

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

on the conditions for preparing and organising the work of the Supervisory Board
and on internal control procedures (Article II7 of the 1 August 2003
Law on Financial Security)

1. Corporate governance

Since 29 October 2004, and following the merger with its subsidiary Francarep, Paris Orléans has applied a new administration and management structure with Management Board and a Supervisory Board, as provided for in Articles L. 225-57 to L. 225-93 of the Commercial Code.

The Management Board and the Supervisory Board are assisted by an Audit Committee, the members of which are appointed by the Supervisory Board.

1.1. Management Board

Composition

Since 1 April 2006, the Management Board of Paris Orléans has comprised four members appointed by the Supervisory Board. The Supervisory Board appointed a Chairman and a Managing Director from among its members.

Mr Sylvain Hefes is the Chairman of the Management Board, and Mr Georges Babinet is the Managing Director.

Messrs Michele Mezzarobba and Emmanuel Roth are both members of the Management Board.

In accordance with the appointments made and the provisions of the company's articles of incorporation, the members of the Management Board carry out their functions for a period of two years.

Organisation and functioning

The organisation and operating procedures of the Management Board are established by the law and by the company's Articles of Association.

The Management Board shall meet whenever it is in the interests of the company to do so, upon verbal or written invitation to attend by the Chairman, or at least half of its members, either at the registered office, or any other location.

Powers

The Management Board ensures the management of the company in all senses. It approves the yearly and interim individual and consolidated financial statements and determines the main operational and development strategies. The Management Board shall specifically meet for any investment or disposal decisions. Decisions are made unanimously by its members.

The Board is vested with the most extensive powers to act on behalf of the company, subject to the powers expressly granted by law to the Supervisory Board and General Meetings of shareholders.

The Management Board may delegate those of its powers that it deems necessary.

Activity during financial year 2006/2007

Between 1 April 2006 and 31 March 2007, the Management Board met on several occasions to examine the interim and annual financial statements and to make decisions regarding new investments and disposals.

Documents containing the agenda and in particular a detailed list of each disposal and new investment under consideration or individual or consolidated financial statement to be examined are provided to each member at least forty-eight hours in advance of each Management Board Meeting.

1.2. Supervisory Board

Composition

The Supervisory Board of Paris Orléans is composed of eleven members.

The Supervisory Board has appointed the following among its members:

Mr Éric de Rothschild, as Chairman,

Mr David de Rothschild, as Vice-Chairman.

In compliance with the provisions of the company's Articles of Association, the members of the Supervisory Board carry out their functions for a period of three years.

Each member of the Supervisory Board must own at least ten of the company's shares.

In the light of the criteria resulting from the recommendations of the so-called Bouton report, the Supervisory Board indicated that, as at 31 March 2007, two of the eleven members qualify as being independent.

Organisation and functioning

The organisation and operating procedures of the Supervisory Board are established by the law and by the company's Articles of Association.

The Supervisory Board may create committees within its organization, as well as determine their duties and members.

On 5 July 2006, the Supervisory Board adopted its own internal rules of conduct.

Powers

The Supervisory Board exercises permanent control over management of the company through the Management Board, and provides the latter with authorisation before it engages in any transactions requiring its authorisation.

The Supervisory Board carries out all checks and controls it deems appropriate at any time of year, and may request any documents it considers necessary to the successful completion of its assignment.

It may confer one or more special appointments on its members for one or more specific projects.

Activity during financial year 2006/2007

Between 1 April 2006 and 31 March 2007, the Supervisory Board met four times, with an average attendance of 68%.

In preparation for these meetings, each member is provided at least forty-eight hours in advance with detailed papers including at a minimum the following:

- > the draft minutes of the previous meeting,
- > a detailed analysis of the company's net asset value at the most recent date and all changes,
- > a description of the company's activities (changes since the last meeting, and changes and new investments since the beginning of the financial year),
- > accounting data, with comments,
- > proposed budgets (if any), with comments,
- > draft press releases.

The Supervisory Board ensures that the market is supplied continuously with reliable information, notably in the form of press releases.

Compensation of members

The General Meeting is authorised to allocate fixed annual directors' fees to the members of the Supervisory Board. These fees are recorded among the general administrative costs of the company.

The Supervisory Board distributes this compensation among its members as it sees fit. It also determines the compensation of the Chairman and Vice-Chairman.

The Board can also authorize one-time payments to certain of its members for any special assignments or appointments requested of them.

During the financial year just ended, the total compensation received by members of the Supervisory Board amounted to €102 thousand.

As at 31 March 2007, the members of the Supervisory Board and officers of the company, directly and personally, held 1.31% of the capital and 3.07% of the voting rights.

1.3 Audit Committee

Composition

The Audit Committee is composed of three members.

Powers

The Audit Committee is appointed by the Supervisory Board and counts among its members one or more members of the Supervisory Board with expertise in accounting and finance.

The Audit Committee's principal assignments are:

- > examining the financial statements firstly submitted to the Management Board, principally as concerns the accounting estimates and assumptions used, and their pertinence to the situations reflected by these financial statements;
- > assessing the quality of internal controls;
- > ensuring the independence and objectivity of the Independent Auditors belonging to groups providing both audit and advisory functions.

Activity during financial year 2006/2007

The Audit Committee met on 8 January 2007 to examine the interim financial statements, and on 28 June 2007 to examine the individual and consolidated financial statements for the financial year ended 31 March 2007.

The Audit Committee reported to the Supervisory Board on its work and proposals.

1.4 Compensation of the Management Board

The compensation of the members of the Management Board includes both a fixed and a variable component. The variable component of compensation is calculated each year by the Chairman of the Management Board based on the performances of the group and each of the members.

In the light of the fact that the Chairman of the Management Board holds many positions within the Rothschilds Continuation Holdings AG (RCH) sub-group and its subsidiaries, all of his compensation is paid by the RCH group.

2. Organisation of internal controls

The aims of the internal control procedures currently employed within the company are to:

- > ensure that all investment decisions made and transactions executed, and the conduct of the company's employees, comply with the guidelines established for company activities by the management bodies, and with all applicable laws and regulations, and with all of the company's values, standards and internal rules; and
- > check that the accounting, financial and management information provided to the management bodies accurately reflect the business and financial position of the company.

One of the goals of the internal control system is to prevent and control the risks resulting from the company's business and capital investments and any risk of error or fraud, particularly in the banking, accounting and financial areas. As with any control system, it cannot guarantee fully that all risks will be eliminated completely.

Internal control is organised under the responsibility of the Audit Committee, assisted by an internal controller.

In addition to the control, monitoring and risk committees set up in the subsidiaries of the Rothschild banking group worldwide, Paris Orléans has established internal control procedures for its investment business.

A monthly report is drawn up to monitor changes in the company's assets and liabilities, their value (NAV) and changes in cash flows and forecasts over 12 sliding months.

2.1. Procedure for controlling accounting and financial risks for banking group's subsidiaries

As Paris Orléans is not directly involved the Rothschild group's banking business at operational level, the management teams of the primary subsidiaries were requested to provide Paris Orléans with a representation letter in which the banking subsidiary representative describes compliance with all local and group accounting procedures and states that the company's financial statements include all known events at the time of financial year-end potentially affecting the results of the subsidiary.

The main subsidiaries involved in this procedure are:

Concordia BV (Amsterdam),
 Rothschilds Continuation Holdings AG (Zug),
 Rothschild Concordia AG (Zug),
 Rothschilds Continuation Limited (London),
 Rothschild Holding AG (Zurich),
 Rothschild Australia Limited (Sydney),
 Rothschild North America Inc. (New York),
 N M Rothschild & Sons (Hong Kong) Limited,
 N M Rothschild & Sons (Singapore) Limited.

2.2. Control procedures for the investment business

In addition to the Paris Orléans group's holding in the Rothschild group through its 50% holding in Concordia BV, it is also involved in the investment business through its holdings in listed and unlisted companies (private equity) and by commitments in private equity funds.

Each proposed new transaction and disposal for the private equity business is prepared, discussed and approved by an Investment and Monitoring Committee. Following approval by the Investment and Monitoring Committee, the decision is then put before the Management Board for final approval.

At Investment and Monitoring Committee level

The Investment and Monitoring Committee is composed of the Managing Director, the Director of Business Development, the Chief Financial Officer, the Chief Accountant and all members of the Paris Orléans group investment team. The Committee meets twice a month on average and may be called at any time if needed.

It has the following functions:

- > analysing all new deals already studied by the investment team,
- > monitoring all existing holdings,
- > discussing the potential development of holdings,
- > recommending the partial or total sale of passive portfolio investments.
- > Committee meetings are organised by the investment team, which prepares a dossier based on the meeting agenda that is circulated to all Committee members

prior to each meeting. The manager responsible for each proposal presents the analysis of any new opportunity; the Committee makes a collective decision to pursue the study or not.

A summary is kept of all decisions made by the Investment and Monitoring Committee.

At Management Board level

The Management Board meets at the request of its Chairman, as required and depending on the proposals it is presented with.

Any acquisition or disposal proposal approved by the Investment and Monitoring Committee is presented to the Management Board for final approval. The Management Board is entitled to unilaterally oppose proposals by the Investment and Monitoring Committee.

It cannot, however, approve investment in or the sale of a holding unless it has previously been discussed by the Investment and Monitoring Committee.

The Management Board makes all decisions regarding the valuation of investments.

Members of the Management Board may be named directors or officers of companies in which the company has invested, if it is warranted.

At the level of the departments responsible for internal control of the investment business

Each investment decision is written up in an investment summary report prior to any disbursement.

The summary report is prepared by the person responsible for the proposal, and is then reviewed by the treasury department, the accounting department and, lastly, the Chief Financial Officer.

The treasury department is responsible for:

- > making payments notably arising from investment decisions,
- > investing available cash and monitoring these investments,
- > devising the means to meet any financing needs.

The accounting department is responsible for preparing the financial statements.

2.3. Control procedures related to the general functioning of the group

At Supervisory Board level

Certain transactions that do not specifically concern the banking or private equity businesses, but concern the Paris Orléans structure are submitted to the Supervisory Board for authorisation.

At Management Board level

All subjects related to the company's existence are dealt with collectively by the Management Board.

At departmental level

Control over the preparation and processing of financial and accounting information

Accounting and financial procedures

The accounting department is based around a dedicated team of five people, including two chartered accountants and a consolidation specialist, all supervised by the Chief Financial Officer.

In addition to complying with all procedures related to the architecture of the first and second level internal controls implemented by our company, accounting controls concern mainly the valuation of assets and liabilities every six months.

Specifically, each listed and unlisted holding is included in a documented valuation drawn up in conjunction with the investment directors, resulting in additions to or reversals of impairment provisions, if necessary.

Paris Orléans' subsidiary sub-holdings, which are internally managed, are subject to the same controls.

The consolidated subsidiaries and holdings are obliged to provide a consolidation package twice a year, complete for those that are fully consolidated and partial for those consolidated by the equity method, and allowing the fair value of the investments in associates to be tested.

Budgetary control procedure

At the end of the financial year, a detailed budget for the following financial year is drawn up in the form of an income statement for each company, consolidated, and compared with the previous year's financial statement by the Chief Financial Officer.

The budget is updated in October and January by the Chief Financial Officer.

When the financial statements are drawn up, a detailed comparison is carried out company by company of the income statement to the budget, and any variances are explained by the accounting department and the Chief Financial Officer.

Monitoring of cash balances

Under the terms of the cash pooling agreement among all of the companies controlled by the group, the treasury department manages the cash of the various entities according to scheduled due dates and financing needs.

The overall strategy of the Paris Orléans group is to invest cash:

- > in accordance with the short, medium and long-term forecasts of use in the group. Investment allocation in terms of future prospects is thus variable,
- > in products offered by known establishments with a proven past performance,
- > in low-risk products, or at least those with historical volatility of below 3.0%.

Control over the commitments made by the company

All contracts and documents that commit the company can be signed only by a member of the Management Board or the Managing Director of the entity committing itself.

Specific procedures are followed when incurring and paying for expenses (validation by the person responsible for the expense, verification and approval by the Chief Financial Officer upon presentation of the original, etc.).

The Chairman of the Management Board is authorised to sign payments for any amount. Other members of the Management Board are authorised to sign payments up to €100,000, a second signature being required for amounts in excess.

Subsidiaries monitoring

All wholly-owned subsidiaries comply with the internal control policies established by Paris Orléans.

Conclusion

Extensive work was carried out on the internal control process during the financial year just ended, taking into account recommendations made by the Independent Auditors.

The internal control system is updated continuously, so that the management bodies can best control the risks associated with Paris Orléans businesses.