

# 2009 Report by the Chairman

## OF THE EDF BOARD OF DIRECTORS

on Corporate Governance,  
internal control and risk  
management procedures







## Introduction

In application of article L. 225-37 of the French Code of Commerce (*Code de Commerce*), this report covers:

- the conditions of governance : preparation and organization of Board of Directors' meetings, tasking and functioning of the Board of Directors' committees, information and training of Board directors, the corporate governance code, Shareholders' Meetings of Électricité de France SA ("EDF" or the "Company") (§ 1);
- as well as the internal control and risk management procedures implemented within the EDF group (§ 2).

For the purposes of this report "the EDF group" comprises:

- the EDF company;
- its subsidiaries in the regulated sector: RTE-EDF Transport and ERDF, respectively responsible for managing the energy transmission and distribution networks, for which the legal and regulatory framework (French law of August 9, 2004, amended by, notably, the law of December 7, 2006) provides for a specific management independence that limits the control over their activities: "the regulated subsidiaries";
- its other subsidiaries, direct or indirect, that are majority controlled, in France or internationally: "the controlled subsidiaries";
- its affiliates which are jointly controlled on a financial level, without exclusive operating control (EnBW, Edison, Constellation Energy Nuclear Group, Dalkia International, etc.): "the jointly-controlled affiliates";
- affiliates in which the Group has direct or indirect minority holdings: "the Shareholdings".

**Note 1:** the consolidation scope for the Group's consolidated financial statements is detailed in the notes to the consolidated financial statements ended December 31, 2009.

**Note 2:** the information specific to the three subsidiaries RTE-EDF Transport, EDF Énergies Nouvelles and Électricité de Strasbourg is available in the reports established pursuant to article L. 225-37 of the French Code of Commerce produced by these three companies. The practice and terms for exercising control may differ depending on the specific area of activity

or the types of entity outlined above, and will be specified as necessary within this report.

With respect to the section describing internal control and risk management (§ 2), the structure of this report is based on the five chapters of the COSO<sup>(1)</sup> referencing system, and its contents are in line with the internal control recommendations from the French financial markets authority (*Autorité des Marchés Financiers* – AMF<sup>(2)</sup>). The description of the organization of internal control thus comprises the elements relating to the control environment (§ 2.1), the risk management strategy (§ 2.2), the communication and dissemination of information (§ 2.4), and the steering (§ 2.5) and control activities (§ 2.3), divided into four separate sections which correspond to the four internal control objectives specified in the AMF guidelines:

- internal control procedures relating to the implementation and optimization of operations (§ 2.3.1);
- internal control procedures relating to the establishment and treatment of accounting and financial information (§ 2.3.2);
- internal control procedures relating to compliance with laws and regulations (§ 2.3.3);
- internal control procedures relating to the implementation of instructions and orientations given by the Group's executive management (§ 2.3.4).

Finally, in addition to the changes in the internal control procedures outlined in this report, the last section reiterates the major overall orientations relating to the development of internal control within the EDF group (§ 3).

This report has been produced by a working group coordinated by the Corporate Audit Division, with contributions from experts in Legal Affairs, Corporate Risk Management and Accounting, and from the offices of the Secretary to the Board of Directors and the Chairman and CEO's office. Contributions were also sought from the Ethics and Compliance teams, the Information Systems Division, the Delegation of Board Directors and Companies, the Sustainable Development Division and the Investor Relations Division. The report was approved by the Board of Directors meeting of February 10, 2010, pursuant to article L. 225-37 of the French Code of Commerce.

1. COmmittee of Sponsoring Organizations of the Treadway Commission.

2. Published January 22, 2007.

# 1

## Corporate Governance

### 1.1

## Functioning rules and organization of Board of Directors' meetings

### 1.1.1 Composition and powers of the Board of Directors

Pursuant to article 6 of the law relating to the democratization of the public sector of July 26, 1983, and the provisions of the amended decree-law of October 30, 1935 – the French state holding less than 90% of EDF's share capital – the Company's Board of Directors comprises 18 members, of whom one third are elected by the employees and two-thirds are appointed by the Shareholders' Meeting having been proposed by the Board of Directors, with the exception of the French state representatives appointed by decree. Their term of office is five years.

Until and including November 22, 2009, the Board of Directors comprised:

- six Directors appointed by the Shareholders' Meeting: Mr Pierre Gadon-neix, Chairman and CEO, Messrs. Frank Dangeard, Daniel Foundoulis, Bruno Lafont, Claude Moreau and Henri Proglio;
- six Directors appointed by decree: Messrs. Pierre-Marie Abadie, André Aurengo, Bruno Bézard, Yannick d'Escatha, Philippe Josse and Pierre Sellal. The latter was appointed by decree on April 1, 2009, to replace Mr Gérard Errera;
- six Directors elected by the employees: Mrs Marie-Catherine Daguette, Messrs. Jacky Chorin, Alexandre Grillat, Philippe Pesteil, Jean-Paul Rignac and Maxime Villota.

Since November 23, 2009, the Board has comprised:

- six Directors appointed by the Shareholders' Meeting of November 5, 2009: Mr Henri Proglio, Mrs Mireille Faugère, Messrs. Philippe Crouzet, Michael Jay, Bruno Lafont and Pierre Mariani;
- six Directors appointed by decree on November 18, 2009: Messrs. Pierre-Marie Abadie, Bruno Bézard, Yannick d'Escatha, Philippe Josse, Pierre Sellal and Philippe Van de Maele;
- six Directors elected by the employees on May 19, 2009: Mrs Christine Chabauty, Messrs. Alexandre Grillat, Philippe Maissa, Philippe Pesteil, Jean-Paul Rignac and Maxime Villota.

The mandates exercised by the corporate officers outside the Company are listed in section 1.18.7.1 of the EDF group Management Report.

In addition, the following attend Board meetings without the right to vote: the Head of the French State Economic and Financial Control Commission <sup>(1)</sup> to the Company and the Secretary of the Corporate Works Council.

The Board of Directors determines the orientations of the Company's activities and oversees their implementation. It deliberates on all the strategic, economic, financial or technological orientations concerning the Company as well as matters expressly entrusted to it by law or which it has reserved for itself.

Pursuant to internal regulation, the involvement of the Board of Directors is notably required on the following matters:

- internal and external growth operations or disposals which represent financial exposure for the Company in excess of €200 million. This threshold is reduced to €50 million for acquisitions which are not in line with the Company's strategic objectives;
- real estate transactions exceeding €200 million;
- certain financial transactions, when their amount exceeds a predetermined value, subject each year to the Board's exceptional deliberation. In 2009, the Board set the following thresholds:
  - €500 million as the total authorized amount in terms of sureties, endorsements or guarantees. The Chairman and CEO informs the Board of any operations of this type whose unit value is above €100 million, agreed in the name of the Company or by a company controlled by the Company,
  - €5 billion for the nominal unit value of certain financial transactions;
- contacts (supplies, works or services with or without financial commitment) involving amounts, including as necessary subsequent endorsements signed during the same year, equal to or exceeding €200 million, or between €100 million and €200 million inclusive if these contracts relate to a new strategic orientation or a new business line for the Group;

1. Pursuant to the decree of May 26, 1955, this Commission exercises French State economic and financial control over EDF. It may exercise control procedures with a wide remit.



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- long-term contracts for the purchase or sale of energy, CO<sub>2</sub> emission credits and quotas, by the Company or by a company that it exclusively controls, for annual volumes or amounts in excess of:
  - 10 TWh for electricity,
  - 20 TWh for gas (long-term contracts for the purchase or sale of gas above 5 TWh and below 20 TWh are also subject to detailed reporting to the Board of Directors' meeting following their signature),
  - €250 million for coal and carbon dioxide;
- nuclear fuel cycle operations: particularly the strategies relating to the upstream and downstream operations in the nuclear fuel cycle;
- operations to transfer obligations relating to decommissioning or the downstream of the nuclear fuel cycle.

Furthermore, operations integral to the financing of the nuclear commitments must also be referred to the Board.

### 1.1.2 Appointment and powers of the Chairman of the Board of Directors and the Chief Officers

The Chairman of the Board of Directors assumes the function of Chief Executive Officer and is appointed by decree having been proposed by the Board of Directors to the President of the Republic.

Mr Pierre Gadonneix had been appointed Chairman and CEO by decree on February 15, 2006. His mandate expired on November 22, 2009.

Mr Henri Proglio was appointed Chairman and CEO of EDF by decree on November 25, 2009, having been proposed by the Board of Directors during its meeting of November 23, 2009.

The Chairman and CEO has full powers to commit the Company, subject to those attributed to the Board of Directors (see § 1.1.1).

Following recommendation by the Chairman and CEO and the majority of members present or represented, the Board of Directors may appoint up to five Chief Executive Officers. The extent of their powers and the duration of their terms of office are conferred on them by the Board of Directors in agreement with the Chairman and CEO. Until November 25, 2009, the Chairman and CEO was assisted by three Chief Executive Officers: Daniel Camus, Chief Financial Officer; Dominique Lagarde, Chief HR and Communications Officer; Jean-Louis Mathias, Chief Operating Officer, Integration and Deregulated Operations in France.

### 1.1.3 Activity of the Board of Directors during the 2009 financial year

In 2009, the Board of Directors reviewed and authorized, in addition to numerous matters linked to the Company's day-to-day activity, major subjects such as:

- the agreements with Centrica Group: the acquisition of a 20% minority holding in British Energy by Centrica and cooperation in new nuclear in the United Kingdom; the acquisition by EDF of Centrica's 100% holding in Segebel, a company which owns 51% of SPE (Belgium);
- the commitment to the process leading to the construction of an EPR reactor at the Penly site (76);

- the sale of EDF's remaining holding in Snet, within the framework of a generation capacity transaction between E.ON, EDF and EnBW;
- the legal proceedings between EDF and the European Commission relating to long-term contracts;
- the changes in the industrial partnership agreement between EDF and the Exeltium consortium signed on July 31, 2008;
- EDF's positioning for a consortium bid on an EPR project in the United Arab Emirates.

In addition, the Board of Directors notably reviewed:

- projects underway in the nuclear area: the stages in the process to acquire 49.99% of Constellation's (United States) nuclear assets; progress on the Flamanville EPR construction project;
- the memorandum of understanding between EDF and Gazprom and the launch of the process to evaluate the ownership options for EDF's electricity distribution networks in the United Kingdom;
- the Group's strategic referencing system as defined in 2007 in order to take into account a number of major events which have taken place since: the execution of a number of acquisition transactions (or projects) (British Energy, 49.99% of Constellation Energy Group's nuclear assets, Segebel/SPE), the impact of the global financial and economic crisis on the Group, and changes in the institutional and regulatory environment (the Climate-Energy Package adopted by the European authorities, legislation resulting from the French National Conference on the Environment (*Grenelle de l'Environnement*), the Champsaur Commission's report on the organization of the French electricity market).

### 1.1.4 Evaluation of the functioning of the Board of Directors

The Board of Directors met 12 times during 2009 and 26 Committee meetings were held to prepare for these meetings (see § 1.2).

The average attendance rate for Board directors at Board meetings was relatively stable in the 2005-2009 period (averaging 83.4%), and stood at 88.9% in 2009. Consistent with the guidelines on high standards of corporate governance (notably based on the AFEP-MEDEF Corporate Governance Code of December 2008) which recommend that the operations of the Board of Directors be evaluated, the Board's internal regulation stipulates that the Ethics Committee "shall undertake an annual evaluation of the functioning of the Board of Directors (...) and propose areas requiring further consideration".

Furthermore, EDF has decided to entrust this evaluation to an external company every three years.

The evaluation of the functioning of the Board for 2009 was conducted by a questionnaire, which was first reviewed by the Ethics Committee before being sent to all the Board directors on October 12, 2009. The answers were reviewed and analyzed, under the seal of anonymity, by the Secretary to the Board of Directors and were reported in a summary document examined by the Ethics Committee and circulated to the Board of Directors. The results of this evaluation of the Board of Directors' operations for 2009 reflected a very positive change over the past five years. A very broad majority of the Board directors considered that the functioning of the Board of Directors is in line with the best corporate governance practices.

## 1.2

# Missions and functioning of the Board of Directors' committees

In order to carry out its duties, the Board of Directors is supported by a number of specialized committees, tasked with reviewing and preparing specific reports prior to their submission to the full Board. These committees are: the Audit Committee, the Committee for Monitoring Nuclear Commitments, the Strategy Committee, the Ethics Committee and the Appointments and Remuneration Committee. The Board directors who are members of these Committees are appointed by the Board of Directors.

### 1.2.1 Audit Committee

Ordinance no.2008-1278 of December 8, 2008, transposing into French law the European directive of May 17, 2006 on Statutory Auditors, notably prescribes the regulatory framework within which audit committees perform the duties assigned to them. For EDF, these new duties are to be introduced from September 1, 2010.

The Committee regularly reviews reports from the Statutory Auditors, Executive Management, the Corporate Finance Division, the Senior Vice President, Corporate Audit, who is also responsible for coordinating Internal Control, and the Senior Vice President, Corporate Risk Management. Prior to their submission to the Board, the committee reviews and comments on:

- the Company's financial situation;
- the Medium Term Plan and the budget;
- the draft financial reports established by the Corporate Finance Division (EDF company financial statements and the Group's consolidated financial statements and Management Report);
- the monitoring of the Company's risks (the Group's risk control strategy, in particular, is regularly examined by this Committee which also reviews, every half year, the Group's risk mapping and the methods for controlling risks);
- audit and internal control: organization, deployment and evaluation of the internal control procedures, half-year audit programs, the main findings and corrective measures resulting from them, monitoring of their implementation as well as the draft annual report of the Chairman of the Board of Directors on corporate governance, internal control and risk management procedures;
- the strategy on insurance;
- the choice of Statutory Auditors and the fees paid to them;
- the review of the financial aspects of external growth or disposal transactions which are particularly significant in nature (see § 1.1.1).

Until and including November 22, 2009, this Committee was chaired by Mr Dangeard, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group. The other members were Messrs. Bézard and d'Escatha, Board directors representing the French state, and Messrs. Chorin and Villota, Board directors elected by the employees.

Since November 23, 2009, the Audit Committee has comprised Mr Mariani, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group, Messrs. Bézard and d'Escatha, Board directors representing the French state, and Messrs. Grillat, Pestel and Villota, Board directors elected by the employees. Mr Mariani was appointed Chairman of the Committee by the Board of Directors during its meeting of January 21, having been proposed by the aforementioned Committee.

The Audit Committee met seven times in 2009, including a meeting extended to the full Board of Directors devoted to the 2009 budget and the 2009-11 Medium Term Plan, and a joint meeting with the Strategy Committee, also extended to the full Board, for a status report on the proposed new organization of the French electricity market resulting from the Champ-saur Commission's report. The average attendance rate for Board directors was 82.9%.

During 2009, in addition to matters which fall within its traditional remit such as the review of the annual and half-year financial statements, the mapping of risks and audits, this Committee reviewed the impact of the economic and financial crisis, the perception by the markets of the EDF group, the counterparty risks strategy, the strategy on insurance, major issues affecting financial stability in France and the financial issues involved in nuclear development in the target countries and those linked to the extension in the lifespan of the French nuclear fleet. It also reviewed the report, by the auditor tasked to this effect, on the external audit realized on the deployment of the internal control policy within the Group.

### 1.2.2 Committee for Monitoring Nuclear Commitments

The Committee for Monitoring Nuclear Commitments (*Comité de suivi des engagements nucléaires – CSEN*) is tasked with monitoring changes in nuclear provisions, commenting on governance issues relating to the dedicated assets, on the rules for the association of assets and liabilities and on strategic allocation, and ensuring the compliance of the dedicated assets management implemented by EDF in the context of the policy for constituting and managing the dedicated assets. To this end, it may call on the support of the Nuclear Commitments Financial Expertise Committee (*Comité d'Expertise Financière des Engagements Nucléaires – CEFEN*) which comprises five independent experts and whose mission is to assist the Company and its governance bodies in such matters.

Until and including November 22, 2009, the Committee for Monitoring Nuclear Commitments was chaired by Mr Dangeard, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group. The other members were Messrs. Abadie and d'Escatha, Board directors representing the French state and Messrs. Chorin and Villota, Board directors elected by the employees.

Since November 23, 2009, this Committee has comprised Mr Crouzet, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the Group, Messrs. Abadie and d'Escatha, Board directors representing the French state and Messrs. Pestel and Villota, Board directors elected by the employees. The Chairman of this Committee will be appointed by the Board of Directors in 2010, having been proposed by the Committee.

This Committee met three times in 2009, with an average Board director attendance rate of 100%.

During 2009, this Committee examined, in particular, the summary report of the work of the Nuclear Commitments Financial Expertise Committee. It monitored the impact of the economic and financial crisis on the manage-



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ment of the dedicated assets portfolio, examined the scenarios for reversing cash contributions to the dedicated assets which had been suspended in September 2008 due to the economic and financial crisis, studied scenarios for asset transfers to the dedicated asset portfolio and examined the optimum equities-bonds strategic allocation in the current context.

### 1.2.3 Strategy Committee

The Strategy Committee comments to the Board of Directors on the Company's major strategic orientations and, specifically, the strategic referencing system, the industrial and sales and marketing strategy, the Public Service Agreement, strategic agreements, alliances and partnerships, research and development strategy, and internal and external growth projects or disposals requiring approval from the Board of Directors.

Until and including November 22, 2009, the Committee was chaired by Mr Proglia, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group. The other members were Messrs. Abadie, Bézard and Sellal, Board directors representing the French state and Mrs Daguette, Messrs. Grillat and Pesteil, Board directors elected by the employees.

Since November 23, 2009, this Committee has comprised Mr Proglia, Chairman and CEO, Mr Jay, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the Group, Messrs. Abadie, Bézard and Sellal, Board directors representing the French state and Messrs. Grillat, Pesteil and Rignac, Board directors elected by the employees. The Chairman of this Committee will be appointed by the Board of Directors in 2010, having been proposed by the Committee.

The Strategy Committee met three times in 2009, including one meeting held jointly with the Ethics Committee, which reviewed EDF SA's sustainable development strategy and another meeting with the Audit Committee, extended to the whole Board of Directors, to review the proposed reorganization of the French electricity market. It also reviewed the strategies regarding the upstream and downstream of the nuclear fuel cycle.

The average attendance rate of Board directors was 81%.

### 1.2.4 Ethics Committee

The Ethics Committee ensures that ethical considerations are taken into account in the work of the Board of Directors and in the management of the Company. It reviews the annual report excluding the financial statements (corporate and sustainable development reports), the report from the Ethics and Compliance Advisor, as well as the reports from the Mediator, the Senior Vice President, Nuclear Safety and Radioprotection, the Head of Hydro Safety and the Senior Vice President, Regulated Activities Governance.

Furthermore, the Ethics Committee conducts an annual evaluation of the functioning of the Board of Directors and the application of its internal regulation, and suggests areas for further consideration.

Until November 22, 2009, the Committee was chaired by Mr Aurengo, a Board director representing the French state. The other members were Messrs. Foundoulis and Moreau, Board directors appointed by the Shareholders' Meeting and Messrs. Chorin, Pesteil and Rignac, Board directors elected by the employees.

Since November 23, 2009, this Committee has comprised Mrs Faugère, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the Group, Mr Van de Maele, a Board director representing the French state and Mrs Chabauty, Messrs. Maissa and Pesteil,

Board directors elected by the employees. On December 8, 2009, Mr Grillat was also appointed a member of this Committee. The Chairman of this Committee will be appointed by the Board of Directors in 2010, having been proposed by the Committee.

The Ethics Committee met eight times in 2009, with the average attendance rate for Board directors at 100%.

During 2009, this Committee examined, in particular, the Group's Human Resources master plan for the 2009-11 period, the worldwide agreement on Group Corporate Social Responsibility, the health in the workplace policy, the implementation of the "Swine Flu Pandemic" plan, skills renewal in nuclear, the communication strategy as well as the results of the evaluation of Board of Directors' operations in respect of 2008 and 2009.

This Committee also made two trips in 2009: one to Laos jointly with EDF's Medical Advisory Board within the framework of the construction of the hydroelectric facility on the Nam Theun river, the other to the Nogent-sur-Seine (77) nuclear plant within the framework of the ongoing visits organized annually since 2004 in order to understand the issues surrounding EDF's subcontracting policy in nuclear.

### 1.2.5 Appointments and Remuneration Committee

The Appointments and Remuneration Committee submits proposals to the Board of Directors regarding the appointment of Board directors by the Shareholders' Meeting. It submits for approval, to the Minister responsible for the economy and finance and the Minister responsible for energy, its comments on the compensation of the Chairman and CEO regarding the salary, variable portion (including the target criteria as well as its opinion of the results achieved by the Chairman and CEO relative to the objectives set) and his peripheral compensation. It also communicates this opinion to the Board of Directors for deliberation and the setting of this compensation.

The Committee examines the compensation of the chief officers and comments on the proposals submitted to it by the Chairman and CEO with regard to the salary, variable portion (including the target criteria as well as its opinion of the results achieved by each chief officer relative to the objectives set) and their peripheral compensation. It submits its proposals and opinion for approval to the Minister responsible for the economy and finance and to the Minister responsible for energy and also communicates this to the Board of Directors. The Board of Directors deliberates and sets the salary, objectives and peripheral compensation of the Chief Executive Officers.

The Committee comments to the Board of Directors on the conditions for establishing the compensation of the main senior executives (fixed and variable portion, calculation method and indexing), as well as on the amount and conditions of Board directors' fees. It ensures the existence of succession plan charts for Executive Committee positions.

Information relating to the compensation of corporate officers including Board directors' fees can be found in section 1.18.7.2 of the EDF Management Report.

Until and including November 22, 2009, the Committee was chaired by Mr Lafont, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group. The other members were Mr Dangereau, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group and Mr Bézard, a Board director representing the French state. Mr Lafont was appointed Chairman of the Committee by the Board of Directors during its meeting of January 21, having been proposed by the aforementioned Committee.

Since November 23, 2009, the Appointments and Remuneration Committee has comprised Messrs. Jay and Lafont, Board directors appointed by the Shareholders' Meeting and respected figures from outside the EDF group and Mr Bézard, a Board director representing the French state.

The Appointments and Remuneration Committee met five times in 2009. The average attendance rate for Board directors was 86.7%.

During 2009, the Committee notably reviewed the 2008 bonuses of the Chairman and CEO and the Chief Executive Officers, commented on their compensation in respect of 2009 and set the criteria for calculating the 2009 bonuses. It also reviewed the profiles of the six Board directors, whose proposed appointment was submitted for approval to the Shareholders' Meeting of November 5.

## 1.3

### Information and training for Board directors

At each Board of Directors' meeting, the Chairman and CEO brings to the attention of board members the main facts and significant events arising in the Company between Board of Directors meetings.

The Secretary to the Board of Directors also communicates information to Board directors, which they may supplement by meeting with the main senior executives of the Company and the Group. They communicate requests for specific information to the Secretary to the Board.

In addition, the Secretary to the Board of Directors organizes information meetings on complex matters and those of major strategic importance or on subjects requested by Board directors, together with any training from which the latter wish to benefit.

## 1.4

### Corporate Governance Code

Having reviewed the AFEP-MEDEF recommendations of October 2008, cited in the Council of Ministers' communication of October 7, 2008, on the compensation of corporate officers and at the proposal of the Appointments and Remuneration Committee, the Board of Directors' meeting of December 17, 2008, expressed its agreement on these recommendations. The Board considered that these recommendations were consistent with the EDF corporate governance approach that had long been in existence and

noted that the recommendations applicable to the Company had already been implemented.

Subject to the legislative and regulatory specificities applicable to it, these recommendations are an integral part of the AFEP-MEDEF Corporate Governance Code of December 2008 to which the Company will refer, pursuant to article L. 225-37 of the French Code of Commerce.

## 1.5

### Shareholders' Meetings

The conditions relating to shareholder participation in the Shareholders' Meeting are found in article 20 of the Company's by-laws, and are outlined in section 21.2.6 of the EDF *Document de Référence*.

Furthermore, the information foreseen by article L. 225-100-3 of the French Code of Commerce is published in the Company's annual financial report.



# 2

## EDF group internal control

The aim of this document is not to be an exhaustive presentation of all the control procedures existing within the Group's companies; rather it focuses on those related to activities or risks deemed to be significant, as well as on the main long-term procedures in effect in 2009, highlighting any changes and the key initiatives developed during that year.

### 2.1

## Control environment

### 2.1.1 Steering bodies of executive management

The operations of the steering bodies until November 22, 2009 were organized to fulfill two major priorities: improve functioning as an integrated Group while respecting the management autonomy of the regulated subsidiaries and involve operating teams in the decision-making process.

The Top 4, comprising the Chairman and CEO and the three Chief Executive Officers, was the decision-making body of the executive management. The Executive Committee, the forum for strategic discussion and consultation on all cross-functional and cross-divisional matters, comprised the members of the Top 4, the Senior Executive Vice Presidents, the Corporate Secretary and the CEOs of EDF Energy, EnBW and Edison.

A limited number of specific decision-making committees supported the work of the Top 4: the Coordination Committee France, the Commitments and Shareholdings Committee, including an *ad hoc* form to handle fuels alone (CEP-fuel Committee), the Senior Executive Management Committee, the Nuclear Safety Advisory Board, the Upstream-Downstream Trading Committee and the International Nuclear Board. In addition, *ad hoc* committees or boards were convened to handle strategic issues of a temporary nature such as, for example, the project to integrate British Energy within the Group.

The decision of March 14, 2008 also specified the conditions for governance by EDF of its two subsidiaries in the regulated sector (RTE and ERDF) given the regulatory obligations specific to these activities. A Regulated Assets Committee comprising, notably, the Top 4, the Chairmen of the Supervisory Boards of RTE and ERDF together with the Senior Vice President, Regulated Activities Governance, was created in order to ensure the protection of EDF's interests as an investor in the regulated sector while guaranteeing the management independence of the subsidiaries concerned.

The operating governance procedures post-appointment of the new executive management will be defined over the coming weeks and will be the subject of a detailed presentation in the next Chairman's report.

### 2.1.2 Internal control policy

The roll-out of the internal audit and control policy, signed by the Chairman on March 7, 2006, was pursued in all Group companies, having been adapted for specific circumstances within the entities, and in extending its scope and level of depth throughout 2009.

This policy, which was designed to provide a reasonable assurance of control over EDF's risks refers to the COSO in that it is based on four complementary principles:

- management responsibility: each executive is responsible for the implementation and functioning of a procedure enabling them to control their area of responsibility and verify that areas that have been sub-delegated are also controlled;
- reporting obligation: the senior executives provide an annual account of their internal control procedures *via* a report outlining and self-assessing the procedure in place;
- systematic audit: every three years or so, the procedures of each entity are the subject of an "independent" audit;
- ongoing progress which is ensured by the "link" between self-assessment and audit.

These four key principles apply to all the Group's entities but with implementation conditions that may vary depending on the entities concerned (size, governance conditions and level of control).

**Concerning the controlled entities and subsidiaries (excluding the regulated subsidiaries),** the application scope corresponds to EDF SA's main branches (which themselves often control several operating units or subsidiaries and affiliates known as the "second circle") and the controlled subsidiaries reporting directly to the executive management (known as the "first circle").

Each executive concerned has appointed an "Internal Control Coordinator", and the coordination of this network is ensured by the Corporate Audit Division (professional standards, regular meetings, establishment of control and self-assessment referencing systems, background documents shared on the intranet, etc.).

An internal control manual has been established and is offered to each entity to help implement its own internal control procedures. This guide, based on the COSO chapters, characterizes the risk areas concerned, identifies the main aims of internal control to be explored and suggests the best practices to be implemented. It is updated annually in the light of lessons learnt and new control requirements such as, for example, new internal policies.

At the end of 2009, each of the 36 entities concerned produced a third annual report on internal control outlining, notably, their internal control procedures, a self-assessment of these procedures, the commitment of the head of the entity as to his or her aims and an account of the measures envisaged to achieve these aims. At the end of 2009, based on these management self-assessments, it appeared that the deployment of the internal audit and control policy had been more than 90% achieved.

In line with the commitments made, since 2008, around two-thirds of the internal control systems in the entities have been audited by the Corporate Audit Division, which will pursue this approach in order to audit all the entities concerned in 2010. These audits confirmed the satisfactory deployment of the internal audit and control policy principles over the audited scope together with, in virtually all cases, a good level of reliability on the self-assessments, which supports the level of assurance resulting from the self-assessment reports. The areas for improvement identified during these audits are the subject of recommendations formulated by the Corporate Audit Division and action plans established by management. Their implementation is being monitored by the Corporate Audit Division.

As of 2007, the functional entities established control objectives relating to the application of major policies within their areas of responsibility. These objectives, approved by the Top 4 in October 2007, have been included in the internal control reference guide and applied by the operating entities pursuant to the internal audit and control policy. These elements are reviewed every year and adjusted as necessary to take into account any changes underway. In 2009, new control objectives were included relating, for example, to energy market risks.

Furthermore, any significant suspicion of process malfunctioning or failure in internal control leads to the implementation of a specific audit mission, whether this be within the framework proposed by the Corporate Audit Division or at the request of the management (snap audit) and the implementation of the corresponding action plans.

**Concerning the other subsidiaries and affiliates of the Group (regulated subsidiaries, jointly-controlled affiliates and significant shareholdings)**, the Chairman's decision of September 22, 2008, aimed at strengthening the risk control in all the Group's subsidiaries and affiliates via the explicit tasking of Board directors representing EDF within governance bodies, was gradually implemented. This decision aims at ensuring for each subsidiary and affiliate the implementation of risk mapping, a description of the internal audit and control system, regular information on the risk mapping and audit activities (program and main results) together with the verification of the effectiveness and the relevance of each of these systems by an independent audit every three years. This implementation was executed under the overall responsibility of the Corporate Audit and Corporate Risk Management Divisions, each for its own area. It was accompanied by technical support from these two divisions for:

- the "EDF" Board directors in the fifteen or so called "first circle" subsidiaries and affiliates, to help them to implement and steer the approach within the governance bodies;

- the heads of the branches and divisions to which they report, who are tasked with providing the same level of support to the Board directors of those 'second circle' subsidiaries and affiliates in their area of responsibility, and reporting back on this in their annual self-assessment reports.

A range of tools to help Board directors has been established by the Corporate Audit Division: a set of guidelines for the attention of Board directors, specifying the technical elements useful to the effective implementation of the decision of September 22, 2008, mentioned above, a specific terms of reference for conducting the three-yearly external audit of the internal control and risk management procedures required by the internal audit and control policy. Note, more specifically, that the two main jointly-controlled international affiliates (EnBW and Edison) continued the deployment of their own internal control systems consistent with the transposition into their respective national laws of the European directives 2006/43 and 2006/46. Regular discussions took place between the two major affiliates and the Corporate Audit Division aimed at sharing the tools, referencing systems and experience acquired within EDF since 2006, and planning the changes to be implemented with regard to the transposition of the 4<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> European directives.

The regulated subsidiaries (RTE and ERDF) also deploy their own internal control procedures and report back on this through their governance bodies.

Lastly, an inventory audit of the internal control procedures was carried out following the acquisition of British Energy in order to help with its integration into EDF Energy in terms of risk control and internal control.

## 2.1.3 Internal control steering Divisions

### 2.1.3.1 CORPORATE FINANCE DIVISION

The Corporate Finance Division maintains a watching brief on market developments and financial techniques and analyzes the financial risks associated with projects. In 2009, the Chief Financial Officer chaired the Commitments and Shareholdings Committee (see 2.3.1.2.1).

Within Corporate Finance, Group Controlling:

**Management Control** is responsible for:

- steering the forecasting processes of the Group's <sup>(1)</sup> management cycle (budgets and Medium Term Plans based on the Industrial Project), summarizing the main results and arbitrating between conflicting claims at branch, division and Group level. It acts as an alert, analysis and recommendation mechanism, prior to a decision being taken, by notifying the parties concerned of its analysis of the financial consequences of the operations envisaged or the performance levels proposed;
- helping operating management to steer performance: the tracking of budget execution (involving re-forecasting four times a year) and operating results is ensured through regular broad-based performance reviews across all branches and divisions and the controlled subsidiaries;
- acting as Group financial controller, notably by participating in investment monitoring and conducting analysis to ensure economic and financial optimization.

1. The scope of the Group's management cycle is that of the consolidated financial statements and is detailed in the notes to the consolidated financial statements.



## 2009 Report by the Chairman of the EDF Board of Directors

Management Control is embedded at the level of each management entity. The controllers are members of the Management Committees of the entities to which they belong. In 2009, the Heads of Financial Management in the branches and divisions were appointed and evaluated under the responsibility of the Chief Financial Officer.

**Accounting** is responsible for:

- defining a consistent framework for the accounting information system which complies with the standards in force and for keeping a watching brief on any changes;
- controlling the quality of the accounting in specifying the Group's accounting referencing system which enables the appropriate accounting treatment and the correct accounting input from the upstream processes;
- the annual updating, for EDF, of the internal control referencing systems, assessing the accounting quality implemented by process and organizing feedback on implementation by the entities of the control procedures stipulated in the accounting and financial area (see § 2.3.2.3).

Additionally, concerning the subsidiaries and affiliates, the accounting internal control policies are the responsibility of each legal structure concerned.

### 2.1.3.2 CORPORATE RISK MANAGEMENT DIVISION

For many years the EDF group has implemented a strategy for managing its operating, financial and organizational risk.

Faced with an evolving context, EDF decided, as of 2003, to establish an overall process for managing and controlling its risks to strengthen the existing procedures, notably by creating the Corporate Risk Management Division. The Corporate Risk Management Division is specifically responsible for:

- deploying the risk mapping process, either directly for the EDF scope and that of the controlled subsidiaries, or through the governance bodies of the regulated subsidiaries and jointly-controlled affiliates, and establishing and updating the consolidated risk mapping of the Group's major risks (see § 2.2);
- alerting the Chairman and CEO and the corporate management as to emerging risks or those which have not been adequately identified;
- consolidating and updating the risk control strategy, either directly within the EDF scope and that of the controlled subsidiaries, or through the governance bodies of the regulated subsidiaries and jointly-controlled affiliates (see § 2.2), notably by ensuring the comprehensiveness and consistency of the various sector risk control strategies (see § 2.3.1.1);
- ensuring the deployment of the energy market risk strategy within the EDF scope and that of the controlled subsidiaries and, more generally, ensuring the control of these energy market risks either directly within the EDF scope and that of the controlled subsidiaries, or through the governance bodies of the regulated subsidiaries and jointly-controlled affiliates (see § 2.3.1.1.1);
- defining, implementing and consolidating a financial risk control strategy (interest and currency exchange rates, liquidity, equities and counterparty) for the EDF scope and that of the controlled subsidiaries and ensuring the control of these financial risks through the governance bodies of the regulated subsidiaries and jointly-controlled affiliates (see § 2.3.1.1.2);
- managing the comprehensiveness and relevance of the risk analysis conducted on projects involving investment and long-term commitments and submitted to corporate management for approval;
- updating the strategy on crisis management for the EDF scope and that of the controlled subsidiaries, and defining the terms of cooperation with the regulated subsidiaries and, *via* the branches or divisions to which they report, with the jointly-controlled affiliates during periods of crisis (see § 2.2);

- ensuring the steering of the economic intelligence activities for the Group and, notably, the control of all the suppliers and sensitive contracts within the EDF scope in liaison with Purchasing and the business branches concerned.

### 2.1.3.3 GROUP AUDIT FUNCTION

The Group's audit function comprises all the Group's audit resources involved in internal audit at Group, parent company and subsidiary and affiliate level. The Chairman and CEO has entrusted the coordination of this function to the Senior Vice President, Corporate Audit Division. It is organized around the Corporate Audit Division and dedicated "operating" audit teams: "business line" audit teams (in the generation and customer areas at EDF) and audit teams specific to each of the main French and international subsidiaries and affiliates (RTE, ERDF, EDF Energy and EDF Trading, EnBW, Edison).

The Corporate Audit Division is responsible for controlling the internal control systems of EDF and its controlled subsidiaries, including the auditing of the corresponding dedicated audit teams. The Corporate Audit Division also carries out cross-divisional audits or those of "corporate" importance for the Group over the same scope and, as necessary, outside this scope while respecting the regulatory and governance constraints<sup>(1)</sup>. Lastly, the Corporate Audit Division ensures the effective implementation of the decision of September 22, 2008, in terms of the audit function of the regulated subsidiaries and jointly-controlled affiliates (see above).

The Corporate Audit Division ensures the operating coordination of the entire function (sharing of best practices, initiatives to raise professional standards, upgrading of tools and methods, etc.).

### QUALIFICATION STANDARDS FOR EDF SA AND THE CONTROLLED SUBSIDIARIES:

- the Corporate Audit Division applies international standards as defined by "The Institute of Internal Auditors" and ensures their promotion, as well as control within the accessible scope (see above);
- the duties, powers and responsibilities of the auditors, as well as the rights and duties of the audited entities, are defined in a charter which was updated on March 7, 2007, to coincide with the adoption of the new internal audit and control policy. This charter reiterates the independence of the audit function and its direct reporting line in to the Chairman and CEO, the missions and commitments of internal audit, the duties and the powers of the auditors and of the audited entities;
- the Senior Vice President, Corporate Audit, reports directly to the Chairman and CEO;
- all the auditors in the Corporate Audit Division and the Audit departments of EDF SA and the controlled subsidiaries (excluding the regulated subsidiaries) are trained to use the same methodology, consistent with international standards. They are recruited from EDF's different businesses, as well as from external audit firms. Each auditor is evaluated at the end of each mission and a transfer to audit is considered as a positive career move. A protocol agreement was signed to this effect in March 2006 between the Corporate Audit Division and the Senior Executive Development Division;

1. According to case by case agreements *via* the governance bodies of the non-controlled affiliates and regulated subsidiaries

- following the implementation of an audit function for the controlled scope, the total number of auditors including the auditors in the business branches (generation, customers, EDF Energy and EDF Trading) and the corporate auditors is 0.95 auditors per 1,000 employees<sup>(1)</sup> and 1.49 auditors per billion euros of turnover, compared with an industry average of 0.56 auditors for 1,000 employees and 2.46 auditors per billion euros of turnover;
- the key processes essential to the proper functioning of the Corporate Audit Division over the chain of activities (from the drawing up of audit programs to the monitoring of the implementation of recommendations) are detailed in the form of quality plans which are regularly reviewed.

In 2008, an independent evaluation was conducted on the functioning of the operating processes and the quality of the audits conducted by the Corporate Audit Division together with how comprehensively and appropriately the AMF guidelines have been reflected in the definition of and deployment process for the Group's new internal audit and control policy. This evaluation confirmed the relevance of the work undertaken and the resources deployed. It also proposed a number of improvements which are the subject of an action plan currently in the deployment phase.

#### STANDARDS OF FUNCTIONING WITH REGARD TO EDF SA AND THE CONTROLLED SUBSIDIARIES:

- the Corporate Audit Division coordinates the deployment of the internal control policy and the internal control function, ensures the control of the internal control procedures in the various branches and divisions and controlled subsidiaries and conducts both cross-divisional and corporate-level audits;
- the half-year audit program is decided by the Chairman and CEO and then submitted to the Audit Committee, which reports back to the Board of Directors. It is established, taking into account:
  - the Group's internal control policy (missions to audit the internal control procedures of entities within the controlled scope),
  - the risks identified in the Group's risk mapping,
  - the monitoring of the implementation of decisions taken by the executive management,
  - major projects and the principal corporate processes,
  - requests from branch or division management, excluding the snap audits requested during the execution of the program,
  - possible audits of the second line controlled subsidiaries, carried out on behalf of the branches and divisions responsible for them (for example, International Operations and Group Synergies Division),
  - possible joint audits with EnBW for the scope of this structure, as well as with Veolia Environnement for the Dalkia International scope, and "corporate" audits conducted within the scope of EDF Energy and EDF Trading.

The program of the business line audit teams is coordinated with that of the Corporate Audit Division, which has a "pre-emption right" for the implementation of business line audits resulting from a risk at corporate level;

- all audits give rise to recommendations which, after being approved by the audited entities and their management, form the basis for action plans on their part, which are submitted for approval to the Corporate Audit Division. During the year following the audit, the Corporate Audit Division monitors the progress on the implementation of these corrective actions, the audit considered to have reached a satisfactory conclusion only when these measures have been fully implemented. An unsatisfactory conclusion to an audit or one where reservations are expressed triggers an appropriate management alert;

- a half-year summary report is established by the Corporate Audit Division, recapitulating the main audit findings and the corresponding corrective management action, as well as the results of audit exercises concluded during the period. It also identifies possible recurring or generic problems appearing over the course of several audits conducted during the period which are worthy of the particular attention of the executive management. This report is presented first to the Chairman and CEO, then to the Audit Committee.

Once a year, this report also presents a summary of the self-assessments of the various entities on the level of deployment of the internal control policy within the Group (including the implementation of the decision of September 22, 2008, as regards the regulated subsidiaries and jointly-controlled affiliates).

#### 2.1.3.4 LEGAL AFFAIRS DIVISION

In order to remain as close as possible to the decision-making bodies, whether at executive management, branch, division or regional level, the organizational structure of the Legal Affairs Division is based on that of EDF. Legal Affairs is consulted whenever contracts have to be drawn up and the legal risks relating to corporate projects have to be analyzed. It also ensures the centralized monitoring of major litigation. All of its activities enable it to fulfill an alert function and to play a role in avoiding litigation.

Further to a decision taken by the Chairman and CEO in May 2007, Legal Affairs is overseeing the deployment of a contract database aimed at centralizing all of EDF's major contractual commitments and those of a number of subsidiaries and affiliates (excluding the regulated subsidiaries and jointly-controlled affiliates). The operating deployment phase was completed in 2009 as regards EDF and continued in respect of the aforementioned subsidiaries and affiliates.

#### 2.1.4 Delegations of powers and technical authorizations

The Chairman and CEO delegates certain powers granted to him by the Board of Directors to his immediate associates. Since June 2003, the delegations of powers have enabled increased control over procurement, with only the Senior Vice President, Purchasing, able to sign off on purchasing contracts subject to the powers of the Board of Directors in this matter (see § 1.1.1).

The powers of the "nuclear energy operator" have been delegated to the Senior Executive Vice President, Generation, who, in turn, delegates to the Senior Vice Presidents in charge of Nuclear Operations and Nuclear Engineering.

Each facility head, subject to prior evaluation of the appropriate skills, issues the technical authorizations allowing individuals to work in the facilities (power plants, electricity transmission networks, etc.). These requirements apply to all workers, be they employees of EDF or external service providers.

During 2007, Legal Affairs formulated a number of recommendations regarding the existing delegations; the signature process relating to these new delegations was thus initiated in 2007, and pursued in 2008 before being virtually completed in 2009. Furthermore, a set of guidelines on the delegation of powers and responsibilities was circulated in November 2008 in order

1. Source benchmark club of internal audit departments: result of the study on internal audit practice in France in 2009 published on December 31, 2009.



to ensure that the EDF entities were better informed as to the nature, consequences and management rules applying to delegations of power. Given the recent organizational changes, for the delegations of powers are currently being updated. Furthermore, the management process of the delegations of powers was reviewed in 2009 to notably improve their production periods. This project will continue in 2010 with the implementation of a dedicated information system.

## 2.1.5 Group ethics and environmental quality

### 2.1.5.1 GROUP ETHICS

Group ethics, based on a decision taken by the Chairman and CEO on March 15, 2007, are supported by a reference document, the Ethics Handbook.

Grounded in the Group's five corporate values (respect for individuals, environmental responsibility, striving for excellence, a commitment to the community, the necessity of integrity), it sets out for EDF the principles governing collective action and individual conduct.

The document was circulated within all EDF branches and divisions during the 2007 fourth quarter and individual copies are handed to each employee by their line managers to help insure individual and collective buy-in. The appointment of ethics coordinators in each branch and division, then gradually in each unit, to be responsible for helping the executives appointing them to promote the Handbook and encourage respect of the corporate values in the field, strengthens the existing ethics procedure.

EDF's corporate values serve as guidelines for the ethical procedures in the subsidiaries and affiliates, for codes of conduct developed in the business lines and certain areas, as well as for fundamental processes such as recruitment (recruitment referencing system), training (employee awareness initiatives), relations with suppliers and subcontractors (supplier charter, employee agreement on subcontracting) and individual and collective performance reviews (individual appraisal, bonus criteria).

In 2008, the creation of a Group Sustainable Development Committee comprising the sustainable development executives in the different subsidiaries and affiliates such as EDF Energy, Demasz, the Polish subsidiaries, EnBW and Edison enabled the harmonization of the ethical approaches.

The ethical alert procedure, established since 2004 within the EDF scope, recognizes every employee's right, and that of every external partner, to question the company, confidentially but not anonymously, on the manner in which the company respects its ethical commitments, in terms of both its actions and the behavior of its employees. Consultation with the Ethics Advisor takes place, for the most part, through a secure ethical messaging system. Furthermore, since 2008, within the framework of the strengthening of the ethical approach, a free, anonymous toll-free number has been available, enabling each employee to report any work-related difficulties encountered during his or her professional life to external counselors qualified in psychology.

A report on the activity of the Ethics Advisor, both in terms of the deployment of the ethics approach and the functioning of the ethical alert procedure, is presented annually to the Ethics Committee of the Board of Directors. In 2010, the report on the ethical approach within EDF and the Group will be included in the corporate social responsibility management review.

### 2.1.5.2 ENVIRONMENTAL QUALITY PROCESS

In 2009, the EDF group introduced a Sustainable Development strategy, formalized in a document containing a series of shared commitments which was signed by 15 senior executives from the Group's principal companies. These commitments facilitate consistency between the initiatives of these companies focused on three priorities:

- climate change and biodiversity;
- access to energy and proximity to users;
- contributing to the debate on sustainable development.

The implementation of these commitments is coordinated by the Sustainable Development Committee, a Group governance body established in 2008.

This Committee serves as an Environment Board at Group level, in charge of steering the Environmental Management System in line with the ISO 14001 standard.

The "EDF group" has effectively had ISO 14001 certification since April 9, 2002. In this instance, the certification covers the scope comprising EDF (all its operating entities), a number of French subsidiaries and affiliates (including the regulated subsidiaries RTE-EDF Transport and ERDF) as well as some international subsidiaries and affiliates, including EDF Energy. EnBW and Edison are also ISO 14001 certified (but not currently within the Group certification scope). The certification was renewed for the first time in 2005 and a second renewal was announced in 2008 by the independent certification body DNV.

The processes implemented within the framework of this certification contribute to strengthening control of the Group's environmental risks.

## 2.1.6 Organization and steering of information systems (IS)

Contracting ownership responsibilities are fulfilled by each of the branches and divisions for their scope while project implementation responsibilities are shared between these branches and divisions, as a function of their orientations, and the IT and Telecommunications Shared Services Center of the Shared Services Division which plays a role as cross-functional operator for EDF and the subsidiaries, notably the regulated subsidiaries.

Overall consistency is managed by the Group Information Systems Division, which coordinates Group Information Systems through common policies, Information System governance being ensured at two levels in the organization:

- strategic decisions and arbitrages are submitted, depending on their nature and the scope concerned, to one of EDF's decision-making committees (see § 2.1.1);
- other important decisions are taken by a committee of the Heads of Information Systems representing the branches and divisions.

## 2.1.7 External controls

Like all listed companies, EDF is subject to the scrutiny of the French financial markets authority (*Autorité des Marchés Financiers* – AMF). In that it is majority controlled by the French state, EDF is also subject to control by the French public accounting institution (*Cour des Comptes*), the State controllers, the Inspectorate of Public Finances, the Commissions for Economic Affairs of the French National Assembly and Senate and the Markets Commission.

Pursuant to French law, the Statutory Auditors certify the annual financial statements (EDF parent company and consolidated), carry out a limited review of the Group's summary consolidated half-year financial statements and comment on the annual report from the Chairman of the Board of Directors established pursuant to article L. 225-37.

Owing to the nature of its business activities, EDF is also subject to control by the French Energy Regulation Commission (*Commission de Régulation de l'Énergie* – CRE) and by the French government department responsible for nuclear safety and radioprotection (*Direction Générale de la Sécurité Nucléaire et de la Radioprotection*).

The findings of these different external review bodies feed into the Group's internal control and audit programs.

## 2.2

## Risk management and control policy

The objectives of the risk management and control policy are to:

- enable the identification and ranking of risks in all areas in order to ensure their increasingly effective control, under the responsibility of the operating management;
- ensure that senior executives and governance bodies within EDF have an aggregated and regularly updated picture of the major risks and their level of control;
- contribute to securing the Group's strategic and financial trajectory;
- meet the expectations of external stakeholders and inform them of the Group's risks and the procedures for managing these risks.

As a general rule, the operating and functional entities are responsible for managing the risks which fall within their scope of activity.

The Group's risk control policy is implemented either directly for the EDF scope and that of its controlled subsidiaries or *via* the governance bodies for the regulated subsidiaries and jointly-controlled affiliates.

Risk control is ensured by a function which is entirely independent of the risk management functions (supplemented by specific control functions concerning, in particular, financial and energy market risks – see § 2.3.1.1). This function notably ensures a consistent approach to the identification, evaluation and control of risk. According to these principles, each half year, consistent with the reporting schedule for the Group's half-year consolidated financial statements, EDF updates the consolidated risk mapping of its major risks within the EDF scope and that of its controlled and jointly-controlled subsidiaries and affiliates (with the exception of Dalkia International). This consolidated risk mapping is based on mapping exercises established by each operating or functional entity using a common methodology (typology, identification and evaluation principles, risk control measures, etc.). Each risk identified must be the subject of a clear action plan. Responsibility for the major risks falls to a project leader appointed by the corporate management. The principal risks to which the Group is exposed are outlined in the "Risk Factors" chapter of the *Document de Référence*.

The consolidated risk mapping is submitted, each half-year, for approval by the corporate management and presented to the Audit Committee of the EDF Board of Directors. It is also regularly discussed by the executive managements of the main contributing branches and divisions and by those involved in the risk control function.

The overall risk mapping process forms the basis of a number of other processes: notably the targeting of the internal control process, the establishment of the audit program, the insurance strategy and its implementation, the financial documentation (notably the "Risk Factors" chapter of the *Document de Référence*), the analysis of risks involved in projects reviewed by EDF's decision-making bodies (corporate management, Commitments and Shareholdings Committee, CEP-fuel Committee, Upstream-Downstream and Trading Committee, etc.). The risk control process contributes, in particular, to securing the investments and long-term commitments process by monitoring the respect of the methodology principles used for the risk analysis of projects submitted to the Commitments Committees.

In addition, EDF has a crisis management policy, the latest version of which was signed off by the Chairman and CEO in June 2005, which applies to the EDF scope and that of the controlled subsidiaries. It consists, notably, of:

- ensuring the existence of appropriate crisis management procedures, with regard to the risks incurred in each EDF branch, division and controlled subsidiary involved in managing the crisis;
- defining the procedures for cooperating with the regulated subsidiaries and – *via* the branches or divisions to which they report – with the jointly-controlled affiliates, during crisis periods;
- verifying the overall consistency.

A program of crisis exercises enables the effectiveness of these systems to be regularly stress-tested and to capitalize on the lessons learnt. Finally, the crisis management organization is regularly readjusted to reflect any significant change in internal organization or the external environment, as well as in the light of lessons learnt from any major crisis undergone.

## 2.3

## Group control activities

### 2.3.1 Internal control procedures relating to the implementation and optimization of operations

#### 2.3.1.1 SECTOR STRATEGIES ON RISK CONTROL

##### 2.3.1.1.1 CONTROL OF ENERGY MARKET RISKS

The Chairman and CEO's decision of December 9, 2005, formalizing the strategy on energy market risks, standardizes the management of these risks for the EDF scope and that of the controlled subsidiaries and stipulates all the necessary procedures for its implementation and the control of its application. For the regulated subsidiaries and jointly-controlled affiliates, the energy market risks strategy and the control procedure are reviewed within the framework of the governance bodies of these companies (Board of Directors, Audit Committee). This strategy document specifically outlines:

- the governance and assessment procedures, clearly separating the risk management and risk control responsibilities and enabling the tracking of exposure within the scope defined above;
- the risk control procedures involving the EDF executive management whenever risk limits are exceeded. Note that particularly rigorous risk control procedures are in operation at EDF Trading, given the specificity of the business activities and the fast reaction time required;
- the independence of the function responsible for controlling energy market risks, which has a two-tier organizational structure, with the entities ensuring operating control and the Group Energy Market Risks department within Corporate Risk Management ensuring a second level of control.

EDF's Audit Committee comments on the energy market risks strategy and its updating. The executive management approves the mandates for risk management in the entities annually when they are submitted to it along with the budget.

##### 2.3.1.1.2 FINANCIAL RISK CONTROL

EDF has established a Financial Risk Control department, responsible for controlling interest rate, currency, cash flow and counterparty risk for EDF and the controlled subsidiaries. This control is exercised through:

- the verification of the proper application of the financial risk management principles, notably through the regular calculation of risk indicators and the tracking of risk limits;
- the execution of control missions – methodology and organization – within the EDF entities and the controlled subsidiaries;
- the operating control of EDF's trading room which is responsible for treasury management. For these activities, a system of indicators and risk limits, verified daily, is in place to track and control financial risk exposure. The Head of Group Treasury, the Head of the Trading Room and the Head of Financial Risk Control are involved in this and are expected to respond the moment a limit is exceeded. An *ad hoc* committee performs recurrent checks on limit compliance and decides on any potential changes to specific limits.

A report on the implementation of financial risk management strategies is made to the Audit Committee once a year.

In order to guarantee the independence of the structure for controlling financial risks vis-à-vis the activities responsible for managing these risks, the Financial Risk Control department was transferred to the Corporate Risk Management Division. This department retains a functional link with the Corporate Finance, Finance and Treasury Division.

#### 2.3.1.2 SPECIFIC CONTROLS

##### 2.3.1.2.1 PROCEDURE FOR APPROVING COMMITMENTS

The Commitments and Shareholdings Committee reviews all of the Group's commitments, excluding those of the regulated subsidiaries and jointly-controlled affiliates, and notably investment projects, disposal projects and long-term and "Fuel" contracts. It approves, except in exceptional cases, any investment involving sums in excess of €20 million. Since late March 2003, Committee meetings have been systematically preceded by a meeting involving experts at corporate level (Corporate Risk Management, Legal Affairs, Finance, Corporate Audit, etc.) in order to verify the comprehensive scope and the depth of the risk analysis on the projects submitted. This work is based on a methodology referencing system for the analysis of the risks involved in development projects which takes into account the full impact of a project and, particularly, the evaluation of a number of stress scenarios.

##### 2.3.1.2.2 CONTROL OF INFORMATION SYSTEMS (IS)

#### Organization of the internal control of the Information Systems

The Information Systems internal control procedure is an integral part of the Group's internal control policy (proposed control objectives to be deployed by the operating entities) and covers the implementation of the function's strategies. These strategies address, in particular, the security of the information systems, the management of information systems projects, the management of information systems risks and respect of the IT and Data protection legislation.

The Group's Information Systems and Corporate Audit Divisions jointly launched an assessment to test the robustness of the internal control procedure for EDF's information systems in 2008 which was implemented during 2009:

- based on the information systems internal control objectives which can be found in the notes to the Group's internal control manual, the 2009 evaluation undertaken by the branches and divisions for the information systems area took into account the action plans resulting from the lessons learnt in 2008: as a reminder, EDF's information systems internal control referencing system is now based on the COBIT external referencing system;
- the coordination of internal control specific to information systems issues has been implemented by Information Systems since 2009 at two levels within the function's organization: a network of information systems internal control coordinators and the committee of Heads of Information Systems representing the branches and divisions;
- the action plan for Information Systems internal control integrates the specialized second level of control.

## Measures with regard to information systems security

The EDF group's Information Systems Security Strategy structures the orientations and organization of information system security. For EDF SA and ERDF, the adjustment of these strategies as well as the level of security are monitored monthly by a security committee, chaired by the Group IS Division, and regrouping the Heads of Information Systems Security from all the entities within the EDF scope. This committee reports to the Information Systems Security Committee, a strategic committee created in 2009 comprising the members of the committee of Heads of Information Systems for the branches and divisions and representatives of the Security Division and the Corporate Risk Management Division.

### 2.3.1.2.3 ADMINISTRATION AND SUPERVISION OF SUBSIDIARIES/AFFILIATES

Each subsidiary, affiliate or shareholding (with the exception of the regulated subsidiaries) reports to a senior executive who is a member of the Executive Committee or to his or her delegated representative. This individual is responsible for proposing the Board directors who represent EDF within the governance bodies of these companies, to whom a letter of assignment is addressed outlining their remit and objectives. These assignments are updated each year by the Senior Executive Management Committee.

The Delegation of Board Directors and Companies, in place since 2002, specifically monitors:

- the updating of the mapping of company reporting lines, in the light of decisions taken by the executive management;
- the tracking of "target composition profiles" which foresee the assembly of the necessary collective skills, as well as the profiles necessary to represent EDF effectively on the governance bodies of Subsidiary, Affiliate and Shareholding companies, in light of the strategy defined by the EDF senior executives to whom they report;
- compliance with the appointment process for Board directors, requiring prior management nomination (conformity with the target profile, control of the number of mandates, reporting line approval of the proposed Board director, etc.);
- the professional standards of new Board directors (induction training seminar for new Board directors with the support of the Corporate University, information *via* the internet site for the Board director community, on-going vocational training *via* the Board directors' workshops).

### 2.3.1.3 OTHER CONTROL POLICIES AND STRATEGIES

EDF has also defined:

- a health and safety policy, signed by the Chairman in October 2003;
- an insurance strategy initially submitted to the Board of Directors on July 1, 2004, at which time the Board took note of the report on EDF's situation and that of the controlled subsidiaries with regard to identified insurable risks and on the cover in place. It approved an action program aimed at raising awareness of the Group's insurable risks, developing the scope of insurance at Group level, improving and optimizing existing cover and taking out new cover. A progress report on the implementation of the action program of July 1, 2004, was presented to the Audit Committee meetings of May 5, 2006, and April 2, 2007, which approved the future development lines. At the end of 2007, EDF commissioned an external consultant to undertake a comparison of the levels, scope and cost of covering EDF's risks with insurance or the transfer to the financial markets with those of other major comparable industrial groups. The conclusions of this study were presented to the Audit Committee meeting of June 25, 2008, along with the updated picture of insurable risks. In 2009, the synergies achieved thanks to the inclusion of British Energy in the Group's

controlled scope were presented during the annual status review in the Audit Committee meeting of June 30.

## 2.3.2 Internal control procedures relating to the establishment and treatment of accounting and financial information

### 2.3.2.1 EDF GROUP CONSOLIDATED FINANCIAL STATEMENTS

#### 2.3.2.1.1 GROUP ACCOUNTING STANDARDS AND PRINCIPLES

The accounting standards used by the EDF group <sup>(1)</sup> are in line with international accounting standards (IFRS, IAS and interpretations) as approved by the European Union and applicable at December 31, 2009. The accounting rules and methods are described in the Group manual on accounting principles and summarized in the notes to the consolidated financial statements.

#### 2.3.2.1.2 PROCEDURE FOR ESTABLISHING AND CONTROLLING THE CONSOLIDATED FINANCIAL STATEMENTS

The internal control policy in the accounting area was defined in 2007 by the Accounting Consolidation Department. It reiterates the objectives in terms of the reliability and compliance of the reported accounting information and for the preservation of assets and the prevention and detection of fraud. It concerns the steering of the accounting organization, the upstream processes to populate the accounting databases and the production process for accounting information, account closings and financial communication.

The consolidated financial statements are drawn up by the Consolidation Department based on data input locally by each entity (entities of the parent company and subsidiaries and affiliates) and restated in line with Group standards based on a unique chart of accounts.

The annual consolidated financial statements are presented to the Audit Committee then closed by the Board of Directors and approved by the Shareholders' Meeting. The half-year summary consolidated financial statements are presented to the Audit Committee and the Board of Directors.

The closure of each half-year and annual accounting period gives rise to the establishment of a detailed plan of all the deliverables expected from each player involved in the publication of the financial statements and their analysis figuring in the financial statements, the establishment of the Management Report and, for annual account closings, the *Document de Référence*. Meetings between the branches and divisions within the parent company and the subsidiaries and affiliates prepare for each half-year or annual account closing by planning any changes in treatment and ensuring the reported financial and accounting information is reliable. Performance indicators are used to monitor respect of the deadlines and the quality of the information assembled. A retroactive analysis of the difficulties encountered during the production phase enables a steady improvement in the production process and the analysis of the consolidated financial statements.

The use of a financial language shared by Accounting and Financial Control contributes to the consistency of the Group's steering. This common language is one of the ways of ensuring continuity between:

- actual figures coming from accounting and the figures established in the forecasting phases;
- external financial communication and internal steering.

1. The scope of the Group's consolidated financial statements is detailed in the appendix to the financial statements..

This common language promotes dialogue and cooperation between these two functions at all levels of the organization and contributes to securing the exchange of information between the players and the quality of the information produced.

Performance steering and the management dialogue are based on data produced under Group accounting standards as used for the reporting of the consolidated financial statements.

### 2.3.2.1.3 INTERNAL CONTROL OVER THE QUALITY OF ACCOUNTING WITHIN THE GROUP

The accounting internal control policies in the Group companies are the responsibility of each legal structure concerned.

### 2.3.2.2 EDF PARENT COMPANY FINANCIAL STATEMENTS

#### 2.3.2.2.1 PRINCIPLES AND ACCOUNTING STANDARDS

The EDF parent company financial statements are established in accordance with French law. Accounting options compatible with international standards are prioritized whenever possible.

Thanks to a network of coordinators within the branches, the accounting translation of the Group's new activities as well as the impact of the transposition of new accounting standards or regulations is ensured.

#### 2.3.2.2.2 PROCEDURE FOR ESTABLISHING AND CONTROLLING THE FINANCIAL STATEMENTS

Since January 1, 2009, EDF SA's transactional accounting (excluding Corporate Finance, Finance and Treasury, the Nuclear Fuel Division and Island Energy Systems) has been entrusted to an Accounting Shared Services Center within the Shared Services Division. The handling of transactional accounting is organized by process. Governance agreements establish the respective responsibilities of the branches, the operating accounting structures and the Accounting Consolidation Department.

The quality of accounting production involves, at each management level, annual certification at the close of a financial year, which provides a picture of the accounting quality for the year just past and highlights improvements to be made in the following financial year. In addition, a number of audit missions entering into the scope of the accounting function and management control are included in the Group's audit program. Thus, in 2009, audit missions were carried out on the "Investments and property, plant and equipment process", the "Payments received process", the "Control of inventories and work in progress – excluding nuclear fuel and metered energy" and the "Implementation of the AMF application guide".

In addition to the parent company financial statements, pursuant to French law <sup>(1)</sup>, EDF produces unbundled accounts by activity: generation and distribution. These financial statements are established in line with the principles on unbundled accounting and the recommendations made by the French Energy Regulation Commission (CRE). Based on these financial statements, EDF establishes unbundled financial statements for the supply activity based on new criteria (supply to customers having exercised their eligibility – benefiting from new sales and marketing offers, supply

to customers not having exercised their eligibility – maintained on the regulated tariff and gas supply). Following review by the Statutory Auditors, these financial statements were submitted to the French Energy Regulation Commission. The rules for establishing these financial statements must be commented on by the Competition Council prior to any announcement from the French Energy Regulation Commission as to their approval.

### 2.3.2.3 INTERNAL CONTROL ON THE QUALITY OF ACCOUNTING WITHIN THE EDF PARENT COMPANY

The accounting internal control procedure is an integral part of the Group's overall internal control framework. In effect, the Group's internal control reference guide has been enriched with control objectives requiring implementation by all the entities concerning the cross-functional processes which are upstream of accounting (sales, procurement, payroll, fixed assets, inventories, treasury, income tax and the production of accounts), as well as control objectives for implementation by the structures responsible for accounting production. This internal control reference guide is supported by a referencing system for the control of accounting quality used within EDF enabling, via broad-based cross-functional processes, the measurement, using performance indicators, of the quality of the accounting information produced. It specifies, in particular, the data to be tested, the recommended sampling methods and the reporting to be provided. These measurement methods help, within the accounting area, to justify the self-assessment implemented by the entities.

The control procedures for accounting production aim to check, in particular, the:

- precision and comprehensiveness of the accounting information;
- correct valuation of assets and liabilities, notably by the appropriate level of provisions for depreciation and for risks;
- regular justification of accounting;
- respect of the separation of financial years;
- respect of legal obligations;
- securing of the processes;
- execution of inventories ;
- comprehensive taking-into-account of centralization operations.

The recommendations of the Guide relating to the application of internal control of accounting and financial information reported by issuers, as defined by the French financial markets authority (*Autorité des Marchés Financiers* – AMF) at the beginning of 2007, have been taken into account in the internal control reference guide and in the internal control procedures of the central structures for establishing the parent company and consolidated financial statements and in the functional structures contributing to reported financial information.

#### 2.3.2.3.1 INTERNAL CONTROL OF 2009 ACCOUNTING

Given the increased industrial investment in the electricity generation fleet planned for the 2007 to 2012 period and the changes in standards and organization, the action to improve the reliability of the investment accounting process begun in 2007 was pursued during the 2009 financial year.

In 2009, the accounting quality indicator referencing system was reviewed and this work will continue in 2010.

1. French law 2000-108 of February 10, 2000, modified by law 2004-803 of August 9, 2004 and law 2006-1537 of December 7, 2006.

### 2.3.2.3.2 2010 ACTION PLAN FOR INTERNAL CONTROL OF ACCOUNTING

Further work on the appropriateness of the internal control of accounting procedures will be pursued in 2010 within the framework of a joint approach involving accounting, management control and internal audit.

## 2.3.3 Internal control procedures relating to compliance with laws and regulations

The Legal Affairs Division is responsible for keeping track of legislative and regulatory changes and for raising the awareness of any changes likely to have an impact for the Group within the branches and divisions concerned.

Pursuant to a joint decision of June 1, 2007, the Legal Affairs and Corporate Audit Divisions adopted an action plan aimed at formalizing the role of Legal Affairs in defining the control objectives prescribed in the different EDF entities in order that their own internal control plans take these into account. These control objectives aim to ensure that these entities:

- indicate to Legal Affairs the areas of regulation which particularly concern them so that it can execute its monitoring mission in an optimum manner;
- systematically involve Legal Affairs as early as possible in their strategic plans and the management of major legal risks;
- ensure that their delegations of power effectively reflect their organization;
- identify their needs in terms of legal awareness within the fields that concern them, including the cross-functional needs and communicate them to Legal Affairs;
- ensure that individuals granted delegations of power are aware of their range and the consequences of their delegation.

### 2.3.3.1 REGULATION RELATING TO THE INDUSTRIAL OPERATIONS

Numerous control procedures exist in the industrial, and especially nuclear, operations.

The regulation in force is specific to each country within which the facilities are located and external controls are organized by the relevant national authorities (the French Nuclear Safety Authority in France, the NEI in the United Kingdom, the Nuclear Regulatory Commission in the United States, etc.).

Certain players and departments are worthy of note, particularly for EDF SA:

- **the Senior Vice President, Nuclear Safety and Radioprotection** (*Inspecteur Général pour la Sûreté Nucléaire et la Radioprotection* – IGSNR) who, on behalf of the Chairman, ensures that all aspects of safety and radiation protection in the nuclear facilities for which EDF has operating responsibility are fully taken into account and whose annual report is published externally;
- **the Nuclear Inspection**, a department reporting directly to the Senior Vice President, Nuclear Operations, whose job is to regularly verify the level of safety in all the different Nuclear Operations entities.

The law of June 28, 2006 and its application decree dated February 23, 2007, relating to the securing of the financing of the nuclear charges requires the Company to specify in a report the procedures and systems enabling the identification, evaluation, management and control of risks associated with the evaluation of the nuclear charge and the management of the assets to cover this. The first version of the report was finalized in June 2007 and updated in June 2008 and 2009; this report includes a specific section on internal control.

In other areas (such as, for example, the monitoring of pressure vessels and of dams), each entity is responsible for defining and implementing the appropriate control procedures.

### 2.3.3.2 OTHER REGULATIONS

Control procedures are also implemented for the application of regulations on working conditions, labor law and employee benefits.

The implementation of management systems, particularly with regard to environmental considerations and Health and Safety, has enabled tighter control of the application of regulations and compliance with any regulatory changes to be foreseen.

## 2.3.4 Internal control procedures relating to the implementation of instructions and orientations given by the Group's executive management

Within the framework of the deployment of the new internal audit and control policy, a diagnostic of internal control by the Group's executive management was conducted by the Corporate Audit Division as of 2006, focused specifically on the effective application of decisions taken by the Group's executive management. This was reflected in the implementation of a procedure for monitoring decisions taken by the Chairman.

Since 2007, a formalized decision has specified the procedure for establishing, circulating and controlling the decisions taken by the Chairman and CEO and the chief officers for the Committees they chair. The control of their implementation is, respectively, the responsibility of the Head of the Chairman and CEO's office and the secretaries of the corresponding committees, and may be delegated to the Corporate Audit Division *via*, in particular, the audits in the annual program. The Corporate Audit Division includes a status report on the implementation of the Chairman's decision in its half-year report.



## 2.4

# Communication and information dissemination

In addition to the communication and reporting initiatives outlined within this report, the following specific initiatives are worthy of note:

- **financial communication:**

Since it was listed for trading in 2005, EDF has established procedures to prevent stock market transgressions. Hence a procedure has been defined to organize the respective roles within the Company with regard to the establishment, approval and dissemination of financial communication. A Disclosure Committee has been created, tasked principally with ensuring the validation and consistency of EDF's different financial communication sources as well as the review and validation of the contents of all financial communication channels. The Investor Relations Division provides secretarial services to this Committee, which comprises representatives from the Finance, Communication and Legal Affairs Divisions. Furthermore, a stock market compliance charter has been established, whose aim is to raise awareness of the obligations in terms of financial communication and particularly to reiterate the insider trading rules and to foresee periods during which senior executives and employees party to insider information may not trade in the Company's shares;

- **the code of conduct:**

Respect of the codes of conduct for the regulated subsidiaries is verified annually by the French Energy Regulation Commission, which publishes the results in its annual report;

- **awareness of top executives:**

An executive intranet, *EDF Demain*, available to EDF senior and top executives enables the information useful to these individuals to be shared, for example decisions taken by the Chairman and CEO, Group referencing systems, information on current projects and language pointers relating to these projects.

Furthermore, an annual program of seminars is organized for top executives in order to familiarize them with important projects and major developments within the Group such as, for example, the functioning of the energy markets, price formation and the EDF group's business model;

- **a database of the major policies:**

The Corporate Audit Division managed a project to harmonize the policies outlined in the internal control reference guide by defining a model policy. This project led to the creation of a "database of EDF SA's cross-functional policies", with a series of summary sheets outlining the main content of the model policy gradually being made available to all EDF executives on the "executive intranet".

## 2.5

# Activities relating to the steering of Group internal control

There are three types of steering activities undertaken by the Corporate Audit Division:

- three-yearly audits of the control of control systems (mobilizing around 30% of Corporate Audit Division resources), and the other different categories of corporate audits (see § 2.1.3.3) which take into account the risks, potential significant malfunctions or external recommendations (see § 2.1.7);
- control of the implementation of recommendations arising from these audits through a formalized audit conclusion process (potentially consisting of a new audit if any significant shortfalls have been identified during the initial audit), involving the management reporting lines and internal control coordinators of each entity concerned (see § 2.1.3.3), the latter being responsible for ensuring the steering of control procedures inside each of the entities within their scope;
- sharing feedback on lessons learnt and acting as a driver of continuous progress *via*:
  - half-year summaries by the Corporate Audit Division that highlight the salient points but also, as need be, the categories of malfunction recurring in several audits conducted during the period,

- half-year reviews between the Corporate Audit Division and each management executive during which an analysis of internal control systems is discussed, but which also involve status reports on action plans initiated following previous audits, as well as future audit programs, enabling the link between audits, risk and internal control measures to be reinforced,
- qualitative analysis of annual self-assessment reports by the specialized Internal Control team within the Corporate Audit Division,
- proactive measures overseen by the Corporate Audit Division in liaison with the operating and functional entities concerned, aimed at eliminating the weak points noted in the deployment of the internal control policy, and identified based on the management self-assessment process,
- upgrading of tools and referencing systems such as, for example, the internal control manual, the model for the annual self-assessment reports and the specification of audits of internal control systems following audits conducted during the period,
- regular bimonthly meetings of the Group's internal control coordinator network (around 45 individuals) facilitating, in particular, benchmarking and the sharing of best practices,

- regular meetings between the heads of audit teams within the branches (generation, customers, international operations and Group synergies, etc.) enabling, notably, the coordination of audit programs and practices, in line with the referencing system established by the Corporate Audit Division which defines the roles and responsibilities of the business line audit teams, together with the conditions for establishing their audit programs and for raising the professional standards of auditors,

- regular meetings between the Heads of Audit within the major jointly-controlled international affiliates (notably EDF Energy, EDF Trading, EnBW, Edison, Alpiq) in order to share best practices and benchmarks, as well as common work to help the executive managements of these companies strengthen their internal control systems,  
- a three-yearly external audit of skills and processes implemented by the Corporate Audit Division within the framework of these different missions.

# 3

## The dynamics of change

The numerous initiatives implemented over the past few years have enabled the clarification and strengthening of the internal control systems: the implementation of a risk management and control procedure, the ongoing development of our ethics policy, the standardization of the establishment of the consolidated financial statements, the implementation of a new internal control policy across the Group's entire scope which is continuously evolving to effectively fulfill the four key objectives recommended by the AMF (see introduction).

Ahead of the recommendations of the «working group» relating to the conditions enabling the «monitoring of the effectiveness of the internal control and risk management procedures», a number of specific projects have been launched in addition to the ongoing improvements outlined in this report, to help the Audit Committee in its new mission of monitoring the effectiveness of the procedures in force.

Thus, in addition to the information coming from the self-assessments, which provides a picture of the current level of internal control deployment on one hand, and the results of the audits of these procedures which are a first indicator of the overall effectiveness and control of operating risks

within the scope of the audited entity on the other, the following initiatives have been identified and launched:

- adaptation of the self-assessment methodology based on new performance criteria covering the level of deployment in addition to the existing criteria;
- extension of the internal control scope to the functional entities (implementation of a second level of control over subjects which are highly technical in nature, internal control of the coordination activities of the cross-functional processes, etc.);
- definition of traceability rules and archiving procedures for the control activities and results;
- organization of the inputs to performance indicators such as the inventory of incidents detected or those having been missed by the internal control procedures.

*This report was produced by a working group coordinated by the Corporate Audit Division, whose members were detailed in the introduction, and has been reviewed by, successively, the Corporate Secretary (January 13, 2010), the Disclosure Committee (January 29, 2010), the Audit Committee (February 9, 2010) before being approved by the Board of Directors (February 10, 2010).*

Paris, February 10, 2010

Chairman and CEO of EDF  
Henri Proglio

## Statutory Auditors' Report prepared in accordance with Article L. 225-235 of the French Commercial Code ("Code de commerce"), on the Report prepared by the Chairman of the Board of Directors of Électricité de France SA

*This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

### YEAR ENDED DECEMBER 31, 2009

To the shareholders,

In our capacity as Statutory Auditors of Électricité de France SA, and in accordance with Article L. 225-235 of the French Commercial Code ("Code de commerce"), we hereby report on the Report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L. 225-37 particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's Report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this Report contains the other disclosures required by Article L. 225-37 of the French Commercial Code ("Code de commerce"), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

#### **Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information**

These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's Report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's Report is based and existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's Report.

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the Report prepared by the Chairman of the Board in accordance with Article L. 225-37 of the French Commercial Code ("Code de commerce").

### OTHER DISCLOSURES

We hereby attest that the Chairman's Report includes the other disclosures required by Article L. 225-37 of the French Commercial Code ("Code de commerce").

Paris-La Défense and Neuilly-sur-Seine, February 10, 2010

The Statutory Auditors

**KPMG Audit**  
**Department of KPMG S.A.**

**Deloitte & Associés**

Jean-Luc Decornoy

Michel Piette

Alain Pons

Tristan Guerlain