

# ●● 2010 report

## BY THE CHAIRMAN

of the EDF Board of Directors on Corporate Governance,  
internal control and risk management procedures

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## Introduction

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

- the conditions of corporate governance (corporate governance framework, composition and powers of the Board of Directors, Board of Directors' activities in 2010, the Board of Directors Committees, assessment of the functioning of the Board of Directors, prerogatives and duties of the Board Directors, Shareholders' Meetings of Électricité de France SA) (§ 1);
- as well as the internal control and risk management procedures implemented within the EDF group (§ 2).

For the purposes of this report, the terms "EDF" or "Company" refer to the parent company. The terms "EDF group" or "Group" refer to:

- 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 by the parent company: "the regulated subsidiaries";
- its other subsidiaries, direct or indirect, that are majority controlled, in France and internationally: "the controlled subsidiaries";
- its affiliates which are jointly controlled at financial level, without exclusive operating control (EnBW until the end of 2010, 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 for the financial year ended December 31, 2010.

**Note 2:** the information specific to the three subsidiaries RTE EDF Transport, EDF Énergies Nouvelles and Électricité de Strasbourg is available in the reports produced by these three companies pursuant to article L.225-37 of the French Commercial Code. The practices and terms for exercising control may differ depending on the specific area of activity of the entities outlined above, and will be specified as necessary throughout this report.

This report has been produced by a working group coordinated by the Corporate Audit Division (the division responsible for internal audit within the EDF group), comprising representatives from Legal Affairs, Corporate Risk Management, Corporate Finance and the office of the General Secretary to the Board of Directors. Contributions were also sought<sup>(1)</sup> from the Ethics and Compliance teams, the Information Systems Division, the Delegation of Board Directors and Companies, the Sustainable Development Division and the Investors and Markets Division. The report was approved by the Board of Directors meeting of February 14, 2011, pursuant to article L.225-37 of the French Commercial Code.

## 1. Corporate governance

### 1.1. ●● Corporate governance framework

#### 1.1.1. Internal Regulation

The Internal Regulation of the Board of Directors specifies the main guidelines regarding its functioning and the terms and conditions whereby it exercises its role and responsibilities, as well as those of the specialized advisory committees. It also stipulates the role and powers of the Chairman and Chief Executive Officer. This regulation is reviewed as necessary to take into account, in particular, any legal and regulatory changes, and is submitted for deliberation by the Board.

#### 1.1.2. Corporate Governance Code

Having reviewed the AFEP-MEDEF recommendations of October 2008 on the compensation of executive directors, the Company's Board of Directors, in its meeting of December 17, 2008, expressed its agreement with these recommendations, considering that they were reflected in EDF's corporate governance approach and that they had already been implemented by the Company. Subject to the specific laws and regulations applicable to it, EDF complies with the revised AFEP-MEDEF Code of April 2010, which is the corporate governance code to which the Company refers.

1. For the establishment of this report, EDF referred to the AMF's internal control recommendations (chap. 2.3.1. to 2.3.4.) based on the COSO standards (chap 2.1. to 2.5.).

## 1.2. ●● Composition and powers of the Board of Directors

### 1.2.1. Composition of the Board of Directors

Pursuant to article 6 of the French law of July 26, 1983 relating to the democratization of the public sector, 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 representatives of the French state, who are appointed by decree.

Pursuant to article 11 of the law relating to the democratization of the public sector, the term of office of members of the Board of Directors is five years.

The terms and conditions governing the dismissal of Board Directors are as outlined in article 12 of the law relating to the democratization of the public sector.

The list of members of the Board of Directors as well as the personal information concerning them figures in chapter 14.1. of the 2010 *Document de Référence*.

The Head of the French State's Economic and Financial General Control Mission at EDF<sup>1</sup> as well as the Secretary of the Corporate Works Council also attend the meetings of the Board of Directors with no right to vote.

### 1.2.2. Appointment and powers of the Chairman of the Board of Directors

The Chairman of the Board of Directors is responsible for the general management of the Company. He is appointed by decree of the President of the Republic upon proposal by the Board of Directors. His mandate may be revoked by decree pursuant to article 10 of the law relating to the democratization of the public sector.

Henri Proglio was appointed Chairman and Chief Executive Officer of EDF by decree on November 25, 2009.

The Chairman and Chief Executive Officer has full powers to commit the Company subject to those attributed to the Board of Directors (see § 1.2.3.).

### 1.2.3. Powers of the Board of Directors

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

Pursuant to its Internal Regulation, the Board of Directors reserves the exclusive right to approve the following transactions:

- 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 2010, the Board set the following thresholds:
  - €500 million as the total authorized amount in terms of sureties, endorsements and 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;
- contracts (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;
- 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.

Lastly, the Board of Directors establishes the framework for the Policy on the constitution and management of the hedging assets for nuclear commitments, commenting, in particular, on asset-liability management, the asset allocation strategy, the quality of the assets and the method used to appoint any financial intermediaries. It sets the market, counterparty and liquidity risk limits.

### 1.2.4. Independence of the Board Directors

The AFEP-MEDEF corporate governance code recommends that, in the controlled companies, the proportion of independent Board Directors must amount to at least one third. However, given the specific legal rules applying to the composition of the Board of Directors, the Board includes,

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.

out of a total of 18 members, 12 directors (six representing the French state and six representing the employees) who, de facto, may not be considered as fulfilling the independence criteria as set out in the aforementioned code.

At a joint meeting on January 14, 2011, the Ethics Committee and the Appointments and Remuneration Committee reviewed the individual situations of Board Directors in the light of the independence criteria. At its meeting of January 21, 2011, the Board of Directors considered the

following directors to be independent within the meaning of the criteria established by the AFEP-MEDEF corporate governance code: Ms Faugère, Messrs Crouzet, Jay, Lafont and Mariani, these individuals having no relationship of any kind with the Company, Group or its Management that could potentially compromise the exercise of their freedom of judgment.

As at the date of this report, the Company's Board of Directors thus had five independent members.

### 1.3. ●● Activities of the Board of Directors in 2010

Pursuant to its Internal Regulation, the Board of Directors meets as often as the Company's interests require. During the 2010 financial year, the Board of Directors met 12 times and 23 committee meetings were held to prepare for these meetings.

The Board meetings lasted an average of two hours and 44 minutes, enabling the review and in-depth discussion of the agenda items.

The average attendance rate of directors at Board meetings increased over the 2006-10 period (83.6% on average); in 2010 it stood at 86.6%.

In 2010, the Board of Directors reviewed and authorized, in addition to numerous matters linked to the Company's day-to-day activities, major subjects such as the:

- new shareholders agreement concerning SPE (Belgium);
- EDF-AREVA agreements relating to the downstream of the nuclear fuel cycle;
- sale of the electricity distribution networks in the UK;

- conclusion of a new agreement between EDF and Constellation Energy Group;
- Gavet and Moyenne Romanche hydroelectric concession agreements and their operating conditions;
- establishment of the Group's largest research and development centre at the Paris Saclay site;
- sale of the EDF International shareholding in EnBW;
- compromise agreement between EDF and AREVA/Eurodif on the closure procedure for the Georges Besse 1 plant;
- allocation of 50% of the RTE EDF Transport shares held by EDF to the dedicated assets portfolio;
- acquisition by EDF International of equity interests in Société d'Énergie and Eau du Gabon (SEEG).

In addition, the Board of Directors also reviewed the UK nuclear revival project together with the Fallago Rig (Scotland) and Teesside (England) wind farm projects.

### 1.4. ●● Board of Directors' Committees

In the execution of its duties, the Board of Directors is supported by five specialized advisory committees, tasked with reviewing and preparing specific reports prior to their submission to the full Board. These specialized committees are: the Audit Committee, the Nuclear Commitments Monitoring Committee, the Strategy Committee, the Ethics Committee and the Appointments and Remuneration Committee. The Board Directors are appointed as members of these Committees by the Board of Directors. The Chairman of each committee is appointed by the Board of Directors on the basis of proposals made by the members of the relevant committee.

The Head of the French State's Economic and Financial General Control Mission to the Company is invited to attend the meetings of these committees.

The work of the committees is organized within the framework of an annual program. The meetings are the subject of written minutes and a report by the Chairman of the Committee to the Board of Directors.

#### 1.4.1. Audit Committee

##### 1.4.1.1. Functioning and composition

The Audit Committee performs the duties assigned to it pursuant to ordinance no.2008-1278 of December 8, 2008, transposing into French law the eighth European directive of May 17, 2006 on Statutory Auditors.

Article L.823-19 of the French Commercial Code stipulates that at least one member of the Audit Committee must have specific financial and accounting competencies and be independent in the light of the criteria stipulated and made public by the Board of Directors. At a joint meeting held on January 14, 2011, the Ethics Committee and the Appointments and Remuneration Committee reviewed the situation of Mr Mariani in the light of the independence and specific financial and accounting competencies criteria, as recommended by the French financial markets authority (*Autorité des Marchés Financiers* – AMF) in its "Final Audit Committee Report" of July 22, 2010. The Board of Directors decided, at its meeting of January 21, 2011, that the situation of Mr Mariani fulfilled these criteria.

The Audit Committee is chaired by Mr Mariani, an independent Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group. The other members are Messrs Comolli and d'Escatha, directors representing the French State, together with Messrs Grillat, Pesteil and Villota, directors elected by the employees.

Mr Comolli was appointed a member of the Audit Committee by the Board of Directors on October 26, 2010, replacing Mr Bézard.

The Audit Committee met seven times during 2010. The average attendance rate by Board Directors at meetings of this committee was 88.1%.

#### 1.4.1.2. Role and responsibilities

Prior to their submission to the Board of Directors, 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 (parent company financial statements, the Group's consolidated financial statements and the Management Report);
- the monitoring of the Company's risks (the Group's risk mapping, in particular, is reviewed every half year by this Committee together with the methods for controlling risks);
- the 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, while ensuring their independence, 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 § 1.2.3 and 1.3.);

The Committee's work requires it to regularly seek the opinion of the Statutory Auditors, the Executive Management, Corporate Finance, Corporate Audit and Corporate Risk Management.

#### 1.4.1.3. Activities in 2010

During 2010, in addition to matters which fall within its traditional remit (review of the annual and half-year financial statements together with the related press releases and those on the quarterly sales figures, risk mapping, internal audit summary reports and the audit program), the Audit Committee also reviewed the Statutory Auditors appointment process for the 2011-2016 period on which it commented to the Board of Directors.

### 1.4.2. Nuclear Commitments Monitoring Committee

#### 1.4.2.1. Functioning and composition

The Nuclear Commitments Monitoring Committee (*Comité de suivi des engagements nucléaires* – CSEN) is chaired by Mr Cruzet, an independent

Board director appointed by the Shareholders' Meeting and a respected individual from outside the Group.

The other members are Messrs Abadie and d'Escatha, directors representing the French state and Messrs Pesteil and Villota, directors elected by the employees.

The Nuclear Commitments Monitoring Committee met three times in 2010 with an average Board director attendance rate of 100%.

#### 1.4.2.2. Role and responsibilities

The Nuclear Commitments Monitoring Committee is tasked with monitoring changes in nuclear provisions, commenting on governance issues relating to the dedicated assets, the rules for matching assets and liabilities and on tactical allocation, and ensuring the compliance of the dedicated asset management implemented by EDF through the Policy on the Constitution and Management of 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 six<sup>(1)</sup> independent experts and whose mission is to assist the Company and its governance bodies in such matters.

#### 1.4.2.3. Activities in 2010

The Nuclear Commitments Monitoring Committee reviewed, in particular, the provision for decommissioning the fleet of pressurized water reactors, the management and performance of the dedicated assets portfolio and the project to allocate 50% of the RTE EDF Transport shares held by EDF to the dedicated assets portfolio.

### 1.4.3. Strategy Committee

#### 1.4.3.1. Functioning and composition

The Strategy Committee is chaired by Mr Proglgio, the Chairman and Chief Executive Officer. The other members are Mr Jay, an independent Board director appointed by the Shareholders' Meeting and a respected figure from outside the Group, Messrs Abadie, Comolli and Sellal, Board Directors representing the French State and Messrs Grillat, Pesteil and Rignac, Board Directors elected by the employees.

Mr Comolli was appointed a member of the Strategy Committee by the Board of Directors meeting of October 26, 2010, replacing Mr Bézard.

Since 2010, the Chairman has invited Board Directors who are not members of the Strategy Committee to attend its meetings.

The Strategy Committee met seven times in 2010, including one meeting held jointly with the Ethics Committee (and extended to the full Board) dedicated to the Human Resources Strategy established to support the Group's industrial strategy. The average attendance rate of Board Directors who are members of the Strategy Committee was 87.5%.

1. At its meeting of October 26, 2010, the Board of Directors appointed six members to the Nuclear Commitments Monitoring Committee for a three-year period.

#### 1.4.3.2. Role and responsibilities

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, the Research and Development Strategy, and internal and external growth projects or disposals requiring approval from the Board of Directors.

#### 1.4.3.3. Activities in 2010

The Strategy Committee reviewed, in particular:

- the impact on EDF's activities in France of the draft law relating to the new organization of the French electricity market (NOME);
- the Group's networks strategy;
- the Group's strategy in the United Kingdom and, specifically, the planned sale of the distribution networks;
- the nuclear development outlook, particularly in the United Kingdom and France.

### 1.4.4. Ethics Committee

#### 1.4.4.1. Functioning and composition

The Ethics Committee is chaired by Ms Faugère, an independent Board director appointed by the Shareholders' Meeting and a respected figure from outside the Group. The other members are Messrs Van de Maele, a Board director representing the French state and Ms Chabauty and Messrs Maissa, Pesteil, and Grillat, Board Directors elected by the employees.

The Ethics Committee met four times in 2010, with the average attendance rate for Board director members of 91.7%.

#### 1.4.4.2. Role and responsibilities

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 Board of Directors (see § 1.5.).

#### 1.4.4.3. Activities in 2010

In 2010, the Ethics Committee assisted, in particular, the Board of Directors with the evaluation of its functioning, which was entrusted to an external specialist firm (see § 1.5.). During a joint meeting with the Strategy Committee and extended to members of the Board, the Committee also reviewed the Human Resources Strategy established to support the Group's industrial strategy.

### 1.4.5. Appointments and Remuneration Committee

#### 1.4.5.1. Functioning and composition

The Appointments and Remuneration Committee is chaired by Mr Lafont, an independent Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group. The other members are Mr Jay, an independent Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF group and Mr Comolli, a Board director representing the French state.

At its meeting of October 26, 2010, the Board of Directors appointed Mr Comolli as a member of the Appointments and Remuneration Committee, replacing Mr Bézard.

The Appointments and Remuneration Committee met twice in 2010. The average attendance rate for Board Directors who are members of this committee was 100%.

#### 1.4.5.2. Role and responsibilities

The Appointments and Remuneration Committee submits proposals to the Board of Directors for 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 his 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 peripheral compensation. It also communicates this opinion to the Board of Directors for deliberation and the setting of this compensation.

The Committee examines, as necessary, the compensation of the chief officers and comments on the proposals submitted to it by the Chairman and CEO with regard to their salaries and 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 Officers.

The Committee comments to the Board of Directors on the conditions for establishing the compensation of the principal senior executives (fixed and variable portion, calculation method and indexing), and 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 and Board Directors' fees can be found in chapter 15 of the 2010 *Document de Référence*.

#### 1.4.5.3. Activities in 2010

During 2010, the Appointments and Remuneration Committee notably reviewed the bonuses of the Chairman and CEO and the chief officers in respect of 2009, the gross annual compensation of the Chairman and CEO as of his appointment on November 25, 2009 together with his bonus in respect of 2009, the criteria for calculating the bonus of the Chairman and CEO and the budget for Board Directors' fees for 2010.

## 1.5. ●● Evaluation of the functioning of the Board of Directors

The Internal Regulation of the Board of Directors stipulates that the Ethics Committee shall undertake an annual evaluation of the functioning of the Board of Directors and propose areas requiring improvement. Furthermore, every three years, this evaluation is carried out by an external firm under the direction of the Ethics Committee.

Once a year, the Board of Directors devotes an agenda item to this evaluation and organizes a discussion on its functioning in order to improve the Board's effectiveness, verify that important issues are properly prepared and discussed within the Board and measure the effective contribution of each member to its work.

An external specialist firm was mandated to carry out this evaluation in respect of 2010 through in-depth interviews with each of the Board Directors that took place during the final quarter. The results, reviewed by the Ethics Committee and presented to the Board of Directors' meeting of January 21, 2011, reveal that a broad majority of the Board Directors consider that good corporate governance practices have been implemented by the Company. They particularly value the interaction which was described as harmonious between the Board of Directors and its different committees and consider, in addition, that all the board members are effectively involved in the Group's strategic planning, particularly since Board Directors who are not members of the Strategy Committee have been invited to attend meetings of the latter.

## 1.6. ●● Prerogatives and duties of Board Directors

### 1.6.1. Information and training for Board Directors

The Chairman and CEO regularly brings to the attention of board members the main facts and significant events arising in the Company between Board of Directors meetings, enabling them to effectively fulfill their mission.

The Executive Management ensures that the documents relating to Board meetings and any significant information relating to the Group's activities are sent to the Board Directors by the appropriate deadlines.

The General 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 General Secretary to the Board.

In addition, the General Secretary to the Board of Directors organizes information meetings on complex matters and those of major strategic importance, and on subjects requested by Board Directors, together with any training from which the latter wish to benefit. He or she makes available to the Board Directors a summary document which is attached to the documentation for each Board of Directors meeting, on the businesses, market trends, economic and financial environment and initiatives underway within the Group, in line with the wishes expressed by the Board Directors.

### 1.6.2. Obligations and duties of the Board Directors

The Internal Regulation of the Board of Directors reiterates that its members are subject to obligations such as: acting in the interest of the Company, informing the Board of Directors of any conflicts of interest and abstaining from any vote or discussion involving a potential conflict of interest, respecting the confidentiality obligation and complying with EDF's Stock Market Compliance Charter. The members of the Board of Directors and the Chairman and CEO are required to immediately inform the Board of Directors of any agreement concluded by the Company in which they have a direct or indirect interest or may be concluded by a proxy.

Each Board director receives a director's handbook which is regularly updated and, notably, contains the following documents: the Company's bylaws, the Internal Regulation of the Board of Directors and its Committees, the Stock Market Compliance Charter, the AFEP-MEDEF Code.

### 1.6.3. Compensation

The rules regarding the payment of Board Directors' fees and the amounts paid in 2010 can be found in chapter 15 of the 2010 *Document de Référence*.

## 1.7. ●● Shareholders' Meetings

The conditions relating to shareholder participation in the Shareholders' Meeting are found in article 20 of the Company's bylaws, and are outlined in section 21.2.7 of the EDF *Document de Référence*.

Furthermore, the information foreseen by article L.225-100-3 of the French Commercial Code 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 2010, highlighting any changes and the key initiatives developed during that year. These internal control and risk management procedures are consistent with the general principles stipulated in the AMF guidelines relating to risk management and internal control (published on January 22, 2007 and updated on June 14, 2010).

### 2.1. ●● Control environment

#### 2.1.1. Steering bodies of Executive Management

The organization of the Executive Management is intended to fulfill two major priorities: improve functioning as an integrated Group while respecting the management autonomy of the regulated subsidiaries and reinforce the role of the operating teams in the decision-making process.

The Chairman and CEO thus opted to be supported by an Executive Committee comprising representatives from all the Group's business lines together with representatives from corporate finance, legal affairs and human resources.

Its composition is as follows:

- Henri Proglio, Chairman and Chief Executive Officer, Chairman of the Executive Committee;
- Marianne Laigneau, Group Senior Executive Vice President, Human Resources;
- Pierre Lederer, Group Senior Executive Vice President, Customers, Optimisation and Trading;
- Hervé Machenaud, Group Senior Executive Vice President, Generation;
- Jean-Louis Mathias, Group Senior Executive Vice President, Activities Coordination in France, IT, Gas and Renewable Energies;
- Thomas Piquemal, Group Senior Executive Vice President, Finance;
- Vincent de Rivaz, Chief Executive Officer, EDF Energy;
- Alain Tchernonog, General Secretary.

Denis Lépée, Advisor to the Chairman, Secretary to the Executive Committee.

This Committee is a forum for reflection, discussion and consultation on all cross-functional and cross-divisional matters within the Group. It monitors the targets and operating results and contributes to the management and planning of the EDF group's response to major strategic challenges. It reviews and approves the significant projects and, in particular, investment or divestment projects for the Group whose amounts exceed certain thresholds. The Executive Committee meets every week.

In April 2010, in order to strengthen the review and monitoring of projects, the Chairman and CEO created a Commitments Committee within the Executive Committee, for the in-depth review of projects having received an in-principle positive opinion from the Executive Committee prior to final approval by the latter. No investment project for the Company can be submitted to the Executive Committee for review without first being approved by this Committee<sup>(1)</sup>.

The organization of the Executive Management was completed, in April 2010, by the creation of a Management Committee bringing together, around the members of the Executive Committee, the Group's top international executives and the heads of geographical regions, the Chairman of the ERDF Management Board and heads of Company support functions, namely:

- Michèle Bellon, Chair of the ERDF Management Board;
- Catherine Gros, Senior Executive Vice President, Communications;
- Philippe Méchet, Senior Executive Vice President, Institutional Relations;
- Umberto Quadrino, CEO of Edison;
- Anne Le Lorier, Senior Executive Vice President, Risks and Audit;
- Gérard Wolf, Senior Executive Vice President, International Business Development;
- Bruno Lescoeur, Senior Executive Vice President, Gas.

The Management Committee brings together business line, geographical and functional expertise. It is a forum for discussion between the Group's top executives on cross-functional and cross-divisional matters. It supports the Company's Executive Management in the implementation of the strategy and the steering of synergies within the Group. This Committee meets every month.

Lastly, the Senior Vice President, Nuclear Safety and Radioprotection (*Inspecteur Général pour la Sécurité Nucléaire et la Radioprotection* – IGSNR), who is appointed by and reports to EDF's Chairman and CEO, is tasked with conducting audits in his or her area of intervention and commenting yearly on the overall safety of the Group's nuclear fleet, submitting proposals for improvements to the Executive Management.

#### 2.1.2. Internal control system

A new decision relating to the implementation of internal control within the EDF group was signed by the Chairman and CEO on September 3, 2010. This decision takes into account the provisions of the ordinance of December 8, 2008, as well as the new organization implemented in late 2009, and specifies the internal control orientations of the EDF group. It aims to provide a reasonable assurance of control over EDF's risks by grounding itself, with a view to achieving permanent progress, on the following key principles:

- a delegation of responsibility to each of the Group's executives who, at every level, are responsible for:
  - controlling the principal risks,

1. This Committee replaces the Commitments and Shareholdings Committee and is chaired by the Chairman and CEO.

- verifying control over the activities they have sub-delegated,
- ensuring that the risks identified have the appropriate, proportionate control procedures in place,
- self-assessing the procedures in place and producing regular, formalized reports for their line managers;
- a unique audit procedure, reporting to the Chairman and CEO, described in § 2.1.3.3.

These key principles apply to all the Group's entities, although the implementation conditions may vary depending on the entity (size, governance conditions and level of control).

Concerning the controlled entities and subsidiaries (excluding the regulated subsidiaries), the application scope corresponds to the Executive Managements and the entities and subsidiaries that they control and to the main EDF operating divisions, which themselves often control several operating units or subsidiaries.

Each executive concerned has appointed an "Internal Control Coordinator", and the coordination of this network is ensured by the Corporate Audit Division (training, regular meetings, background documents shared on the intranet, etc.).

An Internal Control Manual Guide has been established and is offered to each entity to help implement its own internal control systems. This guide 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 learned and new control requirements coming, for example, from new decisions or internal policies. The 2011 manual will thus take into account the Chairman and CEO's formal decision of September 14, 2010, relating to combating fraud, which puts the emphasis on the prevention, detection and handling of such situations.

Since 2007, the functional entities have established control procedures relating to the application of the policies and major decisions in their area of responsibility. These procedures are included in the Internal Control Manual Guide and are intended to be deployed by all relevant entities within the Group.

At the end of 2010, each of the 45 entities concerned produced an annual report on internal control outlining, notably, their internal control procedures, a self-assessment of these procedures (for 40 entities), 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. It is noteworthy that 32 operating entities thus established and circulated their fourth self-assessment report while the other entities produced this report for the first time in 2010 (functional entities, newly-created operating entities, etc.).

In line with the commitments made, since 2008, virtually all of the internal control procedures in the entities have been audited by the Corporate Audit Division (32 of 36 entities), which completes the first audit cycle. This approach will be pursued to the same ends with new entities entering the Group perimeter and with new audit objectives that are better adapted to the mature entities which will be audited for the second time. The audits conducted in 2010 confirmed the increased deployment of the overall internal control system within the Group and, in the majority of cases, the good level of reliability of the corresponding self-assessments, underpinning the level of assurance coming from the self-assessment declarations filed at the end of 2009.

Concerning the other subsidiaries and affiliates of the Group (regulated subsidiaries, jointly-controlled affiliates and significant shareholdings), risk control is the responsibility of EDF's representatives within the governance bodies. For each subsidiary and affiliate, they ensure the implementation of risk mapping, a description of the internal control and audit procedures, and 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 procedures *via* a regular audit with a maximum five-year interval.

This process is implemented by the Corporate Audit and Corporate Risk Management divisions and aims to support:

- EDF representatives within the major subsidiaries and affiliates, to help them implement and steer the approach within governance bodies;
- heads of the divisions to which they report, who are tasked with providing the same level of support to the EDF representatives within the subsidiaries and affiliates of lesser importance falling within their area of responsibility, and reporting back on this in their annual self-assessment reports.

## 2.1.3. The divisions steering internal control

### 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. Within Corporate Finance, Group Controlling comprises two divisions:

- Management Control is responsible for:
  - steering the forecasting processes of the Group's management cycle (budgets, re-forecasting and medium-term plans), summarizing the main results and arbitrating between conflicting claims at division, subsidiary and affiliate level across the Group. 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 twice a year and monthly reporting on the results achieved to date together with an update of the latest annual forecast revision) is ensured through regular broad-based performance reviews across all divisions and the controlled subsidiaries;
  - acting as Group financial controller, notably by participating in the investment control process and conducting analysis to ensure economic and financial optimization;
  - acting as the driver for the establishment of the medium and long-term financial trajectories.

The head of financial management at the level of the divisions and subsidiaries are members of the management committees of the entities to which they belong. They are appointed and appraised jointly by the operating management and by the heads of business line management control.

- Accounting is responsible for:
  - defining a consistent framework for the accounting information system, complying 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 guarantees the harmonization of the accounting treatment and the correct accounting input by 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 relevant legal structure.

#### 2.1.3.2. Corporate Risk Management Division

For many years the EDF group has implemented a policy 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:

- ensuring that each Group entity carries out risk mapping, 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 Executive Committee as to emerging risks or those which have not been adequately identified;
- consolidating the deployment of the Risk Control Policy, 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 Policy 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 and implementing a financial risk control (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 for approval to Executive Committee-level bodies;
- updating the Policy 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 divisions to which they report, with the jointly-controlled affiliates during periods of crisis (see § 2.2.);
- ensuring the steering of economic intelligence activities and, notably, the control of all the suppliers and sensitive contracts within the EDF scope in liaison with Purchasing and the relevant business line divisions.

#### 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, EDF and subsidiary and affiliate level. The Chairman and CEO has entrusted the coordination of this function to the Senior Vice President, Risks and Audit. It comprises the Corporate Audit Division and dedicated "operating" audit teams: "business line" audit teams (in the generation and customer areas for EDF) and audit teams specific to each of the main French and international subsidiaries and affiliates (RTE EDF Transport, ERDF, EDF Energy and EDF Trading, EnBW, Edison, Alpiq).

The relationships between Corporate Audit and the various audit teams and their respective prerogatives take into account their reporting lines to EDF, the controlled subsidiaries and the regulated or jointly-controlled subsidiaries and affiliates. In all cases, Corporate Audit ensures operational coordination of the function (exchange of best practices, training initiatives, sharing of tools and methods, etc.).

The Corporate Audit Division is responsible for controlling the internal control systems of EDF and its controlled subsidiaries, including 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>.

#### Qualification standards concerning EDF and the controlled subsidiaries:

- the Corporate Audit Division applies international standards as defined by "The Institute of Internal Auditors" and ensures their promotion and monitoring within the controlled 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 September 3, 2010. This charter, signed by the Chairman and CEO, reiterates the independence of the audit function and outlines the missions and commitments of internal audit, together with the duties and the prerogatives of the auditors and the audited entities;
- Corporate Audit reports to the General Secretary while the Senior Vice President, Corporate Audit, also benefits from direct access to the Chairman and CEO;
- all the Auditors in the Corporate Audit Division and the Audit departments of EDF and its 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 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;
- the key processes essential to the proper functioning of the Corporate Audit Division over the chain of its activities (from the drawing up of audit programs to the monitoring of the implementation of recommendations) are outlined and steered.

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 AMF guidelines have been reflected in the definition of and deployment process for the Group's Internal Control Policy. This evaluation confirmed the relevance of the work undertaken and the resources deployed. It also proposed a number of improvements which have been the subject of action plans.

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

### Standards of functioning with regard to EDF 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 divisions and controlled subsidiaries and conducts both cross-divisional and corporate-level audits;
- the 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),
  - risks identified in the Group's risk mapping,
  - monitoring of the implementation of decisions taken by Executive Management,
  - major projects and the principal corporate processes,
  - requests from divisional management, excluding the snap audits requested by Executive Management during the execution of the program,
  - possible audits of the controlled subsidiaries attached to the operating divisions, carried out on behalf of the divisions responsible for them,
  - possible joint audits with EnBW for the scope of this structure prior to the disposal, 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, the latter being the sole body competent for the realization 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 definitively 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, resuming the main audit findings and the corresponding recommendations, 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 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 information on the internal control procedures in the regulated subsidiaries and jointly-controlled affiliates).

#### 2.1.3.4. Legal Affairs Division

In addition to the contribution to the Group's internal control made by the Legal Affairs Division outlined in 2.1.4. and 2.3.3., since 2007, EDF has implemented a contract library (*contrathèque*) in order to guarantee the level of knowledge and control over its confidential contract patrimony. This contract library, which is an integral part of internal control, is a secure

information system for the centralised archiving and numbering of the major contracts of EDF and certain subsidiaries (excluding the regulated subsidiaries and jointly-controlled affiliates).

In 2010, Legal Affairs tasked an executive with ensuring the capitalization, harmonization and sharing of the Legal Affairs Division's guidelines. Lastly, a quarterly Legal Affairs report (EDF and significant subsidiaries), concerning disputes and major or sensitive matters was introduced in 2010.

#### 2.1.4. Delegations of authorities and technical authorizations

The Chairman and CEO delegates certain powers granted to him by the Board of Directors to a number of immediate associates.

With regard to purchasing, the organization put in place is intended to ensure control. Based on a series of thresholds, procurement contracts are signed by the Chairman, a Group Senior Executive Vice President or one of their delegated representatives after having been signed off by the Senior Vice President, Purchasing, or his or her delegated representatives, this sign-off testifying to the contract's respect of the procurement process. Each Group Senior Executive Vice President must also reinforce the internal control procedures on acts of procurement submitted for his or her signature and those handled directly by their respective divisions.

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.

Following the changes in EDF's organization at the end of 2009 and during 2010, new delegations of authorities were established, in liaison with the Legal Affairs Division. The guidelines on the delegations of powers drawn up by the Legal Affairs Division and circulated in November 2008 in order to ensure that the EDF entities were better informed as to the nature, consequences and management rules applying to delegations of power, were updated and re-circulated in 2010.

#### 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), this Handbook sets out for EDF the principles governing collective action and the recommendations for individual conduct.

The document was updated in late 2007 and circulated within all EDF divisions. Individual copies are handed to each employee by their line managers and their use actively encouraged to ensure individual and collective buy-in. The appointment of ethics coordinators to promote the Handbook and encourage proper respect of the corporate values in the field, has strengthened 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).

Since 2008, the existence of a Group Sustainable Development Committee comprising the sustainable development executives in the different subsidiaries and affiliates such as EDF Energy, EDF Demasz, the EDF group subsidiaries in Poland, EnBW and Edison has 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 and customer, 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 and Compliance 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 activities of the Ethics and Compliance 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 was included in the corporate social responsibility management review.

#### 2.1.5.2. Environmental Quality Process

In 2009, the EDF group introduced a Sustainable Development Policy, 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.

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 (Det Norske Veritas).

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

#### 2.1.6. Organization and steering of Information Systems

Contracting ownership responsibilities are fulfilled by each of the entities (branches and divisions, subsidiaries and affiliates) for their scope and by the Group Information Systems Division for the infrastructures. As a function of the orientations of each division, project implementation responsibilities are shared between the divisions 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, including the regulated subsidiaries.

Overall consistency is managed by the Group Information Systems Division, which coordinates the Information Systems function 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 the EDF Committees (see § 2.1.1.);
- other important decisions are taken by a Committee of the Heads of Information Systems France and by the Information Systems Group Committee also comprising the Group's subsidiaries.

#### 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 of the French *Commercial Code*.

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 Nuclear Security Authority (*Autorité de Sûreté Nucléaire* – ASN).

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

## 2.2. ●● Risk Control Policy

The objectives of the Risk Control Policy are to:

- enable the identification and ranking of risks in all areas in order to ensure their increasingly effective control;
- ensure the Group's entities are motivated and accountable for identifying, evaluating and handling risks such that each executive is aware of the risks inherent in his or her activities and implements the action required to manage these risks;
- 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;
- fulfill the expectations of external stakeholders and inform them of the Group's risks and the process for managing these risks.

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 the controlled subsidiaries or *via* the governance bodies for the regulated subsidiaries and jointly-controlled affiliates.

This Risk Control Policy is supported by a risk control 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 Executive Committee. 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 Executive Committee and, following review by the Audit Committee, is the subject of a presentation to the EDF Board of Directors. It is also regularly discussed by the executive managements of the main contributing divisions and by those involved in the risk control function.

The overall risk mapping procedures form the basis of a number of other procedures: internal control and the audit program which must be adapted to the risks identified, the Strategy on Insurance and its implementation, financial documentation (notably the "Risk Factors" chapter in the *Document de Référence*), the analysis of risks involved in projects reviewed by EDF's decision-making bodies (Executive Committee, Commitments Committee of the Executive Committee, etc.). The risk control process contributes, in particular, to securing the investments and long-term commitments process by monitoring the quality of the risk analysis of projects submitted to the Commitments Committee of the Executive Committee.

In addition, EDF has a Crisis Management Policy, whose latest version was signed by the Chairman and CEO in June 2005 and 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 division and controlled subsidiary involved in managing the crisis;
- defining the procedures for cooperating with the regulated subsidiaries and – *via* the 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 procedures to be regularly stress-tested and to capitalize on the lessons learned. 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 learned from any major crisis undergone.

## 2.3. ●● Group control activities

### 2.3.1. Internal control procedures relating to the effective functioning of internal processes

#### 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 Energy Market Risks Policy, 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 Policy and the control procedure are reviewed

within the framework of the governance bodies of these companies (Board of Directors and Audit Committee). This Policy specifically outlines:

- the governance and assessment system, 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 in the event that 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 Policy and its updating. The Executive Management approves the hedging strategies in the entities annually, together with the related risk limits 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 Senior Vice President, Finance and Investments, the Head of the Trading Room and the Head of Financial Risk Control are responsible for this and are expected to respond the moment a limit is exceeded. An *ad hoc* committee performs spot checks on limit compliance and decides on any potential changes to specific limits.

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 is attached to the Corporate Risk Management Division. This department has a functional link with the Financing and Investments Division.

### 2.3.1.2. Specific controls

#### 2.3.1.2.1. Procedure for approving commitments

The Commitments Committee of the Executive Committee reviews all of the Group's commitments, excluding those of the regulated subsidiaries and jointly-controlled affiliates and, notably, investment and disposal projects together with long-term contracts including those relating to nuclear fuel. It approves, except in exceptional cases, any investment involving sums in excess of €50 million or generating annual revenues of more than €100 million. Committee meetings are systematically preceded by a meeting attended by experts at corporate level (Corporate Risk Management, Legal Affairs, Corporate Finance, Corporate Audit, etc.) in order to verify the exhaustiveness and 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 function

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 policies. These policies address, in particular, the security of the Information Systems, the steering of information systems projects, the management of information systems risks and respect of the IT and Data protection legislation.

The lessons learned on the work carried out in 2009 led to the inclusion of additional examples of best practice and the simplification of the description of the control objectives in the Internal Control Reference Guide.

Note that EDF's Information Systems internal control referencing system is based on the COBIT (Control Objectives for Information and related Technology) external referencing system.

The coordination of internal control and the hedging of risks specific to information systems issues has been implemented by Information Systems since 2009 at three levels within the function's organization: a network of information systems internal control coordinators, a network of the risk contacts and the committee comprising the Heads of Information Systems representing the divisions.

The action plan for information systems internal control includes the lessons learned and the specialized second level of control.

##### Measures with regard to Information Systems security

The EDF group's Information Systems Security Policy structures the orientations and organization of information system security for the EDF group. For EDF and ERDF, the adjustment of these policies as well as the level of security are monitored monthly by a security committee, chaired by the Group Information Systems Division, and regrouping the Heads of Information Systems Security from all the entities within the EDF scope. The action implemented following the security audits carried out by the Information Systems Division is monitored by the Information Systems Security Committee, a strategic committee created in 2009 comprising the members of the Committee of Heads of Information Systems France for the divisions and representatives of the Security and Corporate Risk Management divisions.

In addition, more bridge-building between the subsidiaries was pursued in 2010, notably with EDF Energy, within the framework of the generation of synergies on the security infrastructures. A «security benchmarking» exercise was launched in 2010, involving EDF's main subsidiaries and principal electricity partners in Europe.

### 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 letters of assignment and objectives are 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 Board Directors' workshops).

### 2.3.1.3. Other control policies and strategies

EDF has also established:

- a Health and Safety Policy, signed by the Chairman in October 2003;
- a Strategy on Insurance, initially submitted to the Board of Directors on July 1, 2004. Since that date, whenever there is any significant change a status report is presented to the Audit Committee on the scope and the cost of covering EDF's risks with insurance or the transfer to the financial markets.

## 2.3.2. Internal control procedures relating to reliability of 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 the international accounting standards as published by the International Accounting Standards Board (IASB) and approved by the European Union and applicable as of December 31, 2010. These international standards comprise IAS (International Accounting Standards), IFRS (International Financial Reporting Standards) and the interpretations (SIC and IFRIC). 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

EDF's Internal Control Policy in the accounting area was established during 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) in line with the 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 EDF divisions 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 accounting information. 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.

This common language facilitates dialogue and cooperation between these two functions at all levels of the organization and contributes to ensuring 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.

1. The scope of the Group's consolidated financial statements is detailed in the notes to the financial statements (see the 2010 Financial Report).

### 2.3.2.2. EDF financial statements

#### 2.3.2.2.1. Principles and accounting standards

EDF 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 operating divisions, the accounting translation of the 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's transactional accounting (excluding the Financing and Investments Division, the Nuclear Fuel Division, Island Energy Systems and the Senior Executive Development Division for payroll accounting) has been entrusted to an Accounting Shared Services Center within the Shared Services Division. The handling of transactional accounting is organized by process. "Governance pacts" establish the respective responsibilities of the operating branches and divisions, the operating accounting structures and the Accounting Consolidation Department.

Each operating branch and division makes a formalized annual commitment to respecting the internal control rules and ensuring the reliability of the financial information for which it is responsible via a letter of commitment addressed to the Head of Accounting.

In addition to 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 the unbundling of generation activities, EDF establishes unbundled financial statements for the supply activities 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 are 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 EDF

The accounting internal control procedure is an integral part of the Group's overall internal control framework. The Group's Internal Control Reference Guide includes 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. In 2010, a new process relating to the Consolidation procedure was included in the guide. 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 verify, in particular, the:

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

The recommendations of the Internal Control Reference Guide on accounting and financial information are based on the French financial markets authority (*Autorité des Marchés Financiers* – AMF) reference framework.

#### 2.3.2.3.1. Internal control of 2010 accounting

Given the increased industrial investment in the electricity generation fleet planned for the 2007 to 2012 period and the related changes in standards and organization, the action to reinforce the reliability of the accounting process linked to investments that was launched in 2007 was pursued during the 2010 financial year through, specifically, internal control assignments carried out by the Accounting Shared Services Center.

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. 2011 action plan for internal control of accounting

The Internal Control Reference Guide for accounting and financial information will be updated within the framework of a joint initiative conducted by accounting 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 alert and overall awareness, within the relevant divisions, of any changes liable to have an impact for the Group.

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 so that they can be taken into account in the entities' own internal control plans. 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 scope and the consequences of their delegation.

#### 2.3.3.1. Regulation relating to industrial operations

Numerous control procedures exist in the industrial and, particularly, the 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 Nuclear Safety Authority in France, the Nuclear Directorate within the Health and Safety Executive in the United Kingdom, the Nuclear Regulatory Commission in the United States, etc.).

Within EDF, this responsibility falls to the following executives and/or entities:

- 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;
- 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 charges relating to the sustainable management of radioactive matter and waste, the methods applied to calculate the related provisions and the choices made for the composition and management of the assets allocated to covering the provisions. The first version of the report was finalized in June 2007 and updated in June 2008 and 2009; the second three-yearly report was finalized in June 2010. This report includes a specific section on internal control.

In the other areas (such as, for example, the monitoring of pressure vessels and 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 (see § 2.1.5.2.) 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. The internal control procedures regarding the application of executive management instructions and orientations

Within the framework of the deployment of the Internal Control Policy within the Group, the monitoring of the effective implementation of major decisions and policies is taken into account by their inclusion in the Internal Control Reference Guide.

## 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 EDF shares were 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 established, 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 Investors and Markets Division provides secretarial services to this Committee, which comprises representatives from the Corporate Finance, Communication and Legal Affairs Divisions. Furthermore, a stock market compliance charter has been established, whose aim is to raise awareness of the

obligations linked to confidential information 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 monitored annually by these subsidiaries, and verified 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 the senior and top executives of EDF and ERDF, enables the circulation of information such as decisions taken by the Chairman, policies in force, Group referencing systems, information on current projects and language pointers relating to these projects.

## 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 (mobilising 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 major malfunctions and external recommendations (see § 2.1.7.). Additionally, any suspected significant process malfunction or failure in internal control may lead to the realization of a specific audit mission, either within the framework of the program proposed by Corporate Audit or at the request of management (accelerated additional audit), and/or the establishment of the corresponding action plans;
- follow-up of the implementation of recommendations arising from these audits through a formalised audit closure process involving the line management and internal control coordinators of each relevant entity (see § 2.1.3.3.), the latter being responsible for ensuring the steering of control procedures and audit action plans inside each of the entities within their scope;
- sharing feedback on lessons learned and acting as a driver of continuous progress as outlined in chapters 2.1.1. and 2.1.3.3. via:
  - half-year summaries by the Corporate Audit Division (see § 2.1.3.3.),
  - half-year reviews between the Corporate Audit Division and each exec-

utive 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 the audits, risks and internal control measures to be reinforced,

- proactive measures steered 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,
- regular upgrading of tools and referencing systems (see § 2.1.2.),
- regular bi-monthly meetings of the Group's internal control coordinator network (around 60 people) facilitating, in particular, benchmarking and the sharing of best practices, together with additional reflection and proposals coming from the dedicated working groups,
- regular meetings between the heads of audit teams within the operating divisions (generation, customers, etc.) enabling, notably, the coordination of the establishment and implementation of audit programs and professional practices (see § 2.1.3.3.), together with a regular external audit of the skills and processes deployed by Corporate Audit within the framework of these different missions.



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## 3. The dynamics of change

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The numerous initiatives implemented over the past few years have enabled the clarification and strengthening of internal control procedures and the attainment of a satisfactory level of deployment in the Group's different operating entities based on the processes outlined in this report.

This deployment will be pursued in the newly-created functional and operating entities. Furthermore, within the framework of the monitoring of effectiveness, *ad hoc* initiatives will be pursued for the entities that have already been included in the procedures since 2006, in order to ensure the embedding of internal control procedures within existing management systems.

*This report was produced by a working group coordinated by the Corporate Audit Division, and has been reviewed by, successively, the Group's General Secretary (January 31, 2011), the Disclosure Committee (February 4, 2011), the Audit Committee (February 10, 2011), before being approved by the Board of Directors meeting of February 14, 2011).*

Paris, February 14, 2011

Henri Proglio  
Chairman and CEO of EDF

## 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, 2010

To the shareholders,

In our capacity as Statutory Auditors of Électricité de France S.A., 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, 2010.

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 14, 2011.

The Statutory Auditors

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

**Deloitte & Associés**

Jean-Luc Decornoy

Michel Piette

Alain Pons

Patrick E. Suissa