# 2012 Report by the Chairman of the EDF Board of Directors on corporate governance, internal control and risk management procedures

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Introduction

Pursuant to Article L. 225-37 of the French Commercial Code, this report sets out:

- the corporate governance environment (the composition of the Board of Directors, the conditions under which the Board of Directors’ work is prepared and performed, and the limits on the Chairman and CEO’s powers), the principles and rules laid down by the Board of Directors to determine the corporate officers’ compensation and the provisions governing shareholder involvement in EDF general meetings (§ 1);
- as well as the internal control and risk management procedures implemented within the EDF group (§K 2).

For the purposes of this report, the terms “EDF” or “Company” refer to Électricité de France SA.

The terms “EDF group” or “Group” refer to:

- the EDF corporation;
- its subsidiaries in the regulated sector: RTE and ERDF, which are respectively responsible for managing the energy transmission and distribution networks, for which the legal and regulatory framework (French Energy Code) provides for specific management independence that limits the control over their activities by the parent company: “the regulated subsidiaries”;
- its other directly or indirectly held subsidiaries, over which it has majority control, in or outside France: “the controlled subsidiaries”;
- its affiliates that are jointly-controlled, such as CENG and Dalkia International: “the jointly-controlled affiliates”;
- affiliates in which the Group has direct or indirect minority holdings: “the shareholdings”.

Note 1: the scope for the Group’s consolidated financial statements is detailed in note 52 of the notes to the consolidated financial statements as of 31 December 2012 (see chapter 20 of the 2012 Reference Document).

Note 2: the information that is specific to the subsidiaries RTE and Electricité de Strasbourg is available in the reports produced by these two 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 mentioned above, and will be specified as necessary throughout this report.

1. Corporate governance

The functioning of the Company’s administration and management bodies is described in chapter 16 of the 2012 Reference Document.

1.1 Corporate Governance Code

EDF adheres to the AFEP-Medef Consolidated Code. This is the corporate governance code to which the Company refers pursuant to Article L. 225-37 of the French Commercial Code, subject to the specific provisions of the law and regulations that are applicable to EDF.

These specific provisions, which are a result of EDF being a state-owned company, and in particular the application to the Company of Law no. 83-675 of 26 July 1983 on the Democratisation of the Public Sector and Decree no. 53-707 of 9 August 1953, concern, in particular, the division of the Board of Directors into three colleges and the impact of this on the proportion of independent Board and Board committee members, the rules that determine the compensation awarded to the Chairman and CEO, the directors’ 5-year terms of office and the reappointment en masse of the Board members, as well as the rules governing the appointment of the EDF Chairman and CEO and the way in which Executive Management decisions are taken and implemented in the Company.

For more details, please refer to section 16.1 and chapters 14, 15 and 16 of the 2012 Reference Document.

1.2 Composition and functioning of the Board of Directors

The Internal Regulations of the Board of Directors specify the principles on which the Board operates and how the Board, as well as the specialised advisory committees set up by the Board, fulfil their remits. These Regulations also stipulate the role and powers of the Chairman and CEO.

These Internal Regulations are reviewed as required, in order to take into account any changes in the law and regulations, for example.

1.2.1 Composition of the Board of Directors

In accordance with Article 6 of Law no. 83-675 of 26 July 1983 on the democratisation of the public sector, 18 directors sit on the Board. The employees elect one-third of the directors. The remaining two-thirds are appointed during ordinary general meetings, following a proposal by the Board of Directors, with the exception of the directors who represent the French State, who are appointed by decree.

In accordance with Article 11 of the Law on the Democratisation of the Public Sector, members of the Board of Directors serve a five-year term of office.

The conditions under which directors may be removed from office are provided for in Article 12 of the Law on the Democratisation of the Public Sector (see section 16.2.1.2 of the 2012 Reference Document).

If a member’s seat on the Board of Directors becomes vacant, regardless of the cause, the incoming director’s term of office only lasts until the Board membership is next renewed en masse.

1. EDF took over Edison in 2012 and the company will progressively be incorporated in EDF’s internal control and risk management system.
As of the date of this report, the Board of Directors comprises:

- 6 directors appointed by general shareholders’ meetings: Henri Proglio, Chairman and CEO; Mireille Faugère, Philippe Crouzet, Michael Jay, Bruno Lafont and Pierre Mariani;
- 6 directors who represent the State: Marie-Christine Lepelet, David Azéma, Yannick d’Escatha, Julien Dubertret, François Loos and Pierre Sellal;
- 6 directors elected by employees: Christine Chabauty and Marie-Hélène Meyling, Alexandre Grillat, Philippe Malissa, Jean-Paul Rignac and Maxime Villota.

The list of the directors’ personal details is provided in section 14.1 of the 2012 Reference Document. Pursuant to Law no. 2011-103 of 27 January 2011 on the balanced representation of women and men on boards of directors and supervisory boards, and professional gender equality, EDF, in its capacity as a listed société anonyme and state-owned company, is subject (i) to the rules applicable to listed companies (as regards the college of directors appointed by general meetings) and (ii) to the rules applicable to public institutions (for the college of directors appointed by decree).

As of the date of this report, the EDF Board of Directors has four female members (22.2% of the total Board membership), one of whom belongs to the college of directors appointed by general shareholders’ meetings. The second belongs to the college of directors appointed by decree and the two others belong to the college of directors elected by the employees (see section 16.2.1.1 of the 2012 Reference Document).


By Order of 15 June 2012, Pierre-Marie Abadie, Director of Energy at the Directorate General for Energy and Climate, which reports to the Minister for Ecology, Sustainable Development and Energy, was appointed Government Commissioner.

The Head of the French State’s economic and financial evaluation of EDF and state-owned company, is vested with the broadest powers to act on behalf of the Company in all circumstances, within the limit of the corporate purpose. The Chairman and CEO organises and oversees the Board of Directors’ work, on which he reports to general meetings. He ensures that the various corporate bodies function correctly and, in particular, verifies that the directors are able to fulfil their remits.

1.2.4 Powers and remits of the Board of Directors

In accordance with the law, the Board of Directors determines the Company’s business policies and ensures that these policies are implemented. Subject to the powers that are expressly conferred on shareholders’ meetings and within the limit of the corporate purpose, the Board of Directors may take it upon itself to review all matters that are related to the smooth running of the Company, governing such affairs through its deliberations.

Moreover, in accordance with Article 7 of the Law on the Democratisation of the Public Sector, the Board deliberates on all the Company’s and the Group’s strategic, economic, financial or technology policies, as well as on matters that the law expressly entrusts to the Board or that the Board has reserved for itself.

Pursuant to its Internal Regulations, solely the Board of Directors can authorise the following operations:

- acquisition-based and internal growth operations or disposals that represent financial exposure for the Company in excess of €200 million. This threshold is reduced to €50 million for acquisitions that are not consistent with the Company’s strategy policies;
- real estate transactions that exceed €200 million;
- certain financial transactions for which the amount exceeds the value determined each year by a specific Board decision; for the 2012 fiscal year, the Board set (i) the total amount of the aggregate authorisation for guarantees, endorsements and sureties at €500 million (the Chairman and CEO reports to the Board on all transactions of this type for which the unit amount exceeds €100 million, which are granted on behalf of the Company or by an undertaking that is controlled by the Company) and (ii) the nominal unit amount of certain financial transactions at €5 billion;
- procurement contracts (for supplies, works or services, with or without a financial commitment) for which the amount, including that of any successive riders entered into during the same year, is equal to or higher than €200 million, or between €100 and €200 million if these procurement contracts correspond to a new Group strategic policy or business line;

1. Decree that modifies Decree no. 2004-1224 of 17 November 2004 that provides for the bylaws of the société anonyme Électricité de France.

2. In accordance with the Decree no. 55-733 of 26 May 1955, this assignment performs the French State’s economic and financial evaluation of EDF. Extended audit procedures may be performed.
1.2.5 Assessment of director independence

The AFEP-MEDEF Corporate Governance Code recommends that, in controlled companies, at least one-third of the seats on the Board of Directors should be held by independent directors. Given the specific legal framework that applies to the Company, out of a total of 18 members, the Board of Directors has 12 directors (six who represent the French state and six who represent the employees) who cannot meet the independence criteria defined by the AFEP-MEDEF Code. During the joint meeting of 8 January 2013, the Ethics Committee and the Nominations and Compensation Committee reviewed each director's individual position. On the basis of the criteria defined by the AFEP-MEDEF Corporate Governance Code and confirmed that Mireille Faugère, Philippe Crouzet, Michael Jay, Bruno Lafont and Pierre Mariani qualify as independent directors. In the Board's opinion, these directors have no ties with the Company, its Group or its Management and would be liable to compromise their freedom of judgement.

As of the date of this report, the Company Board of Directors therefore has five independent directors out of a total of 18 members.

1.2.6 Functional assessment of the Board of Directors

In accordance with the provisions of the AFEP-MEDEF Code, the Board of Directors Internal Regulations require the Ethics Committee to perform an annual functional assessment of the Board of Directors and to suggest areas that require improvement. Consequently, once a year the Board of Directors submits an agenda item to this assessment and discusses how the Board functions, in order to improve the Board's effectiveness, and to verify that major issues are properly prepared and discussed within the Board. Moreover, every three years, an outside consultant performs this assessment, which is overseen by the Ethics Committee.

The last assessment performed by an outside firm was conducted in 2010. In 2012, the annual assessment was performed internally using a questionnaire, then validated by the Board following a proposal by the Ethics Committee. According to the results of this assessment, which were reviewed by the Ethics Committee and presented to the Board of Directors on 30 January 2013, the directors are very satisfied with the Company’s implementation of corporate governance best practices. A strategy seminar and involving all Board members in the Group’s strategic planning through its Strategy Committee were seen positively, as were the views on how the roles of the specialised Committees combine with that of the Board of Directors.

1.2.7 Director information and training

In accordance with the Board of Directors’ Internal Regulations, the directors periodically receive information on the Company’s and the Group’s financial position, cash flow and commitments, as well as data such as the financial outcome of contracts awarded by the Company for the purchase of nuclear fuels, a performance review of the Company’s main subsidiaries when the annual and half-yearly financial statements are released, the customer policy, the procurements and sub-contracting policy and the human resources policy. A document that focuses on current affairs in the Group’s major areas of business, market trends, the economic, financial and institutional environment is prepared for each Board meeting.

Directors are informed of the main events involving the Company that occur in between Board meetings, as well as the follow-up on decisions taken by the Board. The directors may supplement this information by meeting with senior managers from the Company or Group.

Moreover, informational meetings are held on complex matters or matters of major strategic importance, as well as areas in which the directors wish to receive training.

1.3 Board activity in 2012

The Board of Directors meets as often as the interest of the Company requires, in accordance with the provisions of the law and regulations. During the 2012 fiscal year, the Board of Directors met nine times and 27 committee meetings were held in order to prepare these meetings. The Board also held a strategy seminar.

On average, board meetings lasted two-and-a-half hours, which allowed for an in-depth review and discussion of the agenda items.

The directors’ average attendance rate at Board meetings was 89.5% in 2012. In 2012, in addition to the numerous matters associated with the day-to-day running of the Company, the Board of Directors reviewed and authorised major courses of action, such as:

- acquiring exclusive control of the Italian company Edison;
- the sale of the Sutton Bridge plant (United Kingdom) in accordance with the commitment EDF made to the European Commission, as part of the acquisition of British Energy at the end of 2008.

Moreover, during a strategy seminar, the Board reviewed the consequences for the Group of changes in the energy sector and the positions of market participants, potential avenues for development and the financial trajectory.
1.4 Committees that report to the Board of Directors

For the performance of its remits, the Board of Directors is assisted by five committees, which are tasked with reviewing and preparing specific files, prior to their presentation to the full Board. These specialised committees are: the Audit Committee, the Nuclear Commitments Monitoring Committee, the Strategy Committee, the Ethics Committee and the Nominations and Compensation Committee.

The membership, functioning and remits of the Committees are governed by the Board of Directors’ Internal Regulations. The Board of Directors selects the directors who sit on these Committees. The Board appoints the Chairman of each Committee following a proposal by the members of the Committee concerned. The Government Commissioner attends Board meetings in an advisory capacity. The Head of the French State’s economic and financial evaluation of EDF is invited to attend committee meetings.

The Committees’ work is organised within the framework of an annual programme. Meetings are recorded in written minutes. Each committee chairman provides written reports to the Board of Directors.

1.4.1 Audit Committee

1.4.1.1 Functioning and composition

The Audit Committee fulfils the remits conferred on it in accordance with the provisions of Order no. 2008-1278 of 8 December 2008, which transposed the eighth European Directive of 17 May 2006 on statutory audits of annual accounts and consolidated accounts into French law.

Article L. 823-19 of the French Commercial Code provides that at least one member of the Audit Committee must have specific financial or accounting skills, and be independent on the basis of criteria that are specified and made public by the Board of Directors.

During the joint meeting of 14 January 2011, the Ethics Committee and the Nominations and Compensation Committee reviewed Pierre Mariani’s position and issued an opinion that was presented to the Board of Directors. During the Board meeting of 21 January 2011, the directors noted that Mr. Mariani has specific financial and accounting skills, as per the criteria recommended by the French financial markets authority (Autorité des marchés financiers – AMF) in its report on the Audit Committee dated 22 July 2010, and that he meets both the skills and independence criteria, in accordance with Article L. 823-19 of the French Commercial Code (see § 1.2.5).

More generally, all the Audit Committee members contribute to the quality of Committee discussions through their experience and skills.

The Audit Committee is chaired by Pierre Mariani, an independent director appointed by the general shareholders’ meeting and a respected figure from outside the EDF group. The other members are David Azéma and Yannick d’Escatha, two directors who represent the French state, along with Marie-Hélène Meyling, Alexandre Grillat and Maxime Villota, three directors who were elected by the employees.

David Azéma was appointed as Audit Committee member by the Board meeting of 22 November 2012. He replaces Jean-Dominique Comolli.

The membership of the Company Audit Committee reflects the specificities of the Board of Directors’ membership caused by the Law of 26 July 1983 on the Democratisation of the Public Sector, which makes it difficult to comply with the proportion of two-thirds of independent directors recommended by the AFEP-MEDEF Code. However, in the Company’s opinion, although two-thirds of the Audit Committee members are not independent directors, its current membership does not adversely affect the Committee’s competencies or its ability to effectively perform the assignments conferred on it by the law and the Board Internal Regulations.

The Chairman and CEO attends the Committee meetings that review the annual and half-yearly financial statements, the medium-term plan and the budget.

The Audit Committee met seven times in 2012. The average rate of attendance for directors who are members of this Committee was 85.7%.

1.4.1.2 Remits

Prior to review by the Board of Directors, the Audit Committee analyses and issues an opinion on:

- the Company’s financial position;
- the medium-term plan and the budget;
- the draft financial reports prepared by the Corporate Finance Division (parent company financial statements, Group consolidated financial statements and Group management report);
- the monitoring of the Company’s risks (in particular, this Committee reviews the Group’s risk mapping and risk mitigation methods every six months);
- audit and internal control: the organisation, deployment and assessment of internal control, half-year audit programmes, main findings and resulting corrective measures, follow-up on their implementation, as well as the draft annual report by the Chairman of the Board of Directors on corporate governance, internal control and risk management procedures;
- the insurance policy strategy;
- the selection of Statutory Auditors, while ensuring their independence, and the fees paid to them;
- the review of the financial aspects of external growth operations or disposals that are particularly significant in nature (see § 1.2.4);
- changes in analysts’ perception of the Group.

As part of its work, the Committee is in regular contact with the Statutory Auditors and the Executive Management, as well as the Corporate Finance, Corporate Risk Management and Internal Audit Divisions.

1.4.1.3 Activities in 2012

In 2012, the Audit Committee reviewed matters that specifically fall within the bounds of its remits (half-yearly and annual financial statements and related press releases, press releases on the quarterly sales figures, risk mapping, internal audit summary reports and the audit programme).

It also reviewed the consequences of taking over Edison for the Group’s financial statements.

1.4.2 Nuclear Commitments Monitoring Committee

1.4.2.1 Functioning and composition

The Nuclear Commitments Monitoring Committee is chaired by Philippe Crouzet, an independent director appointed by the general shareholders’ meeting and a respected figure from outside the Group. The other committee members are Marie-Christine Lepetit and Yannick d’Escatha, two directors who represent the French State, and Marie-Hélène Meyling and Maxime Villota, two directors who were elected by the employees.
1.4.4 Ethics Committee

1.4.4.1 Functioning and composition

Mireille Faugère, an independent director who was appointed by the general shareholders’ meeting and a respected figure from outside the Group, chairs the Ethics Committee. The other members are Marie-Christine Lepetit, one of the directors who represent the French State, along with Christine Chabauty, Marie-Hélène Meyling, Alexandre Grillat and Philippe Maïssa, four directors who were elected by the employees.

Marie-Christine Lepetit was appointed as a member of the Ethics Committee by the Board meeting of 24 May 2012, as a replacement for Pierre-Marie Abadie.

The Ethics Committee met nine times in 2012. The average rate of attendance by directors who are members of this Committee was 81.1%.

1.4.4.2 Remits

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. The Committee reviews the reports filed by the Mediator, the General Inspector of Nuclear Safety and Radioprotection, the Inspector of Hydro Safety and the General Inspector of Regulated Activities Governance. Moreover, each year the Ethics Committee oversees an assessment of how the Board and its Committees function. Every three years, this is entrusted to an outside consultant (see § 1.2.6).

Moreover, the Committee periodically visits operations sites in order to understand the matters that fall under its authority.

1.4.5 Nominations and Compensation Committee

1.4.5.1 Functioning and composition

Bruno Lafont, an independent director appointed by the general shareholders’ meeting and a respected figure from outside the Group, chairs the Nominations and Compensation Committee. The other members of the Committee are Michael Jay, an independent director appointed by the general shareholders’ meeting and a respected figure from outside the group and David Azéma, one of the directors who represent the French State.

David Azéma was appointed as an Nominations and Compensation Committee member by the Board meeting of 22 November 2012, as a replacement for Jean-Dominique Comolli.

The Nominations and Compensation Committee met three times in 2012. The average rate of attendance by directors who are members of this committee was 88.9%.

1.4.5.2 Remits

The Nominations and Compensation Committee submits proposals to the Board of Directors with a view to directors being appointed by the general shareholders’ meeting. The committee sends the Minister responsible for the economy and finance, and the Minister responsible for energy, an opinion, for approval, on the salary, variable compensation (criteria used to determine the variable portion and assessment of the results obtained compared to the targets set), and peripheral compensation of the Chairman and CEO. It
also sends this opinion to the Board of Directors, with a view to the Board discussing and determining these compensation components.

Where applicable, the committee reviews the compensation paid to Vice-Presidents. It provides an opinion to the Board of Directors on the conditions for establishing the compensation of the principal senior executives (fixed and variable components, calculation method and indexing), as well as on the amount and conditions for allocating the directors’ fees. The Committee ensures that succession plan charts exist for positions on the Executive Committee.

### 1.5 Compensation

The terms for setting EDF corporate officers’ compensation, the principles and rules established by the Board of Directors for determining this compensation and the amounts paid to directors in 2012, are detailed in chapter 15 of the 2012 Reference Document.

### 1.6 Shareholders’ meetings

The rules governing shareholder involvement in general meetings are set out in article 20 of the Company bylaws, and are described in section 21.2.7 of the 2012 Reference Document.

Moreover, the information provided for by Article L. 225-100-3 of the French Commercial Code is published in the Company’s Reference Document.

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**2 EDF Group internal control**

The purpose of this report is not to give an exhaustive presentation of all the control procedures that exist within the Group’s companies, but to emphasise the control procedures that concern activities or risks that are deemed to be significant, as well as the main long-term procedures in effect in 2012, highlighting any changes and key initiatives developed during that year. These internal control and risk management procedures are consistent with the general principles stipulated in the AMF Reference Framework for risk management and internal control \(^1\) (published on 22 January 2007 and updated on 14 June 2010).

### 2.1 Control environment

#### 2.1.1 Executive Management steering structures

EDF’s Executive Management is organised in line with two major policies: 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.

**Executive Committee**

The Chairman and CEO is 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.

The Executive Committee membership was as follows as of the date of this report:

- Henri Proglio, Chairman and CEO, Chairman of the Executive Committee;
- Marianne Laigneau, EDF Group Senior Executive Vice President, Human Resources;
- Henri Lafontaine, Group Senior Executive Vice President representative, Customers, Optimisation, Trading and IES (Island Energy Systems);
- Pierre Lederer, Special Advisor to the Chairman;
- Hervé Machenaud, Group Senior Executive Vice President, Generation and Engineering;
- Thomas Piquemal, Group Senior Executive Vice President, Finance;
- Vincent de Rivaz, Chief Executive of EDF Energy; and
- Alain Tchernonog, General Secretary.

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

This Committee is a forum for reflection, discussions on strategy and consultation on the Group’s crosscutting issues. It monitors the targets and operating results, and contributes to the management and anticipation of EDF’s major strategic challenges. The Committee reviews and approves major projects and, in particular, Group investment or divestment projects for which the amounts exceed certain thresholds. The Executive Committee meets weekly.

**Commitments Committee within the Group Executive Committee**

A Commitments Committee performs in-depth reviews of planned commitments for the Group (excluding regulated subsidiaries) to which the Executive Committee is, in principle, favourable, prior to the Commitments Committee making a final decision. Projects that receive a favourable opinion are monitored. No Company investment project can be submitted to the Board of Directors for review without first being approved by this Committee.

**Management Committee**

In 2010, the Executive Management organisation was complemented by the creation of a Management Committee. The Executive Committee members also sit on the Management Committee, along with the Group’s top international executives and the heads of geographical regions, the Chairman of the ERDF Management Board and Directors of Company support functions. The membership was as follows as of the date of this report:

- Michèle Bellon, Chair of the ERDF Management Board;
- Jean-Paul Bouttes, Senior Executive Vice President, Corporate Strategy and Prospective;
- Antoine Cahuzac, CEO, EDF EN;
- Catherine Gros, Group Senior Executive Vice President, Communications;
- Philippe Huet, Associate General Secretary, Senior Executive Vice President, Risks and Audit;
- Bruno Lesœur, Senior Executive Vice President representative, Gas and Southern Europe;
- Philippe Mechét, Senior Executive Vice President, Institutional Relations;
- Olivier Orsini, Senior Executive Vice President, Development in South America, Africa, the Middle East and the Community of Independence States (CIS) and associated partnerships;

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\(^1\) In preparing this report, EDF used the AMF Reference Framework (chapters 2.3.1 to 2.3.4), which is based on the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) reference framework (chapters 2.1 to 2.5).
Bernard Salha, Senior Executive Vice President, Research and Development;
Eric Thomas, Group General Counsel;
Gérard Wolf, Senior Executive Vice President, responsible for relations with the Washington-based international financial institutions.

The Management Committee brings together business line, geographical and functional expertise. It is a forum for discussion between the Group’s top executives on crosscutting matters. It provides support to the Company’s Executive Management for strategy implementation and steering synergies within the Group. This Committee meets monthly.

General Inspector of Nuclear Safety and Radioprotection

The General Inspector of Nuclear Safety and Radioprotection, who is appointed by and reports to the EDF Chairman and CEO, is tasked with conducting audits in his or her spheres of action and issuing an annual opinion on the overall safety of the Group’s nuclear power stations. The remit also includes making proposals to Executive Management regarding potential areas for improvement.

EDF Group Inspector of Hydro Safety

The EDF Group Inspector of Hydro Safety, who is appointed by and reports to the EDF Chairman and CEO, is tasked with conducting audits in his or her spheres of action and issuing an annual opinion on the overall safety of the Group’s hydroelectric plants. The remit also includes making proposals to Executive Management regarding potential areas for improvement.

2.1.2 Description and leadership of the internal control system

The Chairman and CEO signed off on a new decision relating to the implementation of internal control within the EDF group on 3 September 2010. This decision takes into account, in particular, the provisions of the Order of 8 December 2008 on statutory audits of financial statements and specifies the EDF group’s internal control policies. It aims to provide a reasonable assurance of risk management at EDF, with a view to ensuring constant improvement, by using the following key principles as a foundation:

- delegated accountability to each of the Group’s executives who, at every level, are responsible for:
  - managing the principal risks,
  - checking this management for the activities they have sub-delegated,
  - ensuring that the risks identified have the appropriate, proportionate control procedures in place,
  - self-assessing the procedures thus implemented and reporting regularly and formally on these procedures to their line managers;
- an audit procedure, with reporting to the Chairman and CEO, as described in § 2.1.3.2.

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

Within the control scope (excluding regulated subsidiaries), these principles are implemented by the Executive Management functions at the subsidiaries that control and in the main EDF Operating Divisions, which themselves control several operating units or subsidiaries.

Each executive concerned has appointed an “Internal Control Coordinator”. The Corporate Audit Division organises this network of coordinators (around 80 persons).

An Internal Control Manual¹ has been written and is offered to each entity as a standard for the implementation of its own internal control system. This manual describes the risk areas concerned, identifies the main aims of control to be explored and suggests the best practices to be adopted. It is updated annually to take into account feedback and new control requirements. The 2012 manual took into account, in particular, a new regulatory requirement concerning the transparency and integrity of the wholesale markets for energy.

At the end of 2012, each of the 57 entities concerned produced an annual report on internal control that includes a description of their internal control system, a self-assessment² of this system and a statement by the head of the entity on commitment to internal control and an account of the intended measures to achieve these aims. This is the sixth consecutive year that the Group has commissioned this report. Each year a summary of these documents and how they could be interpreted in terms of internal control deployment in the Group is provided to the Chairman and CEO and the Audit Committee, then to the Board of Directors.

The Audit Division now performs full audits on these entities, which include a review of the robustness of their internal control, at the same frequency as previously (3 to 5 years depending on their size).

Concerning the other Group subsidiaries (regulated subsidiaries, and significant shareholdings), risk control is the responsibility of EDF’s representatives within the governance bodies. For each subsidiary, these representatives are responsible for implementing risk mapping, producing a description of the internal control and audit systems and providing regular information on risk mapping and the audit activities (audit programme and main findings), as well as verifying the effectiveness and the relevance of each of these systems through periodic audits³.

The Corporate Audit Division and the Corporate Risk Management Division provide support for:

- EDF representatives within its major subsidiaries, to help them implement and manage the initiative 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 subsidiaries of lesser importance within their area of responsibility, and reporting back on this in their annual self-assessment reports.

2.1.3 The contribution to internal control by the Corporate Risk Management Division, the Group Audit function, the Finance Division and the Legal Affairs Division

2.1.3.1 Corporate Risk Management Division (DCRG)

For many years, EDF has implemented a policy for managing its operating (e.g. industrial, environmental and health), financial and organisational risks.

Over and above these sector-specific policies, in response to a constantly changing environment, back in 2003 EDF decided to establish an overarching process for managing and controlling its risks with the aim of improving existing procedures, in particular by creating the Corporate Risk Management Division, which is primarily 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 for the regulated subsidiaries and jointly-controlled affiliates, and establishing and updating the consolidated risk mapping of the Group’s major risks (see § 2.2.2);
- warning the Chairman and CEO and the Executive Committee of emerging risks and risks that have not been adequately identified;

¹. In preparing this report, EDF used the AMF Reference Framework (chapters 2.3.1 to 2.3.4), which is based on the COSO reference framework (chapters 2.1 to 2.5).
². Self-assessments report on all the areas of action mentioned in the AMF Reference Framework.
³. For regulated subsidiaries, these responsibilities are exercised within the limits laid down by the regulations in force.
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 for the regulated subsidiaries and jointly-controlled affiliates (see § 2.2) in particular by ensuring the comprehensiveness and consistency of the various sectoral risk control policies (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 for the regulated subsidiaries and jointly-controlled affiliates (see § 2.3.1.1.1);

- defining and implementing financial risk control (interest and currency exchange rates, liquidity and equities risks) and counterparty risk control for the EDF scope and that of the controlled subsidiaries and ensuring the control of these financial risks through the governance bodies, for the regulated subsidiaries and jointly-controlled affiliates (see § 2.3.1.1.2);

- managing the comprehensiveness and relevance of the risk analyses performed on long-term investment and commitment projects, which are submitted to Executive Committee-level bodies for approval;

- ensuring the deployment of the crisis management policy for the EDF scope and that of the controlled subsidiaries, and defining the terms of exchange and cooperation with regulated subsidiaries or the jointly-controlled affiliates during periods of crisis and guaranteeing the operational readiness of the crisis management system at Group level (see § 2.2);

- at the request of the General Secretariat, the Group Executive Committees Committee, the Procurements Division and the Group business lines or subsidiaries management, performing the various controls that are required for managing non-financial risks linked to business relations in connection with long-term investments and commitments, partnerships, consultancy contracts or the award of sensitive procurement contracts by EDF SA.

2.1.3.2 Group Audit function

The Group Audit function is made up of all the audit resources of the Group, EDF and the subsidiaries that perform internal audit activities. The Chairman and CEO has entrusted the management of this function to the Senior Vice President, Risks and Audit. The audit function includes the Corporate Audit Division and CEO, then to the Audit Committee and the Board of Directors. The audit programme takes into account:

- the need to audit, at intervals adapted to their size, the Group’s main entities (divisions and subsidiaries), in order to assess, in particular, the robustness of the internal control system;

- the main accounting and financial processes;

- major projects;

- the major risks identified in the risk mapping, which are not covered by the above audits;

- the monitoring decisions taken by Executive Management.

The plan for the business line audit teams is coordinated with that of the Corporate Audit Division, which is the only structure that is authorised to perform business line audits that involve a corporate-level risk.

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 and are submitted to the Corporate Audit Division. During the 12 to 18 months following the audit, the Corporate Audit Division monitors the implementation of these corrective actions or any other action decided on by the management with the aim of eradicating the dysfunctions identified by the audit. An audit is only considered to have reached a satisfactory conclusion when these dysfunctions have been eliminated. In contrast, an unsatisfactory conclusion to an audit or one where reservations are expressed triggers an appropriate management alert.

These principles are applied by the entire audit function under the same terms.

The Corporate Audit Division issues half-yearly summary reports, which resume, for the entire scope of the Group audit function, the main audit findings and the corresponding recommendations, as well as the results of audits concluded during the period. It also identifies possible recurring or generic problems that appeared over the course of several audits conducted during the period, which warrant particular attention of the management. This report is presented first to the Chairman and CEO, then to the Audit Committee and the Board of Directors.

2.1.3.3 Corporate Finance Division

The Corporate Finance Division monitors changes that affect the markets and financial techniques, and also analyses project financial risks. Within the Corporate Finance Division, the Group Control Division is split into three
sections, Management Control, Accounting and Tax. Management Control has the following remits:

- manage the forecasting processes for the Group’s management cycle (budgets, forecast updates and medium-term plans), summarise these processes and proposes trade-offs at Division and subsidiary level for the Group as a whole. In its analyses, Management Control is required to issue warnings and make proposals, before decisions are taken, regarding the financial consequences of the contemplated transactions, or the proposed performance levels;
- assist operations management in performance steering; tracking of budget implementation (for which forecast adjustments are issued twice a year, as well as a monthly reporting package that covers the results achieved to date and update of the most recent forecast adjustment) is tracked through regular, general performance reviews within the Division and controlled subsidiaries;
- perform the financial control function for the Group, by contributing, in particular, to the investment control processes and by performing economic and financial optimisation analyses;
- be the driving force behind the preparation of medium- and long-term financial trajectories.

The Finance Management Heads of the Divisions and subsidiaries sit on the Management Committees of the entities to which they are assigned. They are appointed and assessed by the operations management and the Management Control service line.

Accounting has the following remits:

- prepare and publish the EDF parent company financial statements, as well as the Group’s consolidated financial statements;
- ensure the quality of accounting by designing a set of Group standards that detail the accounting practices and chart of accounts to be applied;
- update, for EDF, the internal control standards concerning the management of accounting and financial information.

Moreover, the accounting Internal Control policies for the subsidiaries are the responsibility of each legal structure concerned.

Tax has the following remits:

- guarantee the consistency of tax policies within the Group;
- ensure the proper performance of legal and filing obligations, in particular by monitoring changes in legal and regulatory obligations;
- track deferred tax positions in the accounts, as well as periodic justification of the accounts;
- identify and reduce Group tax risks.

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 paragraphs 2.1.4 and 2.3.3, since 2007 EDF has kept a contract library in order to guarantee the level of knowledge and control over its sensitive contract archives. This contract library, which is an integral part of the internal control system, is a secure information system for the centralised archiving and scanning of the major contractual commitments of EDF and certain subsidiaries (excluding the regulated subsidiaries and jointly-controlled affiliates). This system was complemented by a new decision and a practical memorandum on the management of major contracts, which the General Secretary signed on 11 January 2011. Pursuant to this decision, the original counterparts of major contracts that meet certain specific criteria are centralised in a secure national storage facility.

Since 2010, Legal Affairs has tasked a knowledge manager with capitalising on, harmonising and sharing the Legal Affairs Division’s precedents and positions, as well as monitoring legal developments in the field of legislation and case law that are of major interest for the Group.

Lastly, quarterly Legal Affairs reporting (for EDF and major subsidiaries), concerning litigation and major or sensitive cases, has been in use since it was introduced in 2010.

2.1.4 Delegations of powers and technical authorisations

The Chairman and CEO delegates some of his powers to the Board of Directors, in particular to certain members of the management team.

In the area of procurements, the existing organisation is designed to ensure control is maintained over purchases. 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 being approved by the Senior Vice President, Purchasing, or his or her delegated representatives; this approval confirms that the contract complies with the procurement process. Each Group Senior Executive Vice President must also reinforce the internal control procedures on procurement contracts that are submitted for his or her signature and those handled directly by their respective divisions.

The powers conferred on the “nuclear operator’s representative” are delegated to the Senior Executive Vice President, Generation and Engineering, who, in turn, delegates to the Senior Vice Presidents in charge of the Nuclear Operations and Nuclear Engineering Divisions.

Each facility head, subject to prior evaluation of the appropriate skills, issues the technical authorisations 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.

The Legal Affairs Division drafts and/or updates delegations of powers where required by changes to EDF’s organisation.

In addition, a delegations of powers handbook written by the Legal Affairs Division, which was released for the first time in November 2008, has been updated and was re-released in 2010. This handbook is designed as a tool for informing and raising awareness at EDF entities on the nature, consequences and management rules for delegations of powers.

2.1.5 Ethics and Environmental Quality Initiatives

2.1.5.1 Ethics initiative

The Ethics Initiative, which is founded on a decision by the Chairman and CEO taken on 15 March 2007, is based on a reference document, known as the Ethics Handbook, which summarises EDF’s five core values: respect for the individual, environmental responsibility, striving for excellence, a commitment to the community and the necessity of integrity. This document was circulated within and by all EDF divisions and by line management. The appointment of ethics coordinators to promote the Handbook and encourage proper respect of the core values in the field has improved the existing ethics system. EDF’s values serve as guidelines for ethical procedures in the subsidiaries, for the codes of conduct developed in the business lines and certain areas, as well as for fundamental processes such as recruitment (recruitment standards), training (employee awareness initiatives), relations with suppliers and subcontractors (supplier charter, social agreements on subcontracting), as well as individual and collective performance reviews (individual appraisals and managerial reviews).

In 2011, the Group decided to hold a consultation on a new set of ethics standards, which consolidates the previous values into three key tenets: respect, responsibility and solidarity at Group level. After the Group Executive Committee validated the substantive aspects on 19 October 2011, the project was tested during the first half of 2012 on groups of employees in the Group’s main companies. The resulting new document was validated by the Group Executive Committee on 26 September 2012 and approved by the Board of Directors Ethics Committee on 8 October 2012.

Since its creation in 2008, the existence of a Group Sustainable Development Committee comprising the Sustainable Development managers from the various subsidiaries such as EDF Energy, EDF Démazé, the EDF group subsidiaries in Poland, China and South-East Asia, and Edison has made it possible to harmonise ethics policies. The presentation to this Committee on 23 November 2012 of the new Ethics Initiative was the first stage in a deployment
that must ensure, over the course of 2013 and in line with the ethics
initiatives of each of the Group’s companies, that all employees share the
ethics commitments and values.

The ethics whistleblowing procedure, which has been established since
2004 within the EDF perimeter, recognises every employee’s right to
report confidentially, but not anonymously, situations that are contrary to
the Group’s ethics rules and values. This system allows for matters to be
referred to the EDF Group Ethics and Compliance Officer through a secure
ethics email system. It was enhanced in 2008 with the introduction of an
anonymous, toll-free number, which enables all employees to report
any work-related difficulties encountered to external counsellors. On
24 November 2011, the French Data Protection Agency (CNIL) formally
approved the EDF whistleblowing system described above, which handles
around fifty cases a year.

Since 2010, the EDF Group Ethics and Compliance Advisor’s report has
been included in the corporate social responsibility management review.

2.1.5.2 Environmental Quality Policy

For many years, the EDF group has taken into account the strategic issues
associated with sustainable development, and has made Sustainable
Development a fully-fledged component of its overarching strategy. This
Group policy was materialised by the signature in 2009 of a document
containing a series of shared commitments by senior executives from the
Group’s principal companies. These commitments provide a framework to
facilitate consistency between the initiatives taken by these companies and
are built around three priorities:

- combating climate change and protecting biodiversity;
- giving everyone access to energy and developing local action links;
- contributing to the debate on sustainable development.

The EDF Group Sustainable Development Committee coordinates the
implementation of these commitments. This Committee acts as an Environment Board at Group level, and is in
charge of steering the Environmental Management System in compliance
with ISO 14001, inasmuch as the EDF group has been ISO 14001 certified
since 9 April 2002.

The certification scope includes EDF (all its operating entities and most of its
functional entities), a number of French subsidiaries (including the RTE and
ERDF regulated subsidiaries) as well as numerous international subsidiaries,
ecluding EDF Energy. Moreover, some jointly-controlled affiliates are also
ISO 14001 certified (but are not currently part of the Group certification
scope). In April 2011, the Afnor independent certification body announced
the third ISO 14001 renewal for the EDF Group. This certification is valid
until 2014. The annual audit in March 2012 noted a stronger response,
with a “Corporate Responsibility” approach that gives greater perspective
and meaning to environmental action.

The processes implemented within the framework of this certification
help strengthen the management of the Group’s environmental risks, the
regulatory aspect of which is undergoing continual improvement, and
gives our stakeholders the assurance of a structured organisation, which is
tangible proof that the Group’s commitment to environmental protection
is an acknowledged reality.

2.1.6 Organisation and steering of the
Information Systems (IS)

Each Company and Group entity (Divisions or subsidiaries) has project
ownership responsibilities for its specified scope. The Group Information
Systems Division is responsible for infrastructures and shared services.
Depending on the policies adopted and in liaison with each Division, project
management responsibilities are shared between the division concerned
and the IT and Telecommunications Shared Services Division, which acts
as a cross-functional operator for EDF and the subsidiaries, including the
regulated subsidiaries.

The Information System (IS) for the finance perimeter is used by several
Group divisions and is of strategic importance in terms of data integrity and
application availability. The Finance Information System Division Perimeter
is entrusted with the delegated project management. It oversees the day-
to-day functioning of applications, manages changes and takes all requisite
steps to ensure the security of this IS.

Overall consistency is managed by the Group Information Systems Division,
which coordinates the Information Systems function through common
policies. New governance for the function was designed pursuant to the
Chairman’s decision of 19 December 2011 to improve Group steering
of support functions. It also provides for a broader role for the Group
Information Systems Division in order to guarantee IS synergies and
performance for the benefit of business line strategy, in particular for the
financial trajectory, security and availability of the IS. This new governance
will help with expansion to the international subsidiaries.

Depending on their nature and the scope concerned, strategic decisions and
choices are reviewed on a quarterly basis either by one of the EDF Committees
mentioned in § 2.1.1 or by the IS Strategy Committee, which involves the
main Directors and subsidiary Heads and their IS Divisions; other major
decisions are taken by a committee of the Heads of Information Systems,
France, and by the Information Systems Group Committee, on which the
Group’s subsidiaries are also represented.

2.1.7 External controls

As is the case for all listed companies, EDF is subject to the regulatory
control of the French financial markets authority (Autorité des Marchés
Financiers – AMF). Due to the French State being a majority shareholder
in EDF, the company can also be audited by the National Audit Office, State
Auditors, the Inspectorate of Public Finances, the French National Assembly
and Senate Commissions for Economic Affairs, and the Public Procurement
Contracts Commission.

As required by French law, the Statutory Auditors certify the annual financial
statements (parent company and consolidated statements) and carry out
a limited review of the Group’s summary consolidated half-year financial
statements. They also issue an opinion on the annual report by the Chairman
of the Board of Directors that is prepared 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 various external reviews bodies are incorporated into
the internal control and audit programmes, in particular.

2.2 Risk management and control

2.2.1 Risk management and control policy

The objectives of the risk control policy are to:

- contribute to securing the Group’s strategic and operating trajectory,
  and in order to do so:
  - identify and grade risks in all areas (operational risks, external risks,
    strategic risks, including risks that are linked to the consistency of
    actions with the Group’s values, and those linked to protecting the
    Group’s value, assets and reputation), with a view to ensuring a
    constant increase in the robustness of risk management,
  - ensure the Group’s entities are made responsible and accountable
    for identifying, assessing and handling risks, so that each executive
    is aware of the risks inherent in his or her activities and implements
    the action required to control these risks;
This policy is supported by a risk control function that is separate from the operating and functional entities responsible for managing the risks that fall within their scope of activity, under the responsibility of Group Executive Management.

The Group’s risk control policy is either implemented directly (for EDF and the controlled subsidiaries), or through governance bodies (for regulated subsidiaries and jointly-controlled affiliates).

This policy is supported by a risk control function that is separate from the risk management functions (supplemented by specific control functions concerning, in particular, financial and energy market risks – see § 2.3.1.1). This function provides, inter alia, a consistent approach to the identification, assessment and management of risks.

2.2.2 Risk mapping process

In accordance with these principles, every half-year, in line with the reporting schedules for the publication of the half-yearly consolidated financial statements, the EDF Group issues consolidated mapping of its major risks for the EDF scope and that of its controlled and jointly-controlled affiliates. This consolidated risk mapping is based on maps established by each operating or functional entity using a common methodology (typology, identification and assessment principles, risk control measures, etc.). Each risk identified must be the subject of a detailed action plan. Responsibility for the major risks falls to a project leader appointed by the Executive Committee.

In-depth discussions concerning the updating of risk mapping are regularly held between the Group Risk Control Division (see § 2.1.3.1) and each of the contributing operating or functional entities. These discussions aim to review the relevance of the risk identification, as well as the robustness of the management initiatives taken.

Each half-year, the consolidated risk mapping is submitted for approval by the Executive Committee and, following review by the Audit Committee, is presented to the EDF Board of Directors.

The risk mapping and management initiative is one aspect of the strong complementarity with Group internal control and with internal audit, for which the programme is designed on the basis of, inter alia, the major risks identified. Moreover, the risk mapping process also provides a foundation for a number of other processes: the Insurance Strategy and its implementation, the analysis of risks involved in projects reviewed by EDF’s decision-making bodies (the Executive Committee, the Commitments Committee that reports to the Group Executive Committee, etc.); in particular, through risk mapping, the risk control process helps secure the long-term investments and commitments process by monitoring the quality of the risk analysis of projects submitted to the Group Executive Committee. Lastly, the main risks to which the Group is exposed are described in section 4.1 of the 2012 Reference Document, in compliance with the consolidated risk mapping for the Group.

2.2.3 Crisis management policy

The crisis management policy, which was formalised by a decision of the Chairman and CEO in June 2005, defines the organisational and crisis management principles for the EDF scope and that of its controlled subsidiaries, and describes in full the procedure to be implemented. The primary focus of the policy is:

- ensuring the existence of crisis management structures and standing reporting procedures for alerts, in all Group entities;

- verifying the existence of and regularly updating appropriate crisis management procedures, in light of the risks incurred in each EDF division and in the controlled subsidiaries;

- 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;

- ensuring that feedback from crises and crisis exercises is systematically taken into account, so as to avoid or limit the consequence of similar future crises;

- verifying the existence of professionalisation initiatives for all crisis management stakeholders.

The internal control procedure for the crisis management policy is incorporated into the Group’s internal control system. Moreover, a programme of crisis exercises enables the effectiveness of these procedures and their overall consistence to be regularly stress-tested. Finally, the crisis management organisation is regularly readjusted to reflect any significant changes in internal organisation or the external environment, as well as in the light of lessons learned following a major crisis.

2.3 Group control activities

2.3.1 Control procedures relating to the effective functioning of internal processes

2.3.1.1 Sectoral strategies on risk control

2.3.1.1.1 Energy market risk control

Each year the Executive Management approves the entities’ hedging strategies, as well as the associated risk limits, which are presented to it by the Corporate Risk Management Division (DCRG) after consolidation at Group level and in accordance with the budget process. These strategies are based on an energy market risk policy implemented by the DCRG and formalised by the Chairman and CEO’s decision of 9 December 2005, which defines how these risks should be managed 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 or Supervisory Boards and Audit Committees).

This policy describes:

- the governance and measurement 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 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 function responsible for controlling Energy Market Risks, which has a two-tier organisational structure, with the entities ensuring operating control and the Control department within Corporate Risk Management ensuring the second level of control.

The EDF Audit Committee issues an opinion to the Board of Directors on the Energy Market Risks Policy and the proposed changes to be made to it by the DCRG.
2.3.1.1.2 Financial risk control
The Corporate Risk Management Division, among other things, is responsible for controlling interest rate, foreign exchange, liquidity and counterparty risk for EDF and the controlled subsidiaries. This control is exercised through:

- verifying the proper application of financial risk management principles and of the Group’s counterparty risk policy, in particular through the regular calculation of risk indicators and the tracking of risk limits;
- executing methodology and organisation control missions within EDF entities and the controlled subsidiaries;
- controlling market positions in EDF’s trading room, which is responsible for cash management. For these activities, a standing system of indicators and risk limits, which is verified daily, is used to track and control financial risk exposure. The Finance and Investments Division, the Head of the Trading Room and the Financial Risk Control Division are responsible for this and are expected to take immediate action if a limit is exceeded. The “Markets” committee, which meets, checks and reviews monthly, as required, requests for exemptions to the framework and investment requests for new products;
- controlling “Dedicated Assets” portfolio positions (within the Corporate Finance Division), for which management responsibility is assumed by the Asset Management Division. A specific framework has been implemented by the Corporate Risk Management Division, which defines the acceptable risk limits. The Operations Management Committee chaired by the Senior Vice President, Finance and Investments is the steering organisation for the management and monitoring of the financial risk associated with this portfolio.

In order to guarantee the independence of the financial risk control structure vis-à-vis the activities responsible for managing these risks, the Financial Risk Control department is attached to the Group Corporate Risk Management Division. This department has a functional link with the Financing and Investments Division.

2.3.1.1.3 Control of non-financial risks
Within the DCRG, EDF has set up a department that is specialised in the assessment of the non-financial risks associated with starting business relationships with third parties (consultants, suppliers, manufacturing partners, etc., that are identified as being sensitive). Before starting a business relationship, formalised and auditable controls are performed with a view to preventing any risk of harm to reputation.

2.3.1.2 Specific controls
2.3.1.2.1 Procedure for approving commitments
In accordance with the Group’s «commitments process», for which the framework is provided by a procedure that was updated on 28 September 2011, the Commitments Committee, which reports to the Group Executive Committee, reviews potential Group commitments, excluding regulated subsidiaries and jointly-controlled affiliates, once the Executive Committee has adopted a favourable position in principle with respect to the commitment concerned. This review covers, in particular:

- investment, divestment, merger and acquisition projects in excess of €50 million;
- expenditure on supplies, works or services for an amount in excess of €200 million;
- long-term purchase or sale contracts that exceed annual limits of 5 TWh for electricity, 10 TWh for gas and €150 million for coal, fuel oil, CO₂ emission credits and allowances;
- the multi-year supply programme for reactors and back-end nuclear fuel cycle services;
- operations to transfer obligations regarding decommissioning or the back-end of the nuclear fuel cycle.

Group Executive Committee meetings are systematically preceded by a meeting attended by experts at corporate level (Group Risk Management Division, Legal Affairs Division, Corporate Finance Division, Upstream-Downstream Optimization & Trading Division, Sustainable Development Division, Strategy Division, Procurements Division, etc.) and project managers in order to verify the exhaustiveness and depth of the risk analysis on the projects submitted. This work is based on methodology standards for the analysis of the risks involved in development projects, which take into account the full impact of a project.

Planned commitments are then reviewed by the Board of Directors, as described in § 1.2.4.

The “Investments Steering” Guide states that planned commitments below the threshold for referring matters to the Group Executive Committee will be reviewed by the governance bodies that are specific to each entity.

2.3.1.2.2 Information Systems (IS) control

Organisation of the internal control of the Information Systems function
The internal control system for the Information Systems function is part of the Group’s Internal Control Policy (that contains proposed control area standards, which the operating entities adapt to their specificities) and covers the implementation of the function’s policies. These policies address, in particular, infrastructures and shared services, information systems security, information systems project management, information systems risk management and compliance with the French Data Protection Act.

For the record, EDF’s Information Systems internal control referencing system is based on the COBIT (Control Objectives for Information and related Technology) external referencing system.

The Group Information Systems Division has coordinated the internal control and coverage of risks that are specific to Information Systems issues since 2009 at three levels within the function’s organisation: a network of information systems internal control officers, a network of the risk officers and the Committee of the Heads of Information Systems who represent the divisions. In 2011, the interlinking of the risk officers, internal control and Information Systems networks made it possible to achieve even better coordination between risk coverage and internal control for EDF. These networks will be progressively extended to include international subsidiaries.

Moreover, in the field of information systems, the IS function has contributed to the standards for fraud detection tests.

Actions in the field of IS security
The EDF group’s Information Systems Security Policy structures the information system security policies and organisation for the Group’s IS. For EDF, the adjustment of these policies, as well as the level of security, are monitored monthly by a security Committee, which is chaired by the Group Information Systems Director, and brings together the Heads of Information Systems Security from all the entities within the EDF scope. ERDF is associated with this initiative. The Information Systems Strategy Committee reviews, as required, in consultation with the Heads of the Corporate Risk Management Division and the Security Division, adjustments to the Group IS Security policy that are found to be necessary, without replacing the existing technical bodies. This ensures that a consistent, strategic vision is shared of IS security and IS key issues in terms of system availability and continuity, information and processing integrity, and the protection of sensitive information.

Key points for 2012 were:
- The implementation of a «Business Continuity Plan» exercise after finalising the geographical relocation of the data centres;
- The updating of three security directives (management of third parties, business continuation and management of security incidents for EDF-SA);
2.3.2 Internal control procedures relating to the reliability of accounting and financial information

2.3.2.1 AMF Reference Framework

The section of the Internal Control Manual that covers control over accounting and financial information was completely restructured in 2011 in order to conform to the AMF Reference Framework, as revised in 2010.

2.3.2.2 Group accounting standards and principles

The accounting standards used by the EDF Group conform to the international accounting standards as published by the International Accounting Standards Board (IASB), and approved by the European Union, which have been applicable since 31 December 2012. 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 summarised in the notes to the consolidated financial statements.

A network of correspondents in the Operating Divisions and subsidiaries facilitates sharing instructions and the consistent accounting implementation from one Group entity to another.

2.3.2.3 Procedures for preparing and controlling the consolidated financial statements

The Consolidation Department (part of the Accounts Consolidation Division) prepares the consolidated financial statements based on data input locally by each entity (entities of the parent company and subsidiaries), in accordance with Group standards and instructions, using a single chart of accounts. The half-yearly consolidated financial statements are presented to the Audit Committee then to the Board of Directors, and closed off on 30 June of each fiscal year.

The annual consolidated financial statements are presented to the Audit Committee, then closed off on 31 December of the fiscal year by the EDF Board of Directors and approved by the general meeting.

Each time the half-yearly and annual financial statements are closed off, instructions are issued that specify all the deliverables expected from each person who plays a role in the publication of the financial statements, and in preparing the management report and the reference document used for annual closings. Meetings between the EDF divisions and the subsidiaries are used to prepare for each half-yearly closing, anticipate any changes in certain forms of accounting treatment and ensure that the financial and accounting information published is reliable. Subsequent analysis of the conditions under which the deliverables were produced (compliance with deadlines, quality of information, etc.) allows for a steady improvement in the process for preparing and analysing the consolidated financial statements.

A monthly reporting package containing information on the balance sheet and income statement accounts was set up in 2011. It made it possible to anticipate the recognition of complex operations and helped make balance sheet flows more reliable.

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

- actual data obtained from accounting and the data produced during 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 organisation and helps ensure the exchange of information between the players and the quality of the information produced.

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The nuclear sector regulations in force are specific to each country where particular nuclear facilities are located. External controls are organised by the relevant national authorities (the Nuclear Safety Authority in France (ASN), the Nuclear Engineering entities and their work; the United States, the National Nuclear Safety Administration in China, etc.). Each operating branch and division Head makes a formalised annual commitment to respecting the internal control rules and ensuring the reliability of the financial information for which he or she is responsible via a letter of commitment addressed to the Head of Accounting. The accounting internal control system is incorporated into the Group internal control system. EDF uses benchmark indicators, which make it possible to measure the extent to which certain aspects of accounting information are compliant, by process.

2.3.3 Internal control procedures relating to compliance with laws and regulations

The Legal Affairs Division has a remit to track changes in the law and regulations. It issues warnings and raises awareness within the relevant Divisions in light of any changes that are liable to impact the Group. Pursuant to a joint decision of 1 June 2007, the Legal Affairs and Corporate Audit Divisions adopted an action plan aimed at formalising the role of Legal Affairs in defining the control objectives mandated 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:
- inform the Legal Affairs Division of the regulatory areas that particularly concern them, to ensure that the Division can perform its monitoring assignment optimally;
- systematically involve the Legal Affairs Division as early as possible in matters involving significant strategic issues and legal risks;
- ensure that their delegations of power effectively reflect their organisation;
- identify their needs in terms of legal awareness within the fields that concern them, including crosscutting needs, and notify them to the Legal Affairs Division;
- ensure that individuals granted delegations of powers are aware of the scope and the consequences of their delegation.

2.3.3.1 Regulations relating to industrial operations

Numerous control procedures exist in the field of industrial operations, in particular for nuclear facilities. The nuclear sector regulations in force are specific to each country where facilities are located. External controls are organised by the relevant national authorities (the Nuclear Safety Authority in France (ASN), the Nuclear Directorate within the Health and Safety Executive, Office for Nuclear Generation in the United Kingdom, the Nuclear Regulatory Commission in the United States, the National Nuclear Safety Administration in China, etc.). Within EDF, this responsibility falls to the following executives and/or entities:
- the Nuclear Safety Council, which is chaired by the EDF Group Chairman, meets several times a year and in February reviews the annual “Nuclear Safety and Radioprotection” report;
- the General Inspector for nuclear safety and 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 made public;
- the Nuclear Inspectorate, a department that reports directly to the Senior Vice President, Nuclear Operations, and the Audit Assessment Taskforce, which functionally reports to the Senior Vice President, Nuclear Engineering, the verification work of which makes it possible to regularly assess the level of safety in all the various Nuclear Operations and Nuclear Engineering entities and their work;
- The Audit function carries out several dozen audits per year in the nuclear field (engineering, fuels and operations). The Law of 28 June 2006, as amended by NOME law on the New Electricity Market Organisation of 7 December 2010, and its implementation regulations (decree of 23 February 2007 and Order of 21 March 2007) on securing financing for nuclear expenses, require the Company to produce a report on the procedures and systems used to assess the expenses linked to the sustainable management of radioactive matter and waste. This report must specify 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. Since June 2007, and in accordance with the legislative and regulatory framework, EDF files a report with the administrative authority every three years and sends an update letter yearly. The second tri-annual report was finalised in June 2010 and updated in 2011 and 2012. These reports and update letters are given an in-depth review by the Nuclear Commitments Monitoring Committee, which then reports to the EDF Board of Directors before sending the reports and letters to the administrative authority. The report on internal control that is appended to the updating letter was deliberated by the Board of Directors.

In the other operations-related areas (such as, for example, the monitoring of pressure vessels and dam surveillance), each entity is responsible for defining and implementing the appropriate control procedures. Immediately following the Fukushima accident of 11 March 2011, EDF acted responsibly in its capacity as a nuclear operator by applying the lessons learned to its own facilities the same month. The 19 site Complementary Safety Evaluation reports (those for the Flamanville and Penly plants also have an “EPR” section) show the high safety levels at all of EDF’s nuclear facilities in terms of the threats highlighted by the Fukushima incident, (earthquake and floods). These reports propose additional countermeasures that would make it possible to increase the fleet’s robustness to situations for which the levels go well beyond those under consideration, and that would exceed current nuclear safety requirements. The ASN notified its findings to the French government in a report dated 3 January 2012, which contains an opinion (no. 2012-AV-0139) in which the ASN states, in particular:

“Following the complementary safety assessments of the priority nuclear facilities, ASN considers that the facilities examined offer a sufficient level of safety for it not to request the immediate shutdown of any of them. At the same time, ASN considers that for the continuation of their operation, an increase in the robustness of the facilities to extreme situations, beyond their existing safety margins, is necessary, as rapidly as possible.”

In 2012 the ASN issued a set of technical requirements for each site, with deadlines for the complementary measures to be implemented that are consistent with this opinion. The ECS reports on dismantled sites were provided to the ASN in mid-September 2012, as planned.
As part of the Peer Reviews organised by the ENSREG (European Nuclear Safety Regulators Group) following the Fukushima accident, a team of auditors, with ASN representatives, visited the Tricastin site in order to assess the site section of the ECS report on this site. Additional ENSREG visits were then held on the Chooz, Cattenom and Fessenheim sites. These Peer Reviews confirmed the relevance of the initiatives EDF has adopted or will adopt in order to improve the robustness of its facilities.

2.3.3.2 Other regulations

Control procedures are also used for the application of labour and employment regulations.

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 Internal control procedures relating to the application of Executive Management instructions and policies

As part of the deployment of internal control 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 Manual. Moreover, audits may be included in the corporate audit programme in order to check the correct implementation of these decisions and policies, and that the targets set within this framework are attained.

2.4 Information communication and circulation

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

- Since EDF shares were listed for trading in 2005, EDF has established procedures that aim to provide a framework for and ensure the reliability of EDF financial disclosure processes and content, as well as to prevent market abuse. Accordingly, a procedure has been defined to organise the respective roles within the Company with regard to the preparation, validation and dissemination of financial disclosure data. A system for validating Financial Information, designed to ensure the validation and consistency of EDF’s different financial communication sources, to review and validate the contents of all financial communication channels has been set up. This Committee comprises representatives from the Corporate Finance, Communication and Legal Affairs Divisions. Furthermore, since 2006 the EDF group has adopted principles and rules that are applicable to transactions involving EDF securities or those of the EDF group’s listed subsidiaries. These rules have been compiled in an Ethics Code that was updated in March 2011, in order to take into account the AMF recommendations of November 2010, and was presented to the EDF Executive Committee on 4 April 2011. In parallel with the publication of this Code, initiatives to raise awareness of stock market rules have been taken vis-à-vis Group employees’, in particular concerning the precautions and obligations associated with holding inside information and the blackout periods during which senior executives and certain employees who are party to insider information may not trade in the Company’s shares.

- The Code of Conduct: compliance with 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 of its checks in its annual report.

This report was prepared by a working group coordinated by the EDF Corporate Audit Division, which includes representatives of the Legal Affairs, Corporate Risk Management and Corporate Finance Divisions, as well as the General Secretary to the Board of Directors. Various contributors, such as the Ethics and Compliance Standards Delegation, the Information Systems Division, the Directors and Companies Delegation, the Sustainable Development Division and the Investors and Markets Division were also involved. This report was successively reviewed by the Group General Secretary (4 February 2013), the Financial Disclosure Committee (29 January 2013) and the Audit Committee (11 February 2013) before being approved by the Board of Directors’ meeting of 13 February 2013, in accordance with Article L. 225-37 of the French Commercial Code.


The Chairman and CEO of EDF,
Henri Proglio