the Group's IT Charter; ■ the monitoring of key employees' inboxes for suspicious emails; and ■ the encryption of sensitive information.

Legal risks – Intellectual and industrial property

Risk identification	Risk management
The Group owns or uses intellectual and industrial property rights, including brands, logos and domain names that it uses in its business. Given the importance of recognizing the Group's brands, particularly the "Fnac" brand and the "Darty" brand, any infringement or misappropriation could have a material adverse effect on the Group's image, operations, financial position or earnings.	Over the past few years, the Group has set up a monitoring system for its portfolio of brands and domain names in order to defend its rights.

6.4 / Market risks

The Group has set up an organizational structure that enables it to centrally manage market risks. Within the Group, risk management is the responsibility of the Investor Relations and Financing Department and the Cash Management Department. The Group believes that monitoring market risk at the Group level allows for a more effective risk management policy.

Market risks – Currency risk

Risk identification	Risk management
Exposure to currency risk is detailed in section 5.2, note 28.2 to the consolidated financial statements.	The Group's currency risk management policy consists of reducing the currency risk inherent to the businesses of Group entities by securing price policies and gross margins on the Group's imports and exports before the entity is committed and to prohibit any speculation. Currency risk management is governed by internal procedures aimed at hedging risks as soon as they are identified. The Group makes the vast majority of its sales and incurs the vast majority of its costs in the accounting currency of each country.

Market risks – Interest rate risk

Risk identification	Risk management
The exposure to interest rate risk described in section 5.2 note 28.1 to the consolidated financial statements is composed of floating rate financial assets and liabilities.	An interest rate sensitivity analysis is conducted each year. Using assumptions of an upward or downward variation of 50 basis points in interest rates, the impact calculated would not represent a significant impact on the Group's pre-tax income. It should be noted that the Group's main source of financing is a fixed-rate bond loan of €650 million.

Market risks – Credit and/or counterparty risk

Risk identification	Risk management
Credit risk:	**Credit risk:**
Due to its large number of customers, the Group does not consider itself to be exposed to a significant concentration of credit risk. However, the development of these franchise and B2B activities, as presented in the Confiance+ strategic plan, may have a dilutive effect on the Group's cash, earnings, or financial position.	The Group has internal procedures to control these risks, especially through requested guarantees and insurance policies and through the management of outstanding trade receivables.
Counterparty risk:	**Counterparty risk:**
The Group's strategy is to invest its cash in bank deposits or short-term money-market UCITS that aim to achieve performance close to EONIA in compliance with the rules on diversification and quality of counterparty.	According to the Group, these investments do not therefore expose it to significant counterparty risk. In addition, as part of its interest rate and currency risk management policy, the Group decided it was necessary to enter into hedging agreements with leading financial institutions, and in its view the counterparty risk can therefore be considered to be negligible.

Market risks – Liquidity risk

Risk identification	Risk management
Exposure to liquidity risk is detailed in section 5.2, note 28.5 to the consolidated financial statements. **Group financing** In the bid to acquire Darty and for the purpose of financing the future Combined Group, the Group put in place a bank loan with a syndicate of fifteen or so European banks in April 2016. On September 22, 2016, the Group successfully issued a seven-year senior bond for €650 million bearing annual interest of 3.25%. In order to diversify its sources of financing and stimulate its liquidity, the Group established a Negotiable European Commercial Paper plan in Q1 2018 and negotiated the extension of the maturity of the syndicated bank loan and the revolving credit facility until 2023. As of December 31, 2018, Fnac Darty's net debt was €911.2 million, consisting mainly of: ■ a €200 million bank term loan maturing in April 2023; and ■ €655.3 million in senior bonds maturing in September 2023 with capitalized interest. Free cash flow from operations amounted to €152.7 million as of December 31, 2018. The €400 million revolving credit facility maturing in April 2023 was unused. The Loan Agreement and the bond issue contain clauses customary for these types of financing, namely financial commitments, general restrictive covenants and early repayment clauses. As of December 31, 2018, all of the financial covenants relating to the Loan Agreement were being complied with (see section 4.2.2.2 of this Registration Document). The Company conducts a specific periodic review of its liquidity risk. All of the terms and conditions of the Group's financing lines are detailed in section 4.2.2.2 of this Registration Document.	Liquidity risk for the Group and each of its subsidiaries is closely and regularly evaluated by the Group through periodic financial reporting. The process of diversifying financing and renegotiating the Group's financial instruments launched in early 2018 contributes to risk management and mitigation. **Centralized cash management** Fnac Darty Participations et Services has entered into centralized cash management agreements for an unlimited term with its French and non-French subsidiaries. The purpose of these agreements is to centralize the Group's cash management ("cash pool") in order to encourage coordination and optimization in using cash surpluses or in covering aggregate cash requirements at Group level. Pursuant to the agreements, these subsidiaries deposit any cash surpluses they do not use to finance their operation and their capital expenditure program with Fnac Darty Participations et Services, in exchange for which Fnac Darty Participations et Services finances their working capital requirements and capital expenditure program.

Market risks – Volatility of the market price of the company's shares

Risk identification	Risk management
Stock markets experience significant fluctuations which are not always related to the earnings of operations of the companies whose shares are being traded. These market fluctuations may have a material effect on the market price of the Company's shares. The market price of the Company's shares could also be materially affected by many factors that impact the Company, its competitors, general economic conditions or the specialty retail market (in particular the entertainment and consumer electronics retail segments). The market price of the Company's shares could fluctuate significantly, particularly in response to factors such as: ■ substantial block trades of shareholdings in a market of low daily trading volumes or changes in the reported financial income of the Group or of its competitors; ■ announcements made by the Group's competitors or other companies with similar businesses and/or announcements relating to the specialty retail market (particularly the retailing of entertainment products and consumer electronics) or to the financial and operating performance of these companies; ■ adverse political, economic or regulatory developments in the countries and markets in which the Group operates; ■ announcements relating to changes in the Company's shareholder base; ■ announcements relating to changes in the Group's management team or key employees; and ■ announcements relating to the Company's asset scope (acquisitions, disposals, etc.).	The Group offers a high level of availability and proximity to financial markets through: ■ a dedicated investor relations team; ■ a proactive policy of reporting its activity, results and the major events affecting the Fnac Darty business to financial markets, which ensures a response to market uncertainty on the impact of internal or external events; and ■ the company's regular participation at investor conferences or roadshows, which also facilitates a wide dissemination of information and is an opportunity for investors to have access to Fnac Darty's management, ensuring a close link between the company and the markets. The Group also pays close attention to the liquidity of its share and the volumes traded on the financial markets. Fnac Darty has established a liquidity agreement with an independent investment services provider in order to improve liquidity and reduce the risk of volatility peaks.

6.5 / Financial risks

Financial risks – Impact of commitments under financing agreements

Risk identification	Risk management
The Group may be unable to comply with some of its obligations under the Loan Agreement and/or the bond issue agreement, particularly the restrictive covenants, due to circumstances affecting the Group's markets or operations. Failure to meet any of the stipulations, especially those of the covenants, could constitute a default under the terms of the Loan Agreement, whereby the agent of the Loan Agreement (Société Générale) could, and must if so requested by the lenders, (i) terminate with immediate effect the commitments of each lender, (ii) declare early repayment of all the amounts due under the Loan Agreement (including accrued interest on these amounts and any other amounts payable under the Loan Agreement). Moreover, the obligations assumed under these agreements may reduce the Group's flexibility when conducting its operations as regards the performance of certain investment or divestiture transactions including asset acquisitions or disposals, changes to the Group's financial structure including its debt, the granting of securities or guarantees or the completion of merger or restructuring transactions. If, as a result, the Group were unable to make certain modifications to its operations or its structure, this might have a material adverse effect on the Group's image, operations, earnings, outlook, financial position and assets. In the event that the amounts due under the Loan Agreement are declared immediately due and payable, the Group might face a cash shortage.	As of December 31, 2018, all financial covenants were being complied with (see section 4.2.2.2. "Financial debt" of this Registration Document). An annual crash test measures credit and liquidity risks. The strategy for diversifying sources of financing and the obligations attached to these sources of financing, initiated in 2018 and continued in 2019, contributes to reducing this risk.

Financial risks – Pension plan

Risk identification	Risk management
The pension plan known as the "Comet pension plan," which is funded by Darty in the United Kingdom, has been taken over as part of the Fnac Darty consolidation. Darty's financing obligations depend on the future performance of the assets, the level of interest rates used to measure future commitments, actuarial projections and experience of changes in pension plans and the applicable regulations. Due to the many variables that determine the pension financing obligations, which are hard to predict, as well as any statutory changes, the future funding obligations for this pension plan in terms of cash could be larger than the amounts estimated as of December 31, 2018. In this case, these funding obligations could have a negative impact on the Group's financial position.	The monitoring of commitments under this pension fund is lead jointly by the Financial Control Department and the Investor Relations and Financing Department. These obligations are revalued twice per year. The Group is a member of the Comet pension fund Board, which meets approximately once per quarter. The monitoring of disbursements made for the 2018 period is described in section 5.2 note 31.4 of the consolidated financial statements.

6.6 / Insurance

General overview

The Group took out all of its insurance policies under conditions that were tailored to the scale and type of the Group's risks.

The Group's insurance approach is coordinated by its Legal Department, which is responsible, with the support of the other departments, for identifying risks, quantifying their consequences and reducing them by:

- recommending preventive measures for risks that can be eliminated or reduced by these means; and
- scheduling financing arrangements, including transfer to the insurance company, for risks of an exceptional nature where the potential impact is high and the frequency is low.

This requires each Group subsidiary to provide the Group Legal Department with the information required to identify and quantify risks, and to implement appropriate resources to ensure business continuity in the event of an incident. Based on this information, the Group Legal Department negotiates with the major players in the insurance and reinsurance industry in order to find the cover best suited to the Group's risk coverage requirements.

Risk prevention policy

The aim of the risk prevention, precaution and protection policy, which is decentralized to subsidiary level, is to identify, assess and reduce the exposure, occurrence and intensity of incidents, through:

- audits of the main operational sites;
- appraisals of value-at-risk;
- following the recommendations of security professionals;
- internal control procedures;
- staff training; and
- implementation of appropriate emergency plans.

The Group's insurance policy

The Group's policy of transferring material risks to insurance companies is primarily determined by:

- the best economic balance between risk cover, premiums and deductibles; and
- the offer and constraints in the insurance market, and local regulations.

Under its insurance policy, the Group favors the "all risks with exceptions" approach, which is determined by assessing the financial consequences for the Group of potential claims, specifically in terms of:

- third-party liability: personal injury or damage to property caused to third parties due to products, installations and equipment;
- property damage resulting from fire, explosion, water damage, theft, natural events causing damage to the Group's own property (buildings, furniture, equipment, merchandise or computer systems), riots, terrorism, war or other causes;
- operating losses following direct damage; and
- cyber attacks.

For the franchises, the Group has adopted the principle of absorbing claims that are small in terms of cost (especially for All-Risks and Third-party Liability). This contributes to setting up preventive actions to reduce the incidence of claims.

The setting up of insurance coverage is based on determining the level of coverage required to cope with the reasonably estimated occurrence of the risk of liability, damage, cyber attacks or other risks for each facility and company concerned. This appraisal takes into account assessments made by insurers, as underwriters of the Group's risks.

Uninsured risks are those for which no coverage is offered on the insurance market or where insurance is offered at a cost that is disproportionate to the potential benefits of such insurance.

As is the case for comparable groups, these risks are managed within the Group's general approach to risk management.

The main insurance programs which the Group has taken out pool the purchase of insurance coverage, to which all of the Group's subsidiaries adhere. This coverage is underwritten by international insurance brokers that specialize in the coverage of major risks with reputable insurers.

Main insurance programs

The main insurance programs taken out by the Group to cover the risks it faces in its operations are described below. Where necessary, they may be supplemented by local programs specific to the country in question:

Damage and operating losses: The principal purpose of this policy is to insure the Group against damage resulting from fire, explosions, water damage, theft, natural disasters affecting property (buildings, furniture, equipment, merchandise, or IT installations) and those for which the Group is liable, and against resulting operating losses, for an estimated period required for resumption of normal business. The total amount of the damage covered under these policies varies according to the risk and the geographical area under consideration. The cover limit is €400 million and €20 million per claim for direct damages and operating loss combined, for the Group over the insurance term expiring January 1, 2020.

Third-party liability: This policy chiefly covers operating risks and post-delivery or post-service risks of physical injury or material damage caused to third parties due to the activity of any of its subsidiaries or products sold by the Group. The amount of damage covered in this respect is capped for the Group for an insured period expiring April 30, 2020. The cover limit is €75 million per claim per year for the Group.

Transport of merchandise: These policies cover the business activities of the stores, subsidiaries and the fnac.com website, especially the risk of damage, theft, loss or major events (excluding acts of war) during transportation conducted by Group subsidiaries, from the delivery of merchandise by suppliers through to delivery in store or to the intended recipient. The amount of damages compensated under this policy in 2018 expiring April 30, 2019, is commensurate with the risks run. The cover limit is €3 million per claim.

Cyber risk: This policy covers the risk of high-severity cyber attacks that may target the Group. The amount of damage covered in this respect is capped for the Group at €15 million per claim and per insured period, for an insured period expiring April 30, 2019.

Insurance expenses borne by the Group: The cost to the Group of all insurance policies for the period ended is approximately €4 million.

6.7 / Risk management

The AMF defines risk as the possibility of an event whose consequences are likely to impact the persons, assets, environment and objectives of the Company, its image or its reputation.

Risk management includes areas that encompass far more than just financial risks: strategic, operational, market, corruption, image, reputation or compliance risks. Risk management is a management tool that contributes to:

- creating and protecting the Company's value, assets, image and reputation;
- preserving the longevity of the company's short-, medium- and long-term activities;
- securing the Company's decision-making process and other processes to achieve its objectives;
- encouraging consistency between the Company's actions and its values; and
- mobilizing the Company's workforce around a shared vision of the main risks.

The Group closely associates risk management with internal control. The Group's risk management and internal control systems rely on a series of resources, procedures, and actions aimed at ensuring that proper measures are taken to identify, analyze and control:

- risks that could have a significant impact on the Company's assets or the achievement of its objectives, whether operational, financial or related to compliance with laws and regulations; and
- the activities, efficiency of its operations and efficient use of resources.

6.7.1 / THE RISK MANAGEMENT SYSTEM

The implementation of the risk management system in Fnac Darty is based on an organizational framework, a three-step risk management procedure and ongoing oversight.

6.7.1.1 / Risk management structure and coordination with internal control

Organizational framework

The organizational framework includes:

- a structure that defines the roles and responsibilities of those concerned, establishes clear and consistent procedures and standards within the system; and
- a risk management policy that formalizes the system objectives.

Organization of risk management at country level

Managing the exposure to decentralized risks is the responsibility of the country CEO and local managers, who are closest to the risks associated with the activities they exercise or supervise:

- monthly performance reviews help to detect the appearance or occurrence of risks;
- Country Security Departments are responsible for the security of the Company's physical and intangible assets and for the security and safety of all persons present at all the Group's sites; they implement all human, organizational and technical means to handle risks of an accidental or intentional nature; and
- the Support Services Departments, in their role of securing and driving progress, may identify risks and propose an action plan to the reporting line for their containment.

Organization of risk management at Group level

The Internal Audit Department organizes, for management, the process of mapping the Group's major internal and external risks based on a formalized approach for identifying and assessing risks.

The Security and Risk Prevention Department circulates a set of rules and best practices to control the risks within its remit, with the network of individual country Security Directors also relying on these rules and practices. Its objectives at Group level are to harmonize procedures, reduce risks and optimize safety costs by promoting synergies and raising the awareness of all personnel within the Group's banners.

The Legal Department identifies and analyzes the Group's material legal risks and the insurable risks to be included in the Group's financial statements.

Preparation of the strategic plan by the Strategy Department provides the opportunity to assess the major external risks and update the mapping of the Group's major risks. In accordance with the guidelines, this is sent to the Internal Audit Department.

Risk management policy

The Group instituted its risk management policy based on the COSO II Framework in 2011 and updated it in 2015. This document categorizes the steps and methods to be used as part of the ongoing risk management procedures, or when performing annual risk analyses.

A three-step risk management process

- Risk identification: the Group treats risk identification as an ongoing business process. Risk identification helps to categorize and centralize major risks either with the Security and Risk Prevention Department or with the Internal Audit Department, depending on the type of risk.
- Risk assessment: at the Group, this approach is documented at least once a year during a risk self-assessment process headed by the Internal Audit Department. The risk management policy sets out the criteria and procedures for these assessments. The aim is to review potential consequences of the main risks (consequences that may be of a financial, HR, legal, image-related or reputational nature) and assess the likelihood of their occurrence, as well as the required level of risk management.
- Handling risk: the last step of the risk management process includes identifying the action plan(s) best suited to the Company.

Managing risk management procedures

The risk management system is subject to regular monitoring and review, which allows it to be continually improved.

The Audit Committee meets at least once a year to review the risk mapping prepared by the Internal Audit Department for the Group's Senior Management and monitors the progress of dedicated action plans.

The Group also conducts regular internal audits in France and abroad to assess and improve the effectiveness of its risk management systems.

Links between risk management and internal control

The risk management and internal control systems are complementary to the management of the Group's activities:

- the risk management system aims to identify and analyze the main risks. Such risks are addressed and are the subject of action plans. These plans may propose a change to the organization, the implementation of projects and the introduction of controls. These controls to be implemented come within the internal control system and may be reviewed in light of the risk mapping;
- the internal control system relies on the risk management system to identify the main risks to be contained; and
- the audit plan relies mainly on risk mapping to test the assessment of the level of control of identified risks.

The coordination and balance between the two systems depend on their shared underlying control environment, and, more specifically, the Company's specific risk and control culture, and the ethical values specified in the business code of conduct.

6.7.1.2 / General internal control principles

Internal control definition and objectives

The internal control system at Fnac Darty encompasses a number of appropriate resources, policies, practices, procedures and initiatives whose purpose is to ensure that the required measures are taken to control:

- the activities, efficiency of its operations and efficient use of resources; and
- the risks likely to have a material impact on the company's assets or its ability to meet its objectives, whether of an operational, financial or compliance nature.

Internal control is defined as a process conducted by senior management under the control of the Board of Directors, and implemented by the Directors and all employees. Irrespective of its quality and extent of application, it cannot entirely guarantee that the objectives in the following areas will be achieved:

- compliance with applicable laws and regulations;
- application of instructions and strategy adopted by senior management;
- proper functioning of internal processes, including those contributing to protecting the assets; and
- reliability of financial information.

Internal control limits

The following limitations inherent in any internal control system affect the probability that the Company will achieve its established objectives, in particular:

- human errors or malfunctions that occur when decisions are made or implemented;
- deliberate collusion between several persons, making it possible to elude the control system in place;
- deliberate fraud by management;
- where the implementation, or even maintenance, of a control would be more burdensome than the risk which it is supposed to alleviate; and
- moreover, when endeavoring to achieve the above-mentioned objectives, companies are confronted with events and hazards that are outside of their control (unforeseen changes in markets and competition, unforeseen change in the geopolitical situation, errors in forecasting or estimating the impact of such changes on the organization, etc.).

Internal control components

The quality of the internal control system depends on the following components:

- a control environment based on rules of conduct and integrity upheld by the management and communicated to all employees;
- the existence of a clear and appropriate definition of roles and responsibilities;
- a system for categorizing, analyzing and managing the main risks; and
- ongoing monitoring of the internal control system, and regular review of its performance.

Fnac Darty's internal control environment

This environment is structured around the principles and values shown in the internal codes and charters governing the behavior and ethics of all employees and is based on the management of human resources guaranteeing the competence, ethics and involvement of employees.

Principles and values

- The business code of conduct was updated in 2017. It sets forth the ethical principles and the main rules of conduct, in accordance with applicable regulations, and the behavior expected of Fnac Darty employees and partners.
- A "Gifts and Benefits Charter" updated in 2017 sets out in more detail the rules governing the various gifts and enticements from suppliers, third parties, and partners.
- The key unifying values of the Fnac and Darty banners are Commitment, Passion, Respect, Innovation, Solidarity, Exemplary Performance, Spirit of Service, and Operational Excellence. These shared underlying values are reiterated in the updated business code of conduct.
- An Internal Control Charter, issued in 2010, was updated and supplemented in 2013. It defines the role, as set forth by the AMF framework, of each individual involved in internal control. Darty also has internal control guidelines that are regularly updated and sent to employees.
- An ethics charter for securities trading, updated in 2017, in compliance with AMF instructions, defines the obligations incumbent on persons holding privileged information.
- A charter relating to the appropriate use of IT systems was first released in 2008, re-issued in 2012 and updated in 2017 to raise awareness and increase user responsibility among Fnac Darty employees on the rights and duties incumbent on them.

These codes and charters have been validated by the Group's management committee. They are available to all employees for reference on the intranet sites of the Group's banners.

"Fnac Darty's Essential Rules," updated in 2017, set forth the 14 main operational and administrative cycles of the Group's activities, the key rules of internal control related to legal or regulatory compliance, and how to achieve such objectives while efficiently allocating resources. In addition to these rules, there is a "Store Best Practices" corpus and a "Risk Prevention in management" glossary.

Human resources policy

The human resources policy contributes to internal control, in particular by delegations of power and responsibilities, descriptions of functions, an employee assessment system and investments in training.

- Given the size of Fnac Darty, the size of its workforce, the diversity of its activities, and the geographical dispersion of its different entities, it is necessary to delegate powers and responsibilities for the business to operate effectively. Responsibilities are delegated to appropriate people and entities, along with all the powers and resources they need to carry them out, in compliance with applicable regulations. Official job descriptions exist for key functions. The descriptions refer to the necessary controls for the supervision of the activity and also serve as a framework for the individual assessment system. The identification and description of key skills (managerial and business-specific) for the Group allows for the gradual implementation of a shared system for managing skills.
- Training, a component of annual plans, is focused on business-specific skills, combining specific know-how and management expertise. It is provided from the time new recruits first join the Group and continues throughout their careers, ensuring their individual development.
- All Fnac Darty managers and employees benefit from an annual performance and skills appraisal to consider their training and professional development needs. Group Human Resources is responsible for the Group's senior executives (recruitment, international mobility, career management and training). Succession plans are in place for the principal Fnac Darty management positions.
- Since January 2018, employees are asked to give their opinion on various themes every fifteen days by answering three questions. This mechanism is also an opportunity for them to freely express their expectations, which facilitates the creation of concrete actions plans. Monitoring committees have been set up for this purpose.
- Compensation policies are managed and controlled by Group Human Resources for principal management functions and by Country Human Resources for other functions, in accordance with the main defined goals.
- The Group's Human Resources deploys and coordinates the Group's Corporate Social and Environmental Responsibility policy.

Organization

The structure of the Group's internal control involves persons throughout the chain of command, from the Executive Committee to all employees and supervisory and assessment bodies, including the Board of Directors, the Audit Committee, the Appointments and Compensation Committee, the Corporate, Environmental and Social Responsibility Committee and the Statutory Auditors.

The allocation of responsibilities and division of functions ensures control and provides the basis on which the respective roles of the various decision-making bodies are built.

The Executive Committee

The Executive Committee determines Fnac Darty's main strategic policies and their impact on the major financial and management equilibrium. It examines the work of internal and external auditors. It decides which directions to take and which action plans to follow.

It is chaired by the Chief Executive Officer of Fnac Darty, and in 2018 included, in addition to himself, the CEO of Fnac Vanden Borre in Belgium, the Fnac Darty Human Resources Director, the Fnac Darty France Products and Services Commercial Director, the Fnac Darty Information Systems Operations Director, the Fnac Darty Chief Operating Officer, the Fnac Darty Chief Financial Officer and General Secretary, the CEO of Fnac Spain in charge of Iberia Region coordination, the Fnac Darty Marketing and e-Commerce Director, the Fnac Darty Communication and Public Affairs Director, and the Director of Strategy and M&A since January 2019.

The Director of Strategy and M&A at Fnac Darty leads and coordinates all Executive Committee projects.

Investment Committees

Since 2008, the Group Investment Committee has examined and authorized all investment decisions on major projects and projects related to:

- the creation of directly owned or franchised stores; and
- the acquisition or disposal of companies or businesses.

The Group Investment Committee is chaired by the Group's Chief Executive Officer. Its permanent members are the Group Chief Financial Officer and the Financial Control Director. Country projects are presented by the country CEO, assisted by his Chief Financial Officer and the experts involved in the projects (e.g. the Property Department for a real estate project).

The IT Investment Committee has examined and authorized all investment decisions on major IT projects since 2012.

The IT Investment Committee is chaired by the Group's Chief Financial Officer, and its permanent members are the Group Information Systems Operations Director and the Group Financial Control Director. Country projects are presented by the country CEO, assisted by his Chief Financial Officer.

Operational managers and employees

Management is the operational agent for internal control and relies on it for the achievement of its targets; the exercise of appropriate controls is therefore one of the prime responsibilities of every Group manager. This responsibility begins at the first level of supervision. Awareness of these controls among the main participants is formalized by the signing of delegations of powers and responsibilities.

As part of their delegated powers and formalized responsibilities, each Director and manager defines, implements and manages the internal control system. In particular, store, subsidiary and entity Directors are responsible for maintaining a satisfactory level of internal control on the assets and cash flows of the unit or company they manage.

Employees must be aware of the internal control systems for the objectives assigned to them, and must comply with the control principles and rules. They may help to improve and detect malfunctions. They are informed of the existing measures when they sign their employment contracts and by the internal regulations of the legal entities to which they report.

Other internal control participants

- The Fnac Darty Legal Department advises and assists the operational departments and subsidiaries on major legal questions.
- The Fnac Darty Tax Department advises and assists the operational departments and subsidiaries on major tax issues.
- The Fnac Darty Financial Control Department is in charge of implementing and ensuring compliance with the procedures for reporting and preparing the consolidated financial statements.
- The Fnac Darty Human Resources Department advises and ensures that internal practices comply with labor laws and regulations.
- The Fnac Darty Security and Risk Prevention Department conducts specific risk analyses and proposes action plans on security, safety and the environment.

Supervisory and internal control assessment bodies

- The Board of Directors contributes to the general control environment through the skills of its members. It is regularly informed of major internal control and risk management methodologies and describes them in its Activity Report.
- Part of the Audit Committee's responsibility is "to implement and ensure the relevance of internal control procedures; identify and hedge risks of the Company, in particular for its financial or commercial and physical or intangible assets, as well as any type of contingent risk relating to employees, customers or third parties arising from the activities of the Company and/or its subsidiaries".
- Part of the Appointments and Compensation Committee's responsibility is "to evaluate the independence of the members of the Board of Directors, propose the appointment of its members, senior management and the specialized committees, and to examine and propose to the Board all elements and conditions for the compensation of members of senior management and the Group's main directors".
- Part of the Corporate, Environmental and Social Responsibility Committee's responsibility is "to examine the principal risks and opportunities for the Group in corporate, social and environmental matters".
- In 2018, the Group's Ethics Committee was set up, chaired by the Human Resources Director, and its permanent members are the Legal Director, the Security and Risk Prevention Director, the Internal Audit Director and the Head of Environmental and Social Responsibility. This Committee's primary responsibilities are to ensure that the Group's codes, charters and policies are kept up-to-date, to monitor the effectiveness of risk reduction plans when mapping specific risks involving corruption and duty of care, and to prepare an annual report of its work for the Executive Committee.
- A Personal Data Management Committee was set up in 2017 to oversee compliance and adherence with the European General Data Protection Regulation (GDPR) of May 25, 2018. This Committee is chaired by the Data Protection Officer (DPO) appointed by Fnac Darty for France. DPOs have also been appointed for other countries. The main objectives of this Committee, which meets every six weeks, are explained in Chapter 2 of this Registration Document and particularly in section 2.4.1.3 "Protection of personal data".
- The Fnac Darty Internal Audit Department, through its missions, contributes to the assessment of the internal control system and draws up recommendations for the improvement of its operations. The Internal Audit Department is in charge of managing and coordinating risk management, in particular through annual risk mapping and monitoring of action plans. It is also in charge of the central administration and analysis of internal control pursuant to the Financial Security Law and the AMF's reference framework set out in the section below, "Oversight of the system". The Fnac Darty Internal Audit Department, which reports to Fnac Darty's Chief Financial Officer and General Secretary, reports the main results of its assessments to the senior management and the Audit Committee.

- The Statutory Auditor learns the elements of internal control that are pertinent for the audit in order to take into consideration factors that may generate risks of material anomalies in the financial statements, and not for the purpose of formulating an opinion on internal control efficacy.

  At a time the Statutory Auditor deems appropriate, he or she communicates to management, at the appropriate level of responsibility, the weaknesses of the internal control identified during the audit which he or she believes to be of sufficient importance to merit attention, unless the auditor believes this approach would be inappropriate under these circumstances. The Statutory Auditor makes this communication in writing when it covers weaknesses believed to be significant. The Statutory Auditor communicates the significant internal control weaknesses in writing to the bodies cited in Article L. 823-16 of the French Commercial Code, at the time he or she deems appropriate.

Oversight of the system

The ongoing oversight of the internal control system and the regular review of how it is functioning entail three types of tasks: annual self-assessment exercises, internal audit assignments and observations made by the Statutory Auditors, as indicated in the previous paragraph.

Self-assessment

Those in charge are asked to apply the internal control system to assess the level of internal control achieved through key controls for the proper functioning of their activities.

This approach helps to:

- raise awareness among operational and functional managers of the internal control procedures for which they are responsible;
- provide a structured and objective framework for analyzing risks and sharing internal control best practices; and
- launch action plans and, if necessary, improvement plans.

The internal control analysis strategy is based on the following principles:

- an annual self-assessment of Fnac Darty's essential rules, through questionnaires filled in by key operational staff in each Group country organization. In 2018, 14 cycles were self-assessed and a specific self-assessment mechanism was established for regulatory risks. The questionnaire for the "Finance, Accounting and Management" cycle sent to country Chief Financial Officers takes into account the AMF's reference framework and, in particular, its application guide.

  These questionnaires help operational staff to assess the quality of the internal control procedures for which they are responsible. They standardize the level of internal control across all activities and allow operational staff to benefit from best practices. They enable the launch of improvement action plans based on the results obtained; and
- an annual self-assessment of "Essential" in-store controls, which is based on "Store Best Practices", is managed and coordinated by the finance network of country organizations. In 2018, all stores in the French and international network had been self-assessed.

Internal audit

In 2018, the Internal Audit Department continued to strengthen its system for assessing the organizations' internal control and risk management. The main actions undertaken concern:

- Internal Control Committees for all French and international subsidiaries. The purpose of these committees includes:
  - formalizing feedback from operational managers concerning identified and/or proven risks, and
  - ensuring that control activities are implemented and that they cover the subsidiary's risks.

  These Internal Control Committees met between January and December with the country and subsidiary CEOs and CFOs, and the Legal Department, Tax Department, Financial Control Department and Internal Audit Department; and
- the carrying out of on-site audit missions, both in France and abroad, including audits of store operational cycles and audits of the cycles of the main support functions at the head offices of subsidiaries (product procurement and overheads, HR, marketing, etc.).

Statutory Auditors

Within the framework of their assignment to certify the financial statements, the Statutory Auditors make observations. At a time the Statutory Auditor deems appropriate, he or she communicates to management, at the appropriate level of responsibility, the weaknesses of the internal control identified during the audit which he or she believes to be of sufficient importance to merit attention, unless the auditor believes this approach would be inappropriate under these circumstances. The Statutory Auditor makes this communication in writing when it covers weaknesses believed to be significant. The Statutory Auditor communicates the significant internal control weaknesses in writing to the bodies cited in Article L. 823-16 of the French Commercial Code, at the time he or she deems appropriate.

6.7.1.3 / Internal control procedures relating to the preparation of financial information

General principles of organizing accounting and financial internal control

Definition and objectives

Accounting and financial internal control includes the processes that provide accounting data: the financial information production process, account-closing process and communication actions.

The accounting and financial internal control system aims to ensure:

- compliance with accounting regulations and proper implementation of the principles on which the financial statements are prepared;
- implementation of senior management's instructions on financial reporting;
- the preservation of assets;
- the quality of information reported for the preparation of published financial statements and the reliability of their centralized processing for Group consolidation, with a view to the distribution and use of that information for management purposes; and
- the control of production of financial, accounting and management items.

Scope

The scope of application of internal control procedures relating to the preparation and treatment of financial and accounting information includes the parent company and all subsidiaries in the consolidated financial statements.

Organization and management process of the accounting and finance function

Organization

Group financial and accounting information is prepared by the Group Finance Department.

In 2018, the Finance Department and the Office of the General Secretary of Fnac Darty supervised the Financial Control Department, the Legal Department, the Tax Department, the Investor Relations and Financing Department, the Security and Risk Prevention Department, the Real Estate Department, the Internal Audit Department and the France Finance Department, to which the Cash Management Department and the Management Control Department are attached.

Standards

Accounting standards

The Group has a body of accounting rules and policies which must be applied to all consolidated subsidiaries.

These accounting rules, which are regularly updated, take into account changes in accounting regulations and standards.

The accounting standards establish the principles required for the consistent processing of transactions. They specify, in particular, the recording methods pursuant to International Financial Reporting Standards (IFRS).

The budgetary and closure procedures ensure consistency in the processing of data.

Management standards

Management standards not only specify the rules applying to the valuation of certain major account balance sheets and income statements, but also the controls and validations applying to key processes.

The Financial Control Department is responsible for improving the quality of formalized rules and updating them.

Management process

The production and analysis of financial and accounting information is based on a set of management procedures, such as:

- the medium-term plan that measures the consequences of the strategic directions on the Group's major financial and management cornerstones. The plan is also used annually by the Group to assess the value-in-use of assets relating to the various Cash Generating Units;
- annual budgets, compiled after discussions with Country and Group operational departments and general management: the annual budgets identifying the major financial goals and operational action plans are prepared in the fourth quarter of the period and definitively adopted in the following first quarter after taking any intervening events into account;
- the annual budgets are updated at least twice a year to ascertain whether the budgetary targets have been met and, if necessary, to revise them by taking into account results to date and changes in the internal and external environment. In addition, a rolling monthly forecast is provided as part of the monthly budget update, with the entities sending in their revised monthly earnings and cash flow forecasts based on their business activity estimates;

- the reporting that is carried out each month on the basis of monthly result closures performed by all entities dependent on the Group allows rapid reporting of financial information and regular monitoring of operational performance. The Financial Control Department, based on the controls delegated to country or subsidiary Chief Financial Officers, makes sure it is consistent and complies with the applied accounting treatments.

  The Group's CEO, its Chief Financial Officer, and the regional, country or subsidiary CEOs meet regularly with the managers of the various activities to assess the development of business, based on financial and operational aspects; and

- the Financial Control Department oversees, on a regular basis for annual and semi-annual financial statements, off-balance sheet commitments of consolidated legal entities, including as part of the statutory consolidation processes or with regard to how they are required to list all their commercial or financial commitments and monitor them over the years.

Information systems

Financial and accounting information systems implemented in the Group have the purpose of meeting the compliance, security, reliability, availability and traceability of information requirements.

- Financial management and accounting data are managed with a single SAP information system in all Fnac banner activities to ensure consistent processing, comparison and control of accounting and financial information. Financial management and accounting data is managed with an SAP information system that is different from Fnac's system for Darty France, with software developed in-house for Vanden Borre (Darty Belgium) and with the IT system Microsoft Dynamics Nav for BCC (Darty Netherlands).
- Financial reporting data and budget construction and tracking data are managed with a single information system across all Fnac Darty activities. This SAP BPC tool interfaces with the various accounting information systems.
- Consolidation data are collected in a single consolidation tool known as BPC Consolidation, which interfaces with Fnac Darty's BPC V2 consolidated reporting system.

To reinforce internal control of systems, the Organization and Information Systems Department has strengthened the system for segregating duties and has improved right of access controls through a formalized annual review across the entire Group.

Preparation of accounting and financial information

Operational bookkeeping processes

All bookkeeping processes, including sales, purchases and inventory management, fixed assets, payroll and cash are the subject of specific monitoring procedures and accounting validation and authorization rules.

Consolidation of accounts

The statutory consolidation of accounts is performed monthly using the single consolidation tool that allows the consolidated subsidiaries' financial information to be transmitted in real time after a comprehensive validation process of consolidation files by their Statutory Auditors, CEOs and CFOs, who sign a representation letter every six months, thus ensuring the quality of financial information transmitted.

The Financial Control Department conducts the consolidation process.

Financial communication

The Investor Relations and Financing Department, which reports to the Group Chief Financial Officer and General Secretary, is responsible for preparing a precise timetable for releasing the latest financial information on the Group's activities to the financial markets.

This timetable is in line with the requirements of market authorities. Managers verify, with help from the Legal Department, that the information is released within the required time and in compliance with the laws and regulations that it monitors on an ongoing basis.

All material information communicated to the financial community accurately and transparently reflects the situation of the Group's activity, and is released in accordance with the principle of equality of information between shareholders.

Statutory Auditors

As part of their ongoing assignment, the Statutory Auditors audit the annual and interim accounts and financial statements of consolidated entities. The Group's annual consolidated financial statements are prepared under the supervision of the Financial Control Department under the responsibility of the Group Chief Financial Officer and General Secretary after validation by the entities' Finance Departments. The Chief Executive Officer and the Group Chief Financial Officer and General Secretary certify that the consolidated financial statements are true and present a fair view by signing a representation letter addressed to the Statutory Auditors.

6.7.2 / RISK MAPPING

Under its risk management and internal control procedures, Fnac Darty maps the principal risks to which it is exposed. The Group assesses the potential impact of each risk that is identified. The risk maps are updated regularly and allow the Group to define and monitor the various action plans that are implemented to reduce or manage these risks. The risks identified in the most recent Fnac Darty risk mapping are described in the previous sections of this Chapter 6 “Risk factors and internal control”. Additionally, in order to meet new regulatory requirements, risk mapping specifically for anti-corruption risks and risk mapping relating to the French law establishing a duty of care that must be exercised by parent companies and ordering companies have been carried out.

6.7.2.1 / Mapping of Group business risks

Key business risks identified are mapped at Group level with contributions from the Group’s countries and main operational departments, initially approved by the Executive Committee and then reviewed and approved by the members of the Audit Committee in December of every year.

Audit Committee members are updated on a regular basis on the progress of any risk mitigation plans.

6.7.2.2 / Specific mapping of Group corruption risks

In accordance with the Sapin 2 Law promulgated in December 2016, which came into effect in June 2017, the Group has established a corruption risk mapping process. Developed from interviews with the Group’s various departments, it takes into account the geographical location of our activities, our interactions with third parties, the various business lines within the Group, our human resources policy, and existing procedures. The action plans defined in this regard have helped to strengthen our business ethics system (see Chapter 2, section 2.4.1.1, “Fight corruption”).

6.7.2.3 / Specific mapping of Group risks relating to duty of care

In consideration of the French law establishing a duty of care that must be exercised by parent companies and ordering companies, the Group, in conjunction with the Company’s stakeholders, has prepared specific risk mapping relating to fundamental human rights and freedoms, personal health and safety, ethics and the environment, directly or indirectly resulting from its business activities. This work has helped us to define a robust oversight plan that includes appropriate mitigation measures (see Chapter 2, section 2.4.1.2, “Oversight plan”).