



**CHAIRMAN'S REPORT  
ON CORPORATE GOVERNANCE AND INTERNAL CONTROL  
(article L225-37 of the Commercial Code)  
for the 2007 financial year**

To define the principles and procedures of internal control, the company has taken into account the general principles provided in the Financial Markets Authority's frame of reference.

**I - CONDITIONS GOVERNING THE PREPARATION AND ORGANISATION OF THE WORK OF THE BOARD OF DIRECTORS:**

The rules and regulations adopted by the Board in its meeting of December 5, 2002 and successively updated on March 26, 2004, September 22, 2004, September 26, 2005, December 18, 2006, February 14, 2007 and April 26, 2007, specify and complete the methods and procedures applied to the functioning of the Board provided for in the by-laws, which take into account the Financial Markets Authority's frame of reference.

**1) Composition of the Board:**

The company's Board of Directors is comprised of eleven directors and three non-voting members.

Affine complies fully with the principle, advocated in the Bouton report, according to which at least 50% of the members of the Board of Directors must be independent directors.

In accordance with the Bouton report, the principles adopted to determine the independence of a director are the following:

- He or she must not be nor have been either a company employee or manager, nor employee nor director of the parent company or of a company consolidated by the parent company, during the past five years;
- He or she must not be a customer, supplier or business or finance banker who is:
  - . significant to the company or its group,
  - . or for whom the company or group represents a significant part of his or her business,
- He or she must have no close family ties with a company director,
- He or she must not have been an auditor of the company during the past five years,
- He or she must not have been a director of the company for more than twelve years,
- If he or she is a director representing major shareholders, the director in question will be considered independent as long as he or she does not participate in the control of the company and holds less than 10% of the company's shares.

In accordance with these principles, the following are considered to be independent directors: Mr. Alain Bonte (director until October 22, 2007), Mr. André Frappier, Mr. Michel Garbolino, Mr.

Burkhard Leffers, Mr. Paul Mentré, Mr. Jacques de Peretti, Mr. François Tantot and Mr. Philippe Tannenbaum (director since December 10, 2007).

The length of the directors' and non-voting members' terms is three financial years.

## **2) General management:**

The Extraordinary General Meeting of September 12, 2002 amended the by-laws to make them compliant with the law of May 15, 2001, known as the NRE Act. In compliance with article 14 of the amended by-laws, the Board of Directors, meeting on the same date, decided not to opt for the separation of the duties of the Chairman of the Board of Directors from those of the Chief Executive Officer; the Board also decided to appoint a Managing Director.

## **3) Frequency of meetings:**

The Board met eight times during the course of the 2007 financial year, on the following dates:

- February 14, 2007 (approval of the 2006 financial statements)
- March 20, 2007 (financing authorisation)
- April 26, 2007 (renewal of the term of office of the Vice-Chairman, review of investment projects, establishment of an Audit Committee)
- June 4, 2007 (review of investment projects)
- June 19, 2007 (issue of perpetual floating-rate notes)
- August 31, 2007 (review of the financial statements for the first half of 2007 and of the provisional budget for the year 2007, payment of an interim dividend, consideration of investment projects)
- October 22, 2007 (review of investment projects)
- December 10, 2007 (review of investment projects)

The directors' attendance averages 75%.

## **4) Convocations and information conveyed to directors:**

The rules and regulations stipulate that the Board meetings are to be convened orally or in writing by the Chairman of the Board of Directors (written convocations may include electronic mail as long as a system is established for authenticating the Chairman's signature).

Prior to all meetings, each director receives a dossier that enables him or her to give opinions with the support of all the necessary information. Unless the meeting convened is urgent, this dossier is sent to the director one week before the date of the Board meeting, but may subsequently be supplemented by any other document that may help the director take a decision.

Directors may participate in the Board meetings by videoconference or telephone; these communication media transmit at least the participants' voices and meet the technical requirements for a continuous, simultaneous retransmission of the deliberations.

However, the use of videoconferencing is not permitted for the following decisions: the appointment, dismissal, establishment of remuneration of the Chief Executive Officer or of the Managing Director; the approval of the annual financial statements and management reports; the approval of the group's consolidated financial statements and of the management report if it is not included in the annual report.

The company provides the directors with all the pertinent information concerning it. This information is conveyed under the seal of confidentiality. Each director may ask the Chairman of the Board, at any time, for any document concerning the company.

## **5) Specialised committees:**

The Board of Directors has created three committees charged with preparing its work:

- a five-member Remunerations Committee is responsible for presenting to the Board all matters regarding the personal status and the remuneration of the company directors (salary, bonuses and bonus share allocations) decided consensually, according to their contribution to results and to the smooth running of the group; The Committee regularly gives rulings on the allocation of bonus shares to certain staff: the bonus shares are an instrument for the development of loyalty to the company and are allotted according to the importance of the beneficiary's responsibilities and his or her contribution to the group's results.

The Remunerations Committee met twice during the 2007 financial year (attendance rate: 100%).

- a six-member Commitments Committee whose mission is to review investment projects involving both lease financing and rental property assets whose total amount exceeds the authority delegated to General Management, which is authorised to take decisions on investments of up to €5 million.

The Board of Directors is informed of the decisions of the Commitments Committee (projects involving less than €10 million), or pronounces on the basis of the Committee's recommendations for projects entailing more than €10 million.

The Committee met five times during the 2007 financial year (average attendance: 90%); it is understood that, if a member of the Committee is absent, his or her remarks can, exceptionally, be communicated in writing. The Committee members study, before each meeting of the Board of Directors, all the proposed investment projects that are directly submitted to them.

The Board meeting of December 18, 2006 amended the rules and regulations so as to allow the Real Estate Director to attend the Commitments Committee meetings and to cast a consultative vote.

- a four-member Audit Committee created by the Board of Directors during its meeting of April 26, 2007 and established as of July 1, 2007: its role is to assist the Board of Directors with the review of:

- the accounting policies applied, and particularly changes in policies in relation to the preceding financial year,
- the closing process,
- draft financial statements before presentation to the Board of Directors,
- internal control procedures.

The company executives involved may be invited to complete the Committee's information.

Only the Board of Directors is finally responsible for the decisions regarding the financial statements.

The Committee also gives its opinion on the choice of statutory auditors for the company in view of their designation by the general meeting of shareholders, as well as on their objectives and fees.

The Audit Committee met once during the 2007 financial year.

## **6) Minutes of the meetings:**

The minutes of the Board of Directors' meetings are issued at the end of each meeting and are sent to the directors for their approval before the next meeting.

## **II – INTERNAL CONTROL PROCEDURES:**

### **1) Objectives:**

The internal control procedures currently in force in the company pursue the following purposes:

- on one hand, to ensure that management actions or transactions undertaken, as well as the behaviour of the personnel, are in compliance with the legal and regulatory provisions that are applicable to banking and financial activities, and with the professional standards applicable to the transactions effected, as well as with the orientations given to the company's activities by the managing bodies, within the context of the company's values, standards and internal rules and regulations;
- on the other hand, to ensure that the accounting, financial and management information conveyed to the corporate managing bodies truly reflects the company's activity and situation.

The primary objective of the internal control system is to prevent and control the risks resulting from the company's activity, as well as the risks of errors or fraud, in particular in accounting and finance. Like all control systems, there cannot be an absolute guarantee that these risks are completely eliminated. However, after several years as a credit institution, Affine has set up rigorous internal control procedures under the surveillance of supervisory authorities, appointed a specific responsible person, and above all made the company's employees sensitive to the importance of internal control.

### **2) Organisation:**

The officer responsible for internal control reports directly to General Management.

The internal control system applied by Affine comprises two levels:

- a) The first-level controls correspond to all resources continuously implemented by the operating entities to guarantee the legality, security and proper execution of the transactions that are carried out, as well as compliance with the due care provisions linked to the surveillance of risks of all types associated with the transactions.
- b) The second-level controls verify, with suitable frequency (monthly or quarterly), the lawfulness and appropriateness of transactions, primarily by examining:
  - the effectiveness of the first-level controls,
  - compliance with the procedures, and their updating,

- the suitability of the existing systems for the measurement and surveillance of all of the risks associated with the transactions.

The controls are based on written procedures that are regularly updated. These procedures conform both to regulatory rules and to company policies. They describe the methods and procedures for recording, processing and retrieving information, accounting schemes, and procedures for undertaking transactions. They ensure the production of data and information required for the purpose of surveillance of risks to the company and its subsidiaries.

### 3) Risk control

The company's dual role as a real estate enterprise and a credit institution governs the identification of the risks, their control, the systems for monitoring assets and controlling the quality of financial and accounting information.

#### a) Credit risk

The contractual relations with the lessee or tenant are based on tried and tested standard contracts that are updated regularly with the help of specialised legal counsel.

- **Risk analysis for decision making**

The high quality of Affine's portfolio is the product of a rigorous analysis of the lessees' or tenants' situation, and of the establishment of security interests required to compensate for any deterioration of that situation: assignment of sub-tenants' rents, shareholders' guarantee of the lessee or tenant, security deposit or bank guarantee covering future rental payments, etc.

- **Risk control after taking decisions**

- **Comprehensive controls**

Holder of more than 300 real estate assets, Affine group is particularly vigilant to ensure that:

- assets are covered by insurance that will restore their value in case of losses,
- properties are compliant with all applicable regulations: legislation regarding asbestos, regulations governing high-rise buildings, buildings open to the public, etc.,
- building maintenance is performed under the supervision of recognised professionals,
- major repairs are done in a timely manner to ensure the safety and comfort of building users and to conserve the value of the building,
- the financial analysis of the main lessees and tenants is performed each year,
- the estimation of the value of properties is checked against the market twice per year as at the balance sheet date.

Affine group has taken out all necessary insurance policies for its activity with major international insurance companies:

- property and casualty: replacement value with no overall indemnity ceiling
- professional liability
- building owner's liability insurance
- directors' liability.

**- Specific controls**

Exposure to clients is monitored very regularly through a specific procedure. Any delay or default on payment lasting more than six months leads to the systematic write-down of the full amount of the relevant receivable. Our principal lessees' and tenants' financial structure is reviewed annually, or whenever a significant event affecting them occurs.

From 2003, Affine set up a technical expertise procedure for buildings applied by a specialised engineering firm which ensures the good quality of properties before the builder's warranties expire.

**b) Financial risk**

The company makes sure that it always has surplus liquidity, particularly in the form of confirmed bank credit lines. Affine systematically hedges its interest rate risk on the market via caps and swaps.

In addition, in its interest rate risk hedging operations, Affine works exclusively with leading banking institutions.

**c) Operational risks**

- Computer risk

Affine's entire computer system is protected by daily backups in case of loss, and an external backup facility is planned. Coded access procedures and anti-virus systems complete the measures taken against computer risk.

- Legal risk

Because all property leasing contracts and rental property purchase contracts signed with our clientele are spread on the record in the form of several official deeds, any points that may be ambiguous are subjected to the dual scrutiny of the Legal Department and the notary each time a contract is drawn up.

With regard to other contracts, our Legal Department benefits from the assistance of specialised counsel to confirm its analysis of complex legal points.

- Environmental risks

In order to keep pace with our clients' changing demands and with developments in regulatory standards, the group participates in the Haute Qualité Environnementale (High environmental quality) initiative, which consists of limiting the impacts on the environment of construction or renovation, while ensuring healthy, comfortable living conditions for the occupants of the building.

The company Abcd has thus implemented a “charter for low environmental impact building sites” signed by all those involved in a building site before the relevant draft contracts are signed. The purpose of this charter is to reduce the nuisances caused by the project (information for neighbouring residents, management of rubble and refuse, cleanup of the site and the surrounding area, etc.).

Affine strives to ensure that the users of its leased or rental properties comply with all existing environmental regulations.

**d) Risk linked with money laundering**

The origin of the purchasers’ and partners’ funds is systematically verified in compliance with the provisions applicable to both lending institutions and real estate professionals. Periodic staff meetings provide an opportunity to remind our personnel of the instructions to be followed in this regard.

**III - LIMITATIONS OF THE CHIEF EXECUTIVE OFFICER’S POWERS, CONTRIBUTED BY THE BOARD OF DIRECTORS**

**1) Chairman and Chief Executive Officer:**

During its meeting of April 21, 2006, the Board of Directors renewed the term of Maryse Aulagnon as Chairman and Chief Executive Officer. The Board defined her powers as follows:

“Subject to the powers that the law expressly grants to shareholders meetings, as well as the powers it reserves especially for the Board of Directors, and within the confines of the company’s authorised activities, the Chairman and Chief Executive Officer are invested with the broadest powers to act under all circumstances on behalf of the company. This Officer may, in addition, delegate his or her powers, but only for one purpose and for a limited time.”

**2) Managing Director:**

During its meeting of April 21, 2006, the Board of Directors renewed the term of office of Mr. Alain Chaussard as Managing Director. The Board defined his powers as follows:

“Mr. Alain Chaussard has the following powers, as they were defined during the Board of Directors' meeting of September 12, 2002:

- all powers, under all circumstances, to act on behalf of the company, within the confines of its authorised activities and subject to the powers that the law expressly grants to shareholders meetings and to the Board of Directors.
- assistance to the Chairman with the organisation of the Board of Directors and management of the Board’s work.

Mr. Alain Chaussard is Mab-Finances’ representative on the Board of Directors and Vice-chairman of the Board.”

**3) Delegations:**

Under the rules and regulations of the Board of Directors, the following powers are granted to General Management:

- asset purchases and sales: up to €5 million per transaction; transactions of a total amount greater than €1 million must be notified to the Board before they are concluded,
- sureties, endorsements and guarantees: up to €3 million per transaction for issuers of orders outside the Affine group; for transactions requested by group member companies, a report is given to the Board at its next meeting following the transaction.

General Management has, in turn, permanently granted the following powers:

- to Mr. Nicolas Cheminai, property director, the power notably to sign, renew and cancel all leases, conclude all company or property development contracts whose total amount does not exceed €300,000, grant all construction orders or delegate construction management for works not exceeding €100,000, conclude all technical contracts for amounts not exceeding €100,000.
- to Mrs. Catherine Wallerand, legal director, the power notably to conclude all leases, to purchase or sell all land, buildings, and all property assets and rights.

Specific powers may be granted to other executives for the signature of certain contracts.

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