6

Risk factors and internal control

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The Group reviewed the risks likely to have a material adverse effect on its operations, financial position or earnings (or its ability to reach its targets) and did not identify any other material risks, excluding those mentioned herein.

6.1 / Strategic and economic risks

The Group may not be able to find new growth levers and address strategic disruptions.

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, consumer behavior (and customer-attraction and retention tools), as well as distribution methods (see section 1.3.2.1 "Digitization of distribution and changing consumer behavior"). The boom in e-commerce has especially spawned new web-only retailers ("pure players") to the detriment of traditional retailers like our two Banners. They are generating intense competition in prices and they offer a very wide range of products, all constituting a serious threat to traditional retailers. Specifically, the development of e-commerce has reduced prices and margins in the markets of our two Banners.

In the consumer electronics market, the growth of the Internet continues to coincide with deflation and a low point in the innovation cycle, which limits the turnover of goods sold.

These elements could have a material adverse effect on the Group's image, operations, earnings, financial position, market share and outlook.

Adapting Fnac Darty to new developments and to the shrinkage of its principal markets lies at the heart of the *Confiance+* strategic plan. The aim is primarily to expand the Group's territorial coverage through an ambitious development of franchises, extend the brand's territory by diversifying its product range, primarily by developing its marketplaces, developing new fast-growing product lines and adapting its sales models to customers' new expectations, by focusing on an omnichannel, multi-banner approach to distribution and by developing associated services.

The Group's markets are facing fierce competition.

The retail market for consumer electronics and editorial products is highly competitive (see section 1.3.2.2 "Competitive Environment"). The Group competes with traditional, international and local retailers, including some that are developing online sales platforms. The Group is also in competition with pure players in e-commerce. Some of these are established in countries where they can benefit from more favorable tax structures than the Group. Some pure players operate globally and promote intense price rivalry to drive up their sales and market share. Their pricing can be more competitive due to their purchasing volumes, and because they have a lighter cost structure and none of the constraints associated with a store-based model, along with the offer of an increasingly large product range. Over the past few years, new competitors such as manufacturers, Internet service providers (ISPs) and digital platforms have also emerged, producing a phenomenon of disintermediation in the industry and calling into question the role of retailers such as our Banners in the marketing and supply chain. Finally, piracy is undermining the attractiveness of the legitimate editorial products offered by the Fnac banner and constitutes a source of unfair competition.

In addition, the decline in the editorial markets in which the Fnac banner operates also tends to strengthen competition by reducing available revenue for the various players.

More intense competition could have a material adverse effect on the Group's image, operations, earnings, financial position, market share and outlook.

Monitoring and reacting to the competitive environment and its changes take place at the country level and are overseen at the Group level by the Strategy Department as part of an approach aimed at anticipating competition, conducting strategic reviews of geographical locations and identifying development or arbitrage opportunities. Also, action plans such as the recent partnership forged with a major distribution company to pool technical product procurement is one of the approaches taken to address competition.

Risks relating to the Fnac Darty consolidation.

The main aim of the plan to merge the two Banners is to create value for the new entity, especially through synergies in purchasing, logistics optimization, pooling back-office functions, and savings on buying services (see section 1.4.3.2 "First-rate operational efficiency").

Also, implementing the consolidation while at the same time maintaining the operating activities of the two Banners, each with a strong corporate culture, is a key challenge. The timetable for implementing the plan might not be complied with, management might be faced with conflicts between plans with different prioritization concerns, the organizational revamp might have a structural operational risk, particularly in terms of pooling the tools for processing operations and associated flows such as logistical flows. Other material risks might also be generated by the Fnac Darty consolidation. For example, the new Group might face a lack of sales initiative during the transformation period, or our two Banners might be more strongly exposed to attempts of internal or external fraud which take advantage of management's focus on projects underway for the merger.

Action plans have been adopted to support the changeover process and to maintain constructive ongoing dialogue with staff representative bodies as well as with employees themselves. The new Group's *Confiance+* strategic plan is to engage in a major communication effort to generate maximum buy-in among employees and provide direction to the various strategic projects. A Q&A session is planned for top management to answer employees' questions. Lastly, Fnac Darty has opted to introduce internal training for Group employees to support the digital change process and accelerate the development of key skills.

These actions are key for the success of this banner consolidation project.

Risks that the Group may not be able to implement Competition Authority decisions and pursue its growth and partnership strategy.

In its July 27, 2016 decision, the French Competition Authority authorized Darty's acquisition by Groupe Fnac, subject to sale of the commercial leases and goodwill pertaining to one Fnac store, four Darty stores in Paris and one Darty store in Vélizy. Not all the stores have been sold to date, due to the Competition Authority's failure to authorize the sales within stated deadlines. The Group appealed but decisions are still pending. In general, the problems encountered by the Group in selling the designated stores and the Competition Authority issues associated with them, demonstrate the hurdles faced by the Group in its development and growth capacity.

6.2 / Operational risks

The Group's ability to organize compliance with European directives, diverse and new regulations in various countries, primarily tax-related, could expose it to compliance risk.

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 of December 9, 2016, places a heavier obligation on our Group to put in place anti-corruptionandinfluence-peddling measures in all our geographic regions.

The Group's operations in France are primarily subject to the 2008 Economic Modernization Act [loi de modernisation de l'économie (LME)] which in particular regulates payment terms. Therefore, with some exceptions (such as books), under the terms of Article L. 441-6 of the French Commercial Code, the payment terms may not exceed 45 days from month-end or 60 days from the invoice issue date in the event of an agreement between the parties. In the absence of an agreement between the parties, the terms cannot exceed 30 days from receipt of the goods or performance of the services.

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 by our Banners, or the costs they incur for the rental of retail space.

Compliance with these laws and regulations could have a significant negative impact on the Group's operations (particularly in terms of lower prices, lower margins and loss of market share), financial position, earnings and outlook.

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 statutory requirements is 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 and Finance Departments.

The Group's business may be affected by a deterioration in its labor relations, including with its unions, or by a deterioration of the social climate within the Group.

The Group is constantly adapting its human resources and organizational structure; this requires the Group to maintain good relations with its employees, unions and employee representative bodies. For example, a worsening of labor relations due to the implementation of a new organizational structure or a new strategy could have a material adverse effect on the Group's image, operations, earnings, financial position and outlook.

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 of this Registration Document, in particular section 2.3.3 "Employee Relations".

The Group may face a loss in motivation among its employees and a talent drain.

The Fnac Darty consolidation plan might well cause some concern to employees in both banners. Organizational changes may demotivate employees if they have not become sufficiently entrenched in the organizational goal. Similarly, departures caused by reorganization could create a "pull factor" resulting in a further loss of talent from both banners. Both companies have also put in place local action plans involving face-to-face communication with employees, and recently a large-scale project to promote employee engagement in the form of the Group strategic project *Confiance+*, as well as an employee shareholding plan.

The activities of the Group could be impacted by acts of terrorism.

Following the attacks in Paris in 2015, Nice in 2016, and Spain in 2017, extension by the government of the state of emergency in France, the national security system 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 Netherlands at 2 ("substantial") on a scale of 1 to 4, and the risk that also exists in the other countries where the Group is based, particularly Africa, a major critical risk was maintained in 2017. This risk concerns both the threat to the safety of the Groups employees, customers and service providers, and the threat to its goods which it needs 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 Brands, and the Group's business could be severely damaged, especially through a decrease in store traffic. Additionally, the Group, in conjunction with the 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 measures in Île-de-France stores. Store staff has also received instruction in crisis management, and posters with anti-terrorism best practices have been put up in stores.

Our brands image could deteriorate.

The past 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, the development of social media that encourages the 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. Lastly, our brand image could be affected by exceptional events such as liability incurred for marketing faulty products or non-compliance with applicable regulations.

The Group is also engaged in initiatives to tighten its evaluation of the third parties with which it does business.

The Group's operations could be impacted by security vulnerabilities in IT tools and the incompatibility of those tools and systems with operational changes.

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, as the end of the year.

With information systems constantly changing, particularly affecting the Fnac Darty consolidation project, the growth of portable technology and cybercrime, the tightening of regulations governing the personal data of customers and employees, with such personal as well our own commercial data being susceptible to piracy, forcing us to continually upgrade the security of our information systems, the security of its information systems is a key challenge for the Group.

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. The success of the plan to merge the IT systems is key to preventing operational malfunctions, or even, in the worst case scenario, a complete standstill of logistical flows. As a result, a progressive rollout, a double-run operation and an unwind option have been provided to secure these operations.

From a security perspective, Fnac Darty's IT 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 through appropriate governance, shared standards, and the dissemination of the charter for the proper usage of information systems to employees, in order to raise their awareness of these risks, and conduct regular checks as well as verify the reliability of external IT contractors 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 the performance of tightened security audits of external contractors. Therefore, specifically in light of the phishing risk, audits were carried out to implement appropriate action plans, to include crisis simulation exercises, a tighter password policy, and data encapsulation of PCs. As the Group may thus face a CNIL/GDPR compliance risk in a legislative and regulatory environment undergoing significant change, specific projects and budgets have been assigned to ensure Fnac Darty's compliance.

The Group could be affected by a deterioration in its relations with certain suppliers, partners or service providers.

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 ten suppliers represented around 47% of the total purchases made in 2017. A major portion of the Group's operations depends on its capacity to negotiate under good conditions and maintain contracts and 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 IT resources, including the hosting service performed by the Kering group, transport, delivery and payroll management.

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 franchises, 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.

The Group could be affected by a deterioration of its relationships with its property owners.

The Group's success is due in particular to its ability to develop and manage a store network that meets its requirements as well as its customers' expectations. The Group may be exposed to the risk of non-renewal of its leases or face conflicts with its property owners at the time of a lease renewal.

In order to improve its operating profitability, the Group proceeds as often as necessary to renegotiate its rents, optimize the management of its retail space and optimize the terms under which its rents are indexed. No guarantee can be given regarding the Group's capacity to successfully implement its strategy for the optimization, usage and allocation of its retail space (including the deployment of any new product universe and the rollout of shops-in-shops as part of the *Confiance+* strategic plan), control its rents or maintain and develop a network of stores in the best locations and on acceptable terms.

Fnac Darty's property portfolio is constantly monitored to ensure its optimal use and anticipate any necessary adjustments to preserve a portfolio of prime-quality sites negotiated under the best market conditions.

The Group could be exposed to significant financial risks if its insurance coverage proves to be inadequate.

The Group is exposed to risks that are inherent to its business. Although the Group has taken out a third-party liability and business interruption insurance policy, legal proceedings for third-party liability or business interruption could lead to substantial damages, some of which may not be covered by insurance. The Group cannot guarantee that the coverage limits under its insurance programs will be adequate to cover future claims or operating losses incurred as a result of accidents resulting from fires, explosions, water damage, theft, natural events causing damage to the Group's own property (buildings, furniture, equipment, merchandise or computer systems) or following a business interruption at its premises, nor that it will be able to maintain this insurance on acceptable terms in the future. Fnac Darty's operations, earnings, financial position and outlook could be materially adversely affected if the Group's insurance coverage proved to be inadequate or unavailable in the future (see section 6.5 "Insurance").

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 represents the amount paid by the Group in a business combination that exceeds the fair value of the identifiable net assets on the date of acquisition. Goodwill is allocated to each cash-generating unit in each country. 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 book value of those units may not be recoverable. Accordingly, the Group's brands are also tested for impairment every year.

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. These assumptions primarily include the discount rate, growth rate and change in sales prices and direct costs during the period in question. 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 selling prices and direct costs are based on historical data regarding these changes and on estimates of future changes in the market.

If business operations and forecasts change, the estimated recoverable value of goodwill or the assets themselves may decline significantly and require impairment.

Details of assumptions and the study of the impacts of the sensitivity of the impairment tests are detailed in note 18 to the consolidated financial statements.

The absence of significant impairment charges in the future cannot be guaranteed, especially if market conditions were to deteriorate.

The Group's intellectual and industrial property rights may be challenged.

The Group owns or uses intellectual and industrial property rights, including trademarks, logos and domain names that it uses in its business. 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. However, the Group cannot be certain that the measures undertaken to protect its intellectual and industrial property rights will be effective or that third parties will not infringe, misappropriate or terminate its intellectual or industrial property rights. 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.

The main shareholders who hold a significant percentage of the Company's share capital could influence decisions made by Fnac Darty.

Upon completion of Ceconomy's purchase of the shares held by Kering, Ceconomy Retail International Group held 24.20% of the share capital and voting rights of the Company. It should be noted that none of the 12 board members have any ties to Ceconomy, as the recently appointed new Directors are all independent. In 2017, Vivendi held 11.05% of the share capital and voting rights of the Company, and two of the 12 board members had ties to it. 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. Consequently, no shareholder to date can influence the adoption or rejection of resolutions submitted for approval by company shareholders at such meetings 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 financial statements and dividend distributions, authorizations related to capital increases, mergers, contributions, or any other decision requiring shareholder approval.

In early February 2018, SFAM bought 11% of Fnac Darty shares from the Knight Vinke Assets investment fund. To date, none of the 12 members of the Board of Directors have any ties with SFAM and there is no risk of SFAM influencing Group decisions at this stage.

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 trademark and Brands. 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. Also, the crisis management procedures that are in place at Group level will allow for effective tracking of potential risks, detailed above, if our Brands were faced with them.

The Group may not have the ability to implement its cost savings plans.

The most impactful, simple and readily implementable cost savings plans have already been accomplished. The projected synergies from the Fnac Darty consolidation have been achieved, but the Group still has to make further cost savings to ensure that its operational efficiency and earnings do not deteriorate. The performance culture is also central to the Group's strategy, to ensure that all departments contribute to the search for savings while maintaining operational efficiency. Furthermore, action plans to support its staff are in place, primarily through a matrix structure that permits decision-making without hampering Group-wide deployment and pays special attention to any potential human resource impacts in its entities.

6.3 / Market risks

The Group has set up an organizational structure which enables it to manage market risks on a centralized basis. Within the Group, risk management is the responsibility of the "Investor Relations and Financing Department" and the "Treasury Department." The Group believes that monitoring market risk at the Group level allows for more effective risk management.

Market risk

The Group's foreign exchange risk management policy consists of reducing the inherent exchange risk for transactions at 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. The management of currency risk 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.

Exposure to currency risk is detailed in section 5.2, note 28.2 to the consolidated financial statements.

Interest rate risk

Exposure to interest rate risk is detailed in section 5.2, note 28.1 to the consolidated financial statements.

Liquidity risk

Liquidity risk for the Group and each of its subsidiaries is closely and regularly evaluated by the Group through periodic financial reporting.

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.

In order to diversify its sources of financing and stimulate its liquidity, the Group intends to establish a Negotiable European Commercial Paper plan in 2018.

On September 22, 2016, the Group also successfully issued a seven-year senior bond for €650 million bearing annual interest of 3.25%.

As of December 31, 2017, Fnac Darty's net debt was €861 million, consisting mainly of:

- a €200 million bank term loan maturing in April 2021;
- €655.3 million in senior bonds maturing in September 2023 with capitalized interest.

Free cash flow from operations amounted to €199.2 million as of December 31, 2017.

The €400 million revolving facility maturing in April 2021 was unused.

The loan agreement and the bond issue contain clauses customary for these types of financing, namely financial commitments, general restrictive covenants and events of default.

As of December 31, 2017, all of the financial covenants relating to the Loan Agreement were being complied with (see section 4.3.2.2 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 4.3.2.2 of this Registration Document.

Centralized cash management

Fnac Darty Participations et Services has entered into centralized cash management agreements for an unlimited term with its foreign subsidiaries. The purpose of these agreements is to centralize the Group's cash management ("cash pool") in order to encourage coordination and optimization of the utilization of cash surpluses or coverage of aggregate cash requirements within the Group. Pursuant to the agreements, these subsidiaries deposit any cash surpluses they do not use to finance their operation and their investment program with Fnac Darty Participations et Services, in exchange for which Fnac Darty Participations et Services finances their working capital requirements and capital expenditures.

Credit and/or counterparty risks

Credit risk: due to its great 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.

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 risk management policy relating to interest rates and currency, 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.

Currency risk

The Group's foreign exchange risk management policy consists of reducing the inherent exchange risk for transactions at 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. The management of currency risk 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.

Exposure to currency risk is detailed in section 5.2, note 28.2 to the consolidated financial statements.

Interest rate risk

Exposure to interest rate risk is detailed in section 5.2, note 28.1 to the consolidated financial statements.

Volatility of the market price of the Company's shares

Stock markets experience significant fluctuations which are not always related to the results of operations of the companies whose shares are being traded. These market fluctuations may have a material adverse effect on the market price of the Group's shares.

The market price of the Group's shares could also be materially affected by many factors that impact the Group, its competitors, general economic conditions, or the specialty retail market (in particular the entertainment and consumer electronics 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 results of the Group or its competitors; in this regard, note the recent purchase by SFAM in February 2018 of the stake held by the Knight Vinke Assets fund;
- 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 Group's shareholder base;
- announcements relating to changes in the Group's officers or key employees; and
- announcements relating to the Group's scope of consolidation (acquisitions, disposals, etc.).

6.4 / Financial risks

The Group may be unable to comply with some of its obligations under the Loan Agreement.

The Group may be unable to comply with some of its obligations under the Loan 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 should, if so requested by the lenders, (i) terminate with immediate effect the obligations 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). In the event that the amounts due under the Loan Agreement are declared immediately due and payable, the Group might face a cash shortage. This situation could have a material adverse effect on the Group's image, operations, results, earnings, financial position and assets. As of December 31, 2017, all financial covenants were being complied with (see section 4.3.2.2. of the Comments on the period).

The Group's covenants under the Loan Agreement and the High Yield Bond could reduce its flexibility to conduct its business.

The Loan Agreement and the bond include commitments that significantly reduce the Group's flexibility in how it conducts its operations, including but not limited to, implementing certain investment or divestment operations including asset sales or purchases, modifying the Group's financial structure including its indebtedness, granting pledges or guarantees or implementing merger or restructuring operations. 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 image, operations, results, outlook, financial situation and assets of the Group.

The Loan Agreement and the High Yield bond also include a clause under which the creditors of Fnac Darty could request full or partial early repayment of the loans in the event of a change of control. This restriction could have a material adverse effect on the Group's image, operations, earnings, outlook, financial position and assets.

The Group's earnings could be impacted by events requiring the revaluation of its pension plans.

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 funding 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 funding 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, 2017. In that case, the funding obligations could negatively impact the Group's financial position or operating results (see section 5.2, note 31.4 to the consolidated financial statements).

6.5 / 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:

- recommending preventive measures for risks that can be eliminated or reduced by these means;
- scheduling financing arrangements, including transfer to the insurance company of 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 information aimed at identifying and quantifying 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 implemented at the subsidiary level, is to identify, assess and reduce the exposure, occurrence and intensity of incidents, through:

- audits of the main operational facilities;
- 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 applicable 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, riots, terrorism, war or other causes; and
- operating losses following direct damage.

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 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. As of May 1, 2017, Fnac Darty as a whole will have a shared insurance program with better indemnities, lower deductibles and lower consolidated cost has compared with the previous year.

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 particularly insure the Group against damage resulting from fire, explosions, water damage, theft, natural disasters affecting property (buildings, furniture, equipment, merchandise, IT installations) and those for which the Group is liable, and against consequential operating losses, for an estimated necessary period of time before normal business can be resumed. 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, 2018. 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, 2018, is commensurate with the risks run. The cover limit is €3 million per claim.

Insurance costs borne by the Group: The cost to the Group of all insurance policies for the year ended are approximately €5 million.

6.6 / 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 or its reputation.

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

- creating and protecting the Company's value, assets and reputation;
- preserving the perpetuity of the company's short, medium and long term activities;
- securing the Company's decision-making process and other processes to achieve its goals;
- encouraging consistency between the Company's actions and its values;
- 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.

6.6.1 / 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.

6.6.1.1 / Risk management structure and coordination with internal control

Organizational framework

This organizational framework includes:

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

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 tangible and intangible assets and for the security and safety of everyone at all the Group's sites, and implement all human, organizational and technical means to handle risks of an accidental or intentional nature;
- the Support Services Departments, in their role of securing and driving progress, may identify risks and propose an action plan 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 an institutionalized approach of identifying and assessing risks.

To control the risks within its remit, the Safety & Risk Prevention Department circulates a set of rules and best practices, on which the individual country Security Directors also rely. Its objectives at Group level are to harmonize procedures, reduce risks, and optimize safety costs by promoting synergies and raising the awareness of all Fnac and Darty personnel.

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 in 2011, which is based on the COSO II Framework, and then 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 Safety & 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 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 Group's Audit Department and monitor the progress of dedicated action plans.

The Group also conducts regular internal audits on both banners to assess and improve the effectiveness of its risk management systems.

Links between risk management and internal control

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

- the risk management procedures aim 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 are in line with internal control procedures and may be reviewed in light of the risk mapping;
- the internal control system relies on the risk management procedures to identify the main risks to be contained;
- 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.

6.6.1.2 / General internal control principles

Definition and objectives of internal control

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;
- 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 executive 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;
- implementation of instructions and strategy adopted by executive management;
- proper functioning of internal processes, including those contributing to protecting the assets;
- reliability of financial information.

Limits of internal control

The following limitations inherent in any internal control system affect the probability that the Company will achieve its established objectives, and 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;
- 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.).

Components of internal control

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 executive 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;
- 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.
- 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.
- A Fnac Values Charter, distributed in 2012 as the result of an internal collective process, specifies four key values: Commitment, Passion, Respect and Innovation. The key unifying values of Darty are Respect, 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.
- A code of conduct 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, then re-issued in 2012, and updated in 2017 for Fnac Darty computer systems users to raise awareness and increase user responsibility for the rights and duties incumbent on them.

These codes and charters have been validated by the Group's executive management. They are available on the intranet sites of the two companies so that each employee can refer to them.

"Fnac's Essential Rules," distributed in 2012, set forth the 14 main operational and administrative cycles of Fnac'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, which was also updated in 2012. These "Fnac Darty Essential Rules" were updated in 2017 to take into account the full new scope of Fnac Darty.

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 Meeting to appraise their performance and skills and take into account their training and professional development needs. Group Human Resources is responsible for Group senior executives (recruitment, international mobility, career management and training). Succession plans are in place for the principal Fnac Darty management positions.
- An employee opinion survey is usually conducted every two years.
- 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.
- Group Human Resources deploys and coordinates the Group's Corporate Social and Environmental Responsibility Committee 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.

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 2017 included, in addition to himself, the CEO of Fnac Vanden Borre in Belgium, the Fnac Darty Human Resources Director, the Fnac Darty Services Director, the Fnac Darty Information Systems Organization Director, the Fnac Darty Chief Operating Officer, the Fnac Darty Operations Director, the Group Chief Financial Officer and General Secretary, the Fnac Darty Sales Director, 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.

The Director of Strategy and M&A at Fnac Darty runs 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;
- 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 Group IT Investment Committee is chaired by the Group's Chief Financial Officer and its permanent members are the Group Director of IT Systems Organization and the 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. The delegation of powers and responsibilities is the first step in making the principal participants more aware of these internal controls.

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 they have been assigned, 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 Legal Department of Fnac Darty advises and assists the operational departments and subsidiaries on major legal questions.
- The Tax Department of Fnac Darty advises and assists the operational departments and subsidiaries on major tax issues.
- The Financial Control Department of Fnac Darty is in charge of implementing and ensuring compliance with the procedures for reporting and preparing the consolidated financial statements.
- The Human Resources Department of Fnac Darty advises and ensures that internal practices comply with labor laws and regulations.
- The Safety & Risk Prevention Department of Fnac Darty 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 controls; identify and hedge risks of the Company, in particular of its financial or commercial, tangible or intangible assets, staff, customer or third party risks of any type 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, executive management and the specialized committees, and examine and propose to the Board all elements and conditions for the compensation of members of executive management and the Group's senior executives".
- Part of the Corporate Social and Environmental 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 the Legal Director, the Safety & Risk Prevention Director, the Internal Audit Director, and the Head of Corporate Social & Environmental Responsibility. This Committee's primary responsibilities are to ensure that the Group's codes, policies and charters 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 in anticipation of the implementation of the new European General Data Protection Regulation (GDPR) on May 25, 2018. This Committee is chaired by the Data Protection Officer (DPO) appointed by Fnac Darty for France. DPO appointments for other countries are in progress. The main objectives of this Committee, which meets every six weeks, are explained in section 2.5.3.2 of this Registration Document "Customer Personal Data Protection".

- The Internal Audit Department of Fnac Darty, through its missions, contributes to the assessment of the internal control system and draws up recommendations for the improvement of its practices. 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 Internal Audit Department of Fnac Darty, which reports to Fnac Darty's Chief Financial Officer and General Secretary, reports the main results of its assessments to the executive 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 the efficacy of the internal control process.

  At a time the statutory auditor deems appropriate, he communicates to management, at the appropriate level of responsibility, the weaknesses of the internal control identified during the audit which he 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 he believes are significant. The statutory auditor communicates the significant weaknesses of the internal control process in writing to the bodies cited in Article L 823-16 of the French Commercial Code, at the time he 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 engagements, 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 practice;
- 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 2017, 14 cycles were self-assessed. The questionnaire for the "Finance, Accounting and Management" cycle sent to country Chief Financial Officers takes into account 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 have them benefit from best practices. They enable the launch of improvement action plans based on the results obtained;
- 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 2017, all stores in France and abroad were self-assessed.

Internal audit

In 2017, the Internal Audit Department continued to strengthen its system for assessing the internal control and risk control of the organizations. The main actions undertaken concern:

- Internal Control Committees for all French and foreign 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;
- on-site audit missions were carried out, 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 mission to certify the financial statements, the statutory auditors make observations. At a time the statutory auditor deems appropriate, he communicates to management, at the appropriate level of responsibility, the weaknesses of the internal control identified during the audit which he believes to be of sufficient importance to merit attention, unless the statutory auditor believes this approach would be inappropriate under these circumstances. The statutory auditor makes this communication in writing when it covers weaknesses he believes are significant. The statutory auditor communicates the significant weaknesses of the internal control process in writing to the bodies cited in Article L. 823-16 of the French Commercial Code, at the time he deems appropriate.

6.6.1.3 / 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: financial information production, account-closing processes 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 treatment for Group consolidation, with a view to the distribution and use of that information for management purposes;
- 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 accounts.

Organization and management process of the accounting and finance function

Organization

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

In 2017, 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 Cash Management Department, the Darty Management Control Department, the Safety and Risk Prevention Department, the Real Estate Department, the Internal Audit Department, and the France Finance Department.

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 treatment of operations. They specify, in particular, the recording methods pursuant to International Financial Reporting Standards (IFRS).

The budgetary and closure procedures ensure consistency in the treatment 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:

- 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; annual budgets identifying the major financial goals and operational action plans, are prepared in the fourth quarter of the fiscal year 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;
- 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 requirements of compliance, security, reliability, availability and traceability of information.

- Financial management and accounting data is managed with a single SAP information system in all Fnac company activities to ensure consistent treatment, 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 is managed with a single information system in all Fnac Darty activities. This SAP BPC tool interfaces with the various accounting information systems.
- Consolidation data is collected in a single consolidation tool known as HFM, which interfaces with Fnac Darty's BPC consolidated reporting system.

To reinforce internal control of systems, the Organization and Information Systems Department has strengthened the segregation of duties and has improved right of access controls through an annual review standardized 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 application that allows financial information of consolidated subsidiaries 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 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 Chairman and CEO 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.

6.6.2 / 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 map are described in the previous parts of this section 6 on "Risk Factors". Additionally, in order to meet new regulatory requirements, a risk map specifically for anti-corruption measures has been carried out. The Group has also started work on developing risk mapping specifically for the French act establishing a duty of care that must be exercised by parent companies and ordering companies.

6.6.2.1 / Mapping of Fnac Darty business risks

Key business risks 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.

The Audit Committee is updated on a regular basis on the progress of any risk mitigation plans.

6.6.2.2 / Specific mapping of Fnac Darty 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.

6.6.2.3 / Specific mapping of Fnac Darty risks relating to duty of care

In consideration of the French act 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 started work on identifying risks 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 will be extended in 2018 to define a robust oversight plan that includes appropriate mitigation measures.