

CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE AND INTERNAL CONTROL

REFERENCE

In light of its size, Chargeurs has not applied the recommendations of the Afep-Medef corporate governance code of December 2008. The Group's corporate governance and internal control practices and procedures are based on the general principles of internal control defined by the French securities regulator (*Autorité des Marchés Financiers*) in its February 25, 2008 document entitled "*Cadre de référence du contrôle interne: Guide de mise en œuvre pour les valeurs moyennes et petites*", which provides internal control reference guidelines for small- and mid-cap companies.

BOARD OF DIRECTORS

Members

The membership of the Board of Directors is presented in the Corporate Governance section of the Annual Report, page 58.

Organization of the work of the Board of Directors

The Board of Directors, comprising the Chairman and four Directors, meets four times a year: twice to examine the interim and annual financial statements, once to review Group strategy in relation to the budget and the business plan, and once after the Annual General Meeting to implement the decisions voted by shareholders. At each meeting, the directors also discuss the Group's business performance, major projects and the matters submitted to the Board for a decision. The work of the Board is supported by that of the Finance Committee, which meets once a month.

Compensation paid to the Chairman and Chief Executive Officer by Group companies is set by the Board of Directors. His incentive bonus is tied to Group results and represents a percentage of his base salary. In light of 2008 results, no bonus will be paid in 2009.

INTERNAL CONTROL

Definition

Internal control is a system that the Company defines and implements under my own responsibility to provide assurance concerning:

- Compliance with laws and regulations.
- Implementation of the instructions and guidelines set by senior management or the Board of Directors.
- Efficient operation of the company's internal processes, particularly those contributing to the protection of its assets.
- Reliability of financial reporting.

More generally, it contributes to the control of the company's business, the effectiveness of its operations and the efficient use of its resources. By helping to anticipate and control risks that could prevent the company from meeting its objectives, internal control plays a key role in managing and overseeing its various business operations.

Components of the internal control system

An efficient organization

The Group is organized around a lean holding company structure, core businesses each with their own small holding company team, and a large number of operating subsidiaries. Empowering the operating companies is a fundamental principle at Chargeurs and one that is made possible by efficient information systems that provide the holding company with high quality financial information and the means to swiftly identify risks. In recent years, the rollout of the "Dolly" model has placed risk identification and management at center stage.

The Dolly model is based on obtaining accurate information about risks so that they can be actively managed. For the Dolly financial structures to operate effectively, it is essential to analyze and eliminate a large number of risks. The transactions, put together with risk management professionals such as insurers, banks and investors, automatically bring with them the controls that are a standard feature of securitizations. Chargeurs is engaged in several very different businesses and has operations around the world. To take into account this diversity and the specificities of the Dolly model, we have implemented organizational measures designed to manage the risks that are likely to have a material adverse effect on our earnings, assets and commitments. The cornerstones of the system are:

- Empowerment and accountability: the Chairmen and Managing Directors of the subsidiaries have full responsibility for managing their units.
- Short lines of communication.
- Regular reporting on strategic issues.
- Group insurance programs covering all insurable risks.
- An Insurance Risk Management Committee, with the participation of the Risk Managers of the core businesses.
- Group-wide Intranet access to operational procedures and rules.

A system to map and analyze the main identifiable risks

Every month, the Executive Committee pinpoints mission-critical issues and appoints the most appropriate manager for each one, regardless of his/her position relative to other managers. A specific reporting system is in place so that I am informed directly, at regular intervals, of the status of these managers' work. The quality of their status reports is one of the areas covered during their annual performance review. The issues dealt with generally concern events that could have a material adverse effect on our financial results and our Group's various risk exposures.

An outside consulting firm, specialized in economic forecasting, is used to help evaluate macro-economic risks specific to each of our host countries. The consultants periodically present their findings to the Executive Committee and model certain specific risks when requested by one of our businesses.

Chargeurs occasionally retains the services of specialized firms to either perform key analyses or temporarily support its operational teams when critical projects are being implemented. This organization places the Executive Committee at the center of the risk management process.

An information system focused on accountability

Chargeurs' information system is based on the monthly income statements and key balance sheet indicators reported by each of our 75 consolidated companies. We have long been committed to producing high quality financial information. Back in 1980, we were one of the first companies in France to set up a monthly management reporting system based on

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the same accounting standards used to produce the statutory consolidated financial statements. Over the years, this process has been improved and, since 2000, management and statutory reporting data are managed by the same information system. With the generation of the consolidated accounts now simply the last phase in the process, this ensures constant control over the production of financial information. Each subsidiary's Managing Director and Finance Director send me comments on their monthly results, presented in a standard format. I review these results, together with the updated annual forecasts reflecting the impact of any new developments, during monthly meetings with the Managing Directors of the core businesses.

Control procedures sized to address the challenges of each process

Accounting and financial risks

Since 2003, the main management processes have been analyzed in order to document and map financial statement risks, the related potential financial impact and the internal controls in place to contain them. As part of this exercise, each core business has identified the three or four most sensitive processes and reviewed the highest risk transactions within each one. The procedures in place to manage and control these transactions have also been identified.

These analyses serve to prioritize future measures, representing the starting point for the Group's drive to strengthen control over its processes.

Operational risks

Steps taken in 2007 to strengthen the value of Chargeurs' assets were pursued in 2008, with the most significant operations for each core business being as follows:

- Chargeurs Protective Films: introduction of a costing system that takes into account feedstock price volatility.
- Chargeurs Interlining: acquisition of Etacol in Bangladesh to continue expanding the business in Asia.
- Chargeurs Wool: sale of combing operations in Australia and of the investment in combing operations in South Africa.

Constant oversight of internal control procedures

Supervising internal control

The subsidiaries' Finance Directors are responsible for controlling the accounting and reporting processes. Second-tier controls are performed by the Finance Directors of the core businesses as part of their oversight role with regard to the subsidiaries.

Internal audit

Chargeurs does not have its own internal audit department and therefore generally relies on local specialized firms in each region. An internal control self-assessment process was initiated in the second half of 2007, which consisted of sending all subsidiaries – except for holding companies – a copy of the guidelines published by the *Autorité des Marchés Financiers* relating to subsidiaries' compliance with internal control procedures. The following areas were covered:

- Financial reporting and the preparation of financial statements.
- Capital expenditure and divestments.
- Property, plant and equipment and intangible assets.
- Non-current financial assets.
- Purchases and trade payables.
- Production costs, inventories and work-in-progress.
- Revenue from external operations and trade receivables.
- Cash and cash equivalents.

Each subsidiary's Managing Director and Financial Controller duly completed the related questionnaires, which were signed by the subsidiary's

Managing Director before being sent to head office. The information contained in these questionnaires was subsequently summarized in a business-specific data sheet, enabling us to identify any internal control weaknesses by business, procedure and company, and to implement any requisite corrective measures.

Specific initiatives in 2008

The specific internal control initiatives carried out by each of the Group's businesses in 2008 were limited to the following, due to the extent of operational challenges:

- Chargeurs Protective Films: information systems security audit.
- Chargeurs Interlining: audit of inventories and receivables processes at one of the subsidiaries, performed by an independent firm.
- Chargeurs Wool: implementation of systems to manage financial flows on a consolidated basis.

External audit

Two audit firms share the task of auditing our consolidated financial statements. All of the local Auditors' observations arising from their audits of our subsidiaries' accounts are reported to the subsidiaries' senior management. The Group Auditors produce a summary of these observations, which is presented to me during twice-yearly meetings. The Group Finance Department is responsible for ensuring that the Auditors' recommendations involving organizational changes or changes to procedures are implemented without delay. The representation letters issued by the subsidiaries' Managing Directors to the Auditors are centralized by Chargeurs, to emphasize each Managing Director's accountability for information related to his or her subsidiary included in the Group financial statements.

The internal control situation at the end of 2008

I believe that internal control procedures related to the processing and preparation of accounting and financial information at the end of 2008 were appropriate considering the Group's characteristics. As these characteristics make in-depth testing of our processes very costly, few such tests are currently performed. Further investments will be committed in coming years in this area. The 2009 action plan is based on the following strategic priorities:

- Finalizing reorganization of the management and statutory reporting process with a view to upgrading our information systems.
- Launching a variety of specific initiatives that will be defined during the first half of the year.
- Setting up an audit committee.
- Establishing general financial risk reviews within each business.

SHAREHOLDER PARTICIPATION IN GENERAL MEETINGS

The article 19 of the bylaws, relative to attendance and representation at General Meetings, provides that:

- Shareholders may appoint their spouse or another shareholder as their proxy, in accordance with the law.
- Minors and incapacitated persons may be represented by their legal guardian or conservator, and companies and other legal entities may be represented by a person with the power of attorney or other authority, in accordance with the law.
- Spouses, guardians, conservators and other representatives are not required to be shareholders of Chargeurs.
- In order to take part in a General Meeting, shareholders must be able to provide evidence that their shares are recorded in a securities account, or deposit the shares or present a certificate attesting that the shares

have been deposited, at least five days prior to the Meeting, in compliance with the instructions provided in the notice of Meeting.

– For any given Meeting, the Board of Directors may, at its discretion, advance the above-mentioned deadline or waive the requirement to deposit the shares.

– The Board may decide to issue admission cards to eligible persons in their name and for their use only.

– Shareholders can vote by filling out and returning to the company a postal or proxy form, in accordance with the applicable regulations.

– Prior to each Meeting, the Board may decide that shareholders who take part in the Meeting via video conference or any other telecommunication means that allows them to be identified and whose nature and conditions of use are determined by a decree of the *Conseil d'État* are deemed present and included for quorum and majority purposes.

ITEMS LIKELY TO HAVE AN IMPACT IN THE EVENT OF A PUBLIC TENDER OFFER

None of the items mentioned in article L. 225.100-3- of the French Commercial Code is likely to have an impact in the event of a public tender offer, except for the following:

– The company's capital structure, as described in the Report of the Board of Directors presented at the Annual General Meeting and published on Chargeurs' website.

– Direct or indirect investments in the company's shares of which Chargeurs is notified pursuant to articles L. 233-7 and L. 233-12 of the French Commercial Code, and which are discussed in the Report of the Board of Directors presented at the Annual General Meeting and published on Chargeurs' website.

– The rules governing the election or replacement of Board members and changes to the company's bylaws, referred to in article 9, 10 and 12 of the bylaws.

– The powers of the members of the Board of Directors, defined in article 14 of the bylaws.



Eduardo Malone,
Chairman and Chief Executive Officer
March 2009