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A new world of energy is emerging. In this respect, 2016 was a pivotal year for RTE.

It marked the first complete year for the new Executive Board and it saw several months of discussions with employees in readiness for the deployment of the new joint company project. The Supervisory Board kept an attentive eye on this original process.

2016 was also the year when the Energy Regulation Commission set the new prices. In this way, the “rules of the game” have been determined for the coming years. The prices offer RTE financial visibility and enable the company to look forward to its activity in the 5 years to come with confidence.

Finally, 2016 saw the negotiations that will open the way for a new shareholder in 2017. The “Caisse des Dépôts et Consignations” and the “Caisse Nationale de Prévoyance” will acquire an interest in RTE’s capital and, consequently, join the Supervisory Board, alongside EDF and the French State. This new composition of the instances of governance will come into effect in the first half of 2017.

These changes will give RTE the weapons it needs to make progress in this new world of energy.

The digital transformation is changing the game in our sector of activity. RTE must be in the forefront of this major change.
The discussions engaged on a European scale about the so-called “Winter Package” or the “Clean Energy Package” indicate that some major changes in the pipeline. With the expertise of Europe’s largest network, RTE has what it takes to make its voice heard on this subject.

In the spring of 2017, the Supervisory Board will take a look at the company’s strategic directions, from the same perspective that it has held for a few years now, which I usually characterise by two words: vigilance and benevolence.

In conclusion, I would like to pay a particular tribute, personally and in the name of the Supervisory Board, to the men and women at RTE who maintained the equilibrium of the electricity system through the winter of 2016-2017, despite some major incidents. Thanks to them, RTE fulfilled its public mission by guaranteeing the continuity and the security of the nation’s energy supply.

Let us hope that our fellow citizens took the full measure, on this occasion, of the wealth and benefits that a network of this quality represents, and of the people who keep it alive.
Introduction

The Chairman of the Supervisory Board of RTE (Réseau de Transport d’Electricité) draws up and publishes an annual report on corporate governance and internal control procedures, in application of Paragraph 7 of Article L. 225-68 of French company law (Code de Commerce). This is a requirement on companies whose shares are traded on a regulated market, as is the case of RTE.

Paragraph 7 of Article L. 225-68 of French company law (Code de Commerce) stipulates that the report must present:

- the composition of the Supervisory Board and the application of the principle of equal representation of men and women,
- the conditions of preparing and organising the work of the Supervisory Board,
- internal control and risk management procedures implemented by the company,
- the corporate governance code to which the company adheres.

Additionally, this report must set out:

- the principles for determining the remuneration of senior executives,
- specific provisions relating to the involvement of shareholders at the General Meeting of Shareholders.

Within RTE, this report has been prepared by the Legal Affairs Department, which directed a work team. They reported on the functioning of the Supervisory Board and the implementation of internal control and risk management procedures, both for RTE and for its subsidiaries.

The present report was approved by the Executive Board and was submitted to the Statutory Auditors.

It was then presented to the Economic and Audit Supervisory Committee on 07 February 2017 and the Supervisory Board on 09 February 2017.

The report was published at the same time as the activity report, the management report and consolidated accounts, annual accounts and the sustainability report.

This document takes account of the various recommendations published by the French Financial Markets Authority (AMF).
The governance of RTE

RTE (Réseau de Transport d’Électricité) is a limited company with an Executive Board and a Supervisory Board. It was created on 1 September 2005, by a partial transfer of assets held by Electricité de France (EDF). The Executive Board administers and manages the company under the supervision of the Supervisory Board within the limits set down in particular by French Law 2004-803 of 9 August 2004 and the Articles of Association of the company.

The rules specifying and defining RTE’s missions and its scope of activity are the subject of a number of specific legislative and regulatory stipulations. They are defined in the additional clause of 30 October 2008 to the concession agreement of 27 November 1958, by which the French State handed over development, maintenance and operation of the Public Electricity Transmission System to RTE, in compliance with provisions in Law 2000-108 of 10 February 2000.

In compliance with Article L. 111-9 of the energy code, operators of electricity transmission networks which on 3 September 2009 formed part of a vertically integrated electricity company as understood by Article L. 111-10 of the above code (which is the case for RTE) must comply with the model of an “Independent Transmission Operator” according to Directive 2009/72/EC. Article L. 111-3 of the energy code stipulates that the Energy Regulatory Commission (CRE) must certify electricity transmission operators prior to their appointment by the administrative authority. RTE was certified independent transmission system operator by a decision of the CRE dated 26 January 2012.

RTE’s Articles of Association were amended on 24 January 2012 in order to comply with Ordinance No. 2011-504 of 9 May 2011 relating to codification of the legislative part of the energy code and to take account of requests made by the CRE in the context of the certification of RTE. They were amended on 28 August 2015 in order to comply with Ordinance No. 2014-948 of 20 August 2014 pertaining to governance and transactions involving the capital of companies in which the government holds a stake.

In addition, in compliance with the provisions of Article L. 111-34 and following of the energy code, a Chief Compliance Officer was appointed by the Chairman of the Supervisory Board on 22 July 2011 on the proposal of the Chairman of the Executive Board, following approval by the CRE. On 26 July 2016, the Supervisory Board appointed Olivier Herz to replace Jean-Pierre Desbrosses as the Chief Compliance Officer. His role and missions are described in the chapter on internal control.
The Chief Compliance Officer is given access to General Meetings, to meetings of the Supervisory Board, meetings of specialised committees, meetings of the Executive Board and all meetings that will enable him to fulfil his mission.

In accordance with Paragraph 8 of Article L. 225-68 of French company law (Code de Commerce), RTE complies with the recommendations of the AFEP-MEDEF Code and the AFEP\(^1\), with the exception of legislative and regulatory specificities due to its status as Public Electricity Transmission System operator (particularly with respect to the composition of the Supervisory Board and its committees and the term of office of the members of the Supervisory Board) as set out in Appendix 3.

1.1. THE SUPERVISORY BOARD

1.1.1. Composition of the Supervisory Board

In accordance with Article 13 of the Articles of Association, the Supervisory Board is made up of 12 members\(^2\) divided up as follows:

- one third are employee representatives;
- members (government and government representatives\(^3\)) appointed under Articles 4 and 6 of Ordinance No. 2014-948 of 20 August 2014 pertaining to corporate governance and transactions involving the capital of companies in which the government has a stake, limited to one third of the members on the Board, representatives of the shareholder, the number of which is determined in line with the number of members appointed in terms of the two points set out above.

Supervisory Board members are appointed for a period of five years.

In accordance with the stipulations of Paragraph 7 of Article L. 225-68 of French company law (Code de Commerce), the present report is required to relate the application of the principle of balanced representation of men and women on the Supervisory Board.

In this regard it should be noted that on 31 December 2016 the Supervisory Board was made up of 12 members, four of whom were employee representatives, with nine men and three women, appointed until 2020.

The rules concerning the ratio of men to women on the Supervisory Board have changed. Since RTE is no longer subject to the provisions of Law No. 83-675 of 26 July 1983 pertaining to the democratization of the public sector, the Supervisory Board must now be made up in accordance with statutes and regulations in force, specifically those set out by the Commercial Code and Law No. 2011-103 of 27 January 2011 pertaining to the balanced representation of men and women on boards of directors and supervisory boards, and Law No. 2014-873 of 4 August 2014 promoting real equality between men and women.

The above laws stipulate that henceforward, a balanced representation of men and women should be sought when setting up the Supervisory Board and it is understood that as of 2020, the proportion of members of

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1 The document can be consulted on the MEDEF website.
2 The Supervisory Board can be made up of 3 to 18 members.
3 The State, in its capacity as legal entity can be appointed in an Ordinary General Meeting. In this case, it is represented by an individual person appointed in an order. Moreover, the State may propose that the Ordinary General Meeting appoint one or several members of the Supervisory Board who will have the capacity of State Directors.
the Supervisory Board of either sex shall not be less than 40%. On 31 December 2016, women accounted for 37.5% of the members of the Supervisory Board (excluding the employee representatives).

The following are members of the Supervisory Board:

- Didier MATHUS (Chairman) – member appointed by the shareholder as proposed by the State;
- Xavier GIRRE (Vice Chairman) – member representing the shareholder;
- Thomas GOSSET representing the State;
- Marie Solange TISSIER – member appointed by the shareholder as proposed by the State;
- Michel PINET – member appointed by the shareholder as proposed by the State;
- Marc ESPALIEU – representing the shareholder;
- Valérie LEVKOV – representing the shareholder;
- Nicole VERDIER-NAVES – representing the shareholder;
- Wilfried DENOIZAY – employee representative;
- Dominique LORET – employee representative;
- Jean-Louis DUGAY – employee representative;
- Christophe AIME – employee representative.

The other mandates of the members of the Supervisory Board can be consulted in the management report.

Particular care has been given to members constituting the “minority” as defined by Ordinance 2011-504 of 9 May 2011 transposing Directive 2009/72/EC, which established specific incompatibilities that these members must respect. The principle applied today is that the “minority” should be made up of four State representatives and one employee representative.

The incompatibilities cover three periods.

Prior to their designation (L. 111-26, Paragraph 1 of the energy code), three types of incompatibility are foreseen:

- working or holding professional responsibilities in other companies constituting the vertically integrated company (VIC) during the three years preceding designation;
- owning shares in other companies constituting the VIC during the three years preceding designation;
- holding responsibilities in a company most of whose contractual relations are carried out with other companies constituting the VIC during the three years preceding designation.

During their term of office (L. 111-26, Paragraph 2 of the energy code), an incompatibility is foreseen with working or holding professional responsibilities in other companies constituting the VIC.

At the conclusion of their term of office (L. 111-27 of the energy code), three types of incompatibility are foreseen with:

- working or holding professional responsibilities in other companies constituting the VIC for a period of four years following the conclusion of their term of office;
- owning shares in other companies constituting the VIC for a period of four years following the conclusion of their term of office;
- holding responsibilities in a company most of whose contractual relations are carried out with other companies constituting the VIC for a period of four years following the conclusion of their term of office.

The Secretary of the RTE Central Works Council is invited ex-officio to each meeting of the Supervisory Board, and takes part in a non-voting capacity.

In accordance with Article 5 of Ordinance No. 2014-948 of 20 August 2014 pertaining to governance and transactions involving the capital of companies in which the government holds a stake, the government commissioner is also automatically invited to the Supervisory Board.

Members of the Executive Board are also invited to attend meetings of the Supervisory Board.

Mr. Alain FIQUET, Legal & Control Director, shall act as General Secretary of the Supervisory Board.

The rules applicable to cumulative office holdings have been met by each member of the Supervisory Board.
1.1.2. Functioning of the Supervisory Board
The Supervisory Board meets, in compliance with the law, as often as the company’s interest so requires, and at least once every two months, by convocation from the Chairman or Vice Chairman of the Supervisory Board, at the head office of RTE or other place specified in the convocation.

To be quorate, it requires at least half of its members to be present. The Chairman organises and directs its discussions and ensures that all of the business on the agenda is examined by the Supervisory Board.

Each year, the Supervisory Board sets out the schedule for its meetings for the coming year, on a motion by the Chairman.

The Supervisory Board possesses a set of bylaws which underscore and complete the Articles of Association that govern the functioning of the Supervisory Board.

The bylaws stipulate training and information conditions for the members of the Supervisory Board and the duties and obligations with which they are required to comply. On this point, special reference was inserted regarding their obligation of confidentiality, considering the company’s specific status in the energy sector, and penal sanctions were provided for under Articles 16 and 20 of Law No. 2000-108 of 10 February 2000 in the event of the divulgation of information whose confidentiality must be maintained. A list of this information is set out in Decree No. 2001-630 of 16 July 2001, implementing the above law No. 2000-108.

In 2016, the Supervisory Board met six times.

In 2015, in accordance with AMF recommendation 2012-02, an operating report on the Supervisory Board, drawn up on the basis of a satisfaction survey, confirmed the quality of corporate governance at RTE. In accordance with the recommendations of the AFEP-MEDEF Code (article 10), the Supervisory Board will again be formally assessed in 2018.

In 2016, the attendance rate of the members of the Supervisory Board was 90% (84% in 2015). In general, members unable to attend were represented.

1.1.3. Missions of the Supervisory Board
The Supervisory Board examines decisions relating to the major strategic, economic, financial and technological choices taken by the company relating uniquely to its areas of competence. It controls the management of the company as undertaken by the Executive Board. However, in view of the specific nature of the company’s status as operator of the public power transmission network, the Executive Board has sole authority for implementing operations which directly involve the operation, maintenance and development of this system.

At the end of each financial year, the Supervisory Board checks and controls the accounts prepared by the Executive Board.

Article L. 111-14 of the energy code and the Articles of Association of the company (Article 14-V) contain specific provisions, among which are the rights referred to as “economic supervision”. Accordingly, as part of these rights, certain votes by the Supervisory Board require a “double majority”, i.e. both a favourable vote by the majority of its members and a favourable vote by the majority of the members of the Supervisory Board appointed by the shareholder, EDF.

This involves the following decisions:

- Decisions relating to the budget: approval of the medium-term financial plan, approval of the annual budget, the section of which concerning investments, inasmuch as they concern the public transmission network, must conform to the investment programme approved by the CRE in accordance with Article L. 321-6 II of the energy code.
- Decisions relating to financial policy.
- Decisions relating to any purchases, transfers and sales of assets (this to include acquisitions or sales of property assets or rights, the subscription, contribution, exchange, disposal or purchase of securities and the immediate or deferred purchase of shareholdings, along with all other purchases, contributions and sales of assets, the acquisition of goodwill or intangible assets, and the contribution or exchange with or without cash adjustment of assets, securities or investments), whenever such operations do not directly involve the operation, maintenance and development of the Public Transmission System but...
specifically apply to the valorisation of the Public Electricity Transmission System in amounts exceeding €20 million.

Notwithstanding this, the purchase and sale of securities carried out in the context of routine cash management do not require the prior authorisation of the Supervisory Board, although it must be informed of such operations.

The establishment of surety or guarantees of any kind whenever such operations directly involve the operation, maintenance and development of the Public Electricity Transmission System in amounts exceeding €20 million.

Decisions relating to the creation of any company, economic interest group or other legal entity.

Thus the various programmes connected with RTE’s financial policy, such as programmes for issuing bonds and commercial papers and decisions relating to the budget, are subject to double majority voting by the Supervisory Board.

As an exception to standard practice, and in accordance with Article L. 111-13 of the energy code, it is the Supervisory Board’s responsibility to determine the dividend paid to shareholders.

1.1.4. Standing Committees of the Supervisory Board

1.1.4.1. The Economic and Audit Supervisory Committee

The Economic and Audit Supervisory Committee comprises six members.

It is made up as follows:

- Marc ESPALIEU (Chair) – representing the shareholder EDF;
- Valérie LEVKOV – representing the shareholder EDF;
- Thomas GOSSET – representing the State;
- Marie Solange TISSIER – representing the State;
- Christophe AIME – employee representative;
- Jean-Louis DUGAY – employee representative.

The missions of the Economic and Audit Supervisory Committee were set out in the internal regulations of the Supervisory Committee adopted on 8 March 2006, falling under the recommendations of the AMF on audit companies. Before such matters are brought before the Supervisory Board, the Economic and Audit Supervisory Committee analyses and gives its opinion on all of the financial aspects of the Company, in particular the budget and the economic and financial forecasts, on the annual accounts and the half-yearly results, specifically their mapping, on the policy for monitoring and managing risks, and on the programme for audits, their results, the monitoring of action plans and internal control. Furthermore, pursuant to the introduction of ordinance No. 2016-315, dated 17 March 2016, pertaining to statutory auditing, this Committee is now responsible for approving the services rendered by the Statutory Auditors, other than the certification of the annual accounts.

At each meeting of the Supervisory Board, the Chair of the Economic and Audit Supervisory Committee, or a rapporteur, gives an account of its work and provides any necessary clarifications to the members of the Board before they take decisions.

The Economic and Audit Supervisory Committee met seven times in 2016, with an attendance rate of 81% (73% in 2015). Members unable to attend are generally represented.

During the course of 2016, the Economic and Audit Supervisory Committee examined the following points:

- 9 February 2016: presentation of 2015 accounts and results, examination of the Executive Board’s management report for 2015, report of the Chairman of the Supervisory Board on corporate governance and internal control procedures, review of RTE’s debt, information on the preparation of the TURPE 5 price and RTE’s pricing file and other business;
19 April 2016: audit reports, monitoring of post-audit actions, first update of the 2016 budget, and other business;
15 June 2016: annual review of RTE’s subsidiaries, update No. 2 of the 2016 budget, project to create a joint company (IFA2 project) and other business;
21 July 2016: presentation of RTE results as at 30 June 2016 and other business;
5 October 2016: RTE risk mapping and other business;
15 November 2016: approval of the mission of the Statutory Auditors with a view to certifying RTE’s accounts closed on 31 October 2016, the 2017 work programme of the CSEA and other business;

1.1.4.2. The Remuneration Committee
The Remuneration Committee, set up in 2009, is made up of the following three members of the Supervisory Board:

Nicole VERDIER-NAVES (Chair) – representing the shareholder EDF;
Thomas GOSSET representing the State;
Dominique LORET – employee representative.

The Remuneration Committee’s missions are stipulated in the Supervisory Board bylaws.

In a decision dated 25 June 2013, and following the amendments to Article 3 of Decree No. 53-707 relating to State control over national public companies, the Supervisory Board consequently adopted an amendment to Article 11-3-2 of the Internal Regulations, covering the missions of the Remuneration Committee.

Additionally, in a decision dated 23 July 2013, modifying the Internal Regulations, the Supervisory Board decided to extend the competence of this Committee which is now competent to give an opinion on the fixing, if applicable, of remuneration of any nature that is likely to be allocated to the company representatives for the financial year of their mandate. Accordingly, the opinions and suggestions of the Remuneration Committee must take into account the applicable rules in terms remuneration for managers of public companies and the specificities linked to the status of manager of the Company’s network.

Subsequently, these opinions and suggestions are submitted to the Supervisory Board, along with relative documents on all of the remuneration elements (fixed remuneration, variable portion, with targets and appreciation of results achieved by the manager in view of these targets, ancillary remuneration, if any) of members of the Executive Board. It is on this basis that the Supervisory Board takes a decision setting the terms of the remuneration.

Finally, the decision of the Supervisory Board relating to remuneration for the members of the Executive Board is submitted, for approval, to the Minister of the Economy.

In 2016, the Remuneration Committee met twice:

On 28 January, to examine the criteria applying to the bonuses of the members of the Executive Board for 2016.
On 11 April, to approve the 2015 bonus rate of 98.98% for the members of the new Executive Board and finalise the criteria for 2016 bonuses.

1.2. THE EXECUTIVE BOARD
The Executive Board currently comprises five members, appointed for a five-year term by the Supervisory Board. Since the transposition of Directive 2009/72/EC, the procedures for appointing the members of the Executive Board are determined by Articles L. 111-29 to L. 111-32 and L. 111-44 of the energy code.

In accordance with these provisions, the Supervisory Board designates the Chairman of the Executive Board, following approval by the administrative authority, and, based on the Chairman’s recommendations, the other members of the Executive Board. The identity of these people, the nature of their functions and the conditions governing their terms of office, particularly with regard to remuneration and length of term, must be notified to the CRE by the Supervisory Board prior to any appointment or reappointment.
The following are members of the Executive Board:

- François BROTTES, Chairman;
- Valérie CHAMPAGNE;
- Clotilde LEVILLAIN;
- Olivier GRABETTE;
- Xavier PIECHACZYK.

The Executive Board regularly presents reports to the Supervisory Board; these relate the principal actions or occurrences arising in the company’s management. It further informs the Supervisory Board of important events that have occurred between each meeting of the Supervisory Board.

Lastly, in compliance with the provisions of French company law (Code de Commerce), each year the Executive Board draws up the accounts of the company and prepares a management report which is submitted to the Supervisory Board and the General Meeting.

1.3. PRINCIPLES OF REMUNERATION OF SUPERVISORY BOARD AND EXECUTIVE BOARD MEMBERS

1.3.1. Remuneration of Supervisory Board members

In 2016, RTE only paid remuneration to the Chairman of the Supervisory Board for performing his corporate function for 2016.

In accordance with the provisions of Article L. 225-81 line 1 of French company law (Code de Commerce), this remuneration was the subject of a proposal by the Remunerations Committee, made to the Supervisory Board, which set, following discussions on 3 December 2015, after approval of the Minister of the Economy, the terms of the remuneration.

Only the members of the Supervisory Board who are employee representatives receive remuneration from RTE, under their employment contracts (salaries and benefits in kind).

Furthermore, no members of the Supervisory Board receive director’s fees by virtue of the absence of any resolution on this point voted by General Meeting. It should be pointed out that legislation, on referral to Ordinance No. 2014-948 of 20 August 2014, expressly states that the offices of employee on the Supervisory Board must be held on a free-of-charge basis.

In accordance with Article L. 321-6 II of the energy code, the Executive Board draws up an annual investment programme, which it submits to the CRE for approval.
1.3.2. Remuneration of Executive Board members

The conditions for the remuneration of members of the Executive Board are stipulated by Article 2 of Decree 2005-1481 dated 25 November 2005, laying down measures guaranteeing the professional interests of those that take executive positions in the operating company of the electricity transmission network (RTE).

In accordance with the Decree, members of the Executive Board who are actively employed in the company maintain their employment contract with the company. If they do not have such employment, the work contract is suspended with effect from their appointment to the Executive Board and they maintain, if applicable, their rights to seniority and promotion and all benefits set out in the Decree of 22 June 1946. Their contracts take effect again when they cease to be members of the Executive Board.

Furthermore, the energy code states that the compensation of members of the Executive Board (and more generally the executives of the company) can only be determined as a function of indicators, in particular financial results, that are specific to RTE in its capacity as electricity transmission network operator (Article L. 111-33 of the energy code).

1.4. GENERAL MEETINGS

The particular conditions relating to the participation of RTE’s single shareholder in General Meetings are set down in Articles 21 et seq. of RTE’s Articles of Association.

The ordinary General Meeting on 15 June 2016 approved the 2015 accounts and proposed to distribute a dividend. It also ratified the appointment by co-opting of Xavier GIRRE as a member of the Supervisory Board.

1.5. PUBLICATION OF INFORMATION RELATING TO ITEMS LIKELY TO HAVE AN INFLUENCE ON A TAKEOVER BID

Since RTE only issues securities on the Euronext Paris market that do not give access to capital, the regulations regarding takeover bids are not applicable to it.
RTE has constantly adapted its way of responding to the challenges attached to its duties by taking account of its customers' expectations, technological advances, the development in the skills of its teams, the geographical footprint of its network and its interaction with other European TSOs.

Since 1 December 2015, the organization of RTE has been divided into eight main clusters of activity:
- Development & Engineering, Operations & Services
- Networks, Customers & Territories
- Prospective, Expertise & Solutions
- Finance and Procurement
- Human Resources
- European & International Affairs
- Legal Affairs & Control
- Diversification & Valorisation

The aim of this second part is to present, not necessarily exhaustively, the internal control procedure which applies the principles of the reference framework published by the French financial market regulator, the Autorité des Marchés Financiers (AMF), relating to French companies whose shares are negotiable on a regulated market⁴, subject to specificities due to its status as a public electricity transmission system operator.

The procedure covers all of RTE’s activities and is intended to give reasonable assurance to managers with regard to the risk management of its activities, the effectiveness of operations and the efficient use of resources.

The Cluster Directors and Business Line Directors are responsible for managing the risks specific to their own activities and in this regard they distribute the internal control guidelines within the organisations that fall under their responsibility and ensure that RTE directives are applied.

RTE’s internal control policy dated 18 May 2011 states that the risk management and internal control procedure constitutes a tool for action, management and monitoring concerning each employee in the company and challenging each manager at every level to manage and control the principal risks relating to his or her activities.

It specifies that the risk management and internal control procedure that has been implemented seeks to ensure:
- compliance with legal and regulatory requirements,
- the application of decisions taken and choices made by Senior Executives,
- the efficient operation of processes, including those contributing to the protection of assets,
- the reliability of financial and operational information.

In the area of internal controls, 2016 saw a significant revision of the mapping of major risks that took new and major contextual factors (Europe, territories, the energy transition, technological/digital developments) and the priorities of the new Corporate Project, announced in July 2016, into consideration: 14 risks (compared with 29 previously, with a continuity of control in the analyses of business risks) were included in the RTE risk map, which shifted its focus towards the company’s strategic and priority risks by returning the management of more business-oriented risks to the departments in question. The degree of control of each of the company’s risks is also assessed by a comparison with the analyses of business risks, the detection and use of weak signals, the

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systematic consideration of the findings and conclusions of audits, the monitoring of the corresponding action plans and the results of internal controls.

The self-assessment initiated in 2014 of RTE’s internal control process through consolidation and analysis of the internal control reports of all of the company’s entities is now integral to their operations. In 2016, emphasis was placed on the better workings of the improvements process loop, with close scrutiny of the monitoring of corrective actions and the measurement of their effectiveness, and on the simplification of the means of improving its clarity and its performance.

Within the company, the Chief Compliance Officer (see above, chapter 1) is responsible, as stipulated in the provisions of Article L. 111-34 of the energy code, for “monitoring, subject to powers specifically attributed to the CRE, compliance of RTE’s practices with the obligation of independence with respect to other companies belonging to the vertically integrated company.”

In application of these provisions, the Chief Compliance Officer is responsible, in particular, for:

- verifying the application by RTE of the undertakings forming part of the code of good conduct stipulated in Article L. 111-22,
- drawing up an annual report on the implementation of this code, which he submits to the CRE under his own responsibility,
- monitoring the effective implementation of the ten-year development plan for the electricity network,
- informing the CRE without delay of any draft decision postponing or cancelling an investment forming part of the ten-year development plan and of any issue effecting the independence of RTE.

The company is required to communicate to him all the information he requires to fulfil his mission, including that which concerns subsidiaries included in its scope of consolidation established in France, without it being possible to invoke the provisions of book 1, title 1, chapter 1, section 5 of the energy code. If necessary, he requests any further information he may require.

The Chief Compliance Office is not subject to the authority of either the Chairman of the Executive Board or the Chairman of the Supervisory Board. He doesn’t report to any of the senior executives of RTE and enjoys total independence in performing his tasks. Subject to information that he is required to submit to the CRE, the energy code states in Article L. 111-35 that he is simply bound by an obligation of professional confidentiality with regard to any commercially sensitive information that he acquires in carrying out his duties. He reports any observations or proposals he may find it necessary to formulate directly to the CRE.

In this report, RTE only examines those controls that it is responsible for directing. The company is nevertheless subject to numerous external controls, a list of which is included in Appendix 2.
2.1. THE CONTROL ENVIRONMENT

2.1.1. Organisation of RTE

The Executive Board sets RTE’s strategic targets and determines the company’s organisation and functioning mode.

RTE’s management is structured on three levels:

- Senior executives define the company’s policies and targets, allocate resources, evaluate performance and decide on the actions to be taken to achieve improvements.
- Senior managers determine the collective targets that contribute towards the company’s targets and check that they are achieved.
- Local managers are responsible for the implementation of collective targets, define individual targets and check that they are achieved.

The activities carried out through RTE’s eight Clusters are grouped into business lines, each corresponding to a set of cohesive activities.

An RTE delegation, representing the Executive Committee, is appointed for each region in order to handle RTE’s external representation and encourage co-operation between the business lines. The company’s internal control system is structured in line with this organization.

2.1.2. The internal control procedure

To secure the achievement of the company’s targets, a progressive consolidation of RTE’s internal control procedure has been undertaken since 2012, taking into account the new organisation by central functions and then by regional entities. The involvement of Business Line Directors is thus required to manage the risks relating to their activities, in close collaboration with the regional entities concerned.

This procedure concerns each of RTE’s business lines, but also those entities (operational and functional) which contribute to it. Its purpose is to:

- generalise, homogenise, simplify and render more operational the risk management and internal control practices;
- strengthen the monitoring of procedures employed and incorporate them into a process of regular improvement, particularly through analysing and addressing malfunctions spotted and expressed in internal control reports.

The Audit and Risks Department is tasked with designing and developing the company’s internal controls system, and contributes to its operational implementation.

To help with the roll-out of these developments, two networks of coordinators responsible for risk management and internal control are managed, either jointly or within dedicated work projects, by the Audit and Risks Department:

- the network of the departmental internal control correspondents, created in 2014, that is responsible for the risks facing the departments and the business they support,
- the network of regional internal control correspondents, tasked with deploying internal controls in all the region’s centres and business lines. In turn, these regional correspondents manage the local relay stations, hosted in the different centres.

2.1.3. Players

The following are the principal players involved in RTE’s risk management and internal control:

The Executive Committee:

The members of the Executive Board, the Human Resources Director, the Legal & Control Director, the Diversification & Valorisation Director and the European & International Affairs Director make up the Executive Committee (Comex). This body validates general risk management/internal control strategies and their development, the charts of company risks for RTE (called “major risks”), as well as RTE’s internal audit programme. It monitors the resulting action plans, and decides as necessary on setting up global audits of RTE’s internal control procedure.

Each member of the Executive Committee sponsors the management of certain major risks to the company. They provide the various contributing departments with managerial impetus for the implementation of control activities.
**Audit and Risks Department:**
Within the Legal and Control Cluster, the Audit and Risk Department relies on dedicated resources (two people) for the design of RTE’s risk management and internal control system, its running, monitoring and assessment (tasks given to the Legal Affairs and Control Cluster by the Executive Board).

For this purpose, it is responsible for:
- establishing and circulating the internal control and risk management tools (RTE internal control guidelines and risk management methodology),
- directing the process of establishing the map of major risks for RTE,
- coordinating the networks of internal control correspondents,
- evaluating the methods and means employed,
- monitoring all the company’s internal control procedures, and in particular directing the annual process of reports on the internal control procedure (while also consolidating the results of the entities for each of RTE’s business lines), as well as the internal audit programme and monitoring of action plans implemented as a result of audits.

**The Legal Affairs Department,** within the same Cluster, performs a watch for new legislation and regulations and controls the compliance of contracts from the viewpoint of protecting RTE’s assets.

**Business Line Directors**
Each Business Line Director, supported by the division internal control coordinator:
- to this aim and in collaboration with the regional entities concerned by the business line, directs risk management in the business line and the treatment of interfaces with the other business lines with which it interacts,
- monitors the business line’s risk control procedure (through the Business Monitoring Priorities),
- assesses the efficacy of the processing actions put in place, by taking into account information provided by the entities in question.

**Entity Managers**
The Entity Manager (supported by an internal control coordinator):
- provides the business line managers concerned with activities performed by the entity with reasonable assurance of management of the principal risks of these business lines,
- implements instructions given by the business lines with regard to the management of the business lines’ risks,
- monitors the management procedures employed, by analysing and then addressing the principal discrepancies and dysfunctions,
- on an annual basis, provides to the heads of the business lines concerned an analysis of the main differences and their causes, observed during checks or through monitoring.

**Project leaders:**
- determine which risks are likely to impact on the achievement of the project’s aims,
- suggest appropriate treatment actions to line managers,
- handle, through controls, the implementation of actions that have been decided on,
- assess, within the framework of their periodical reviews, the efficacy of risk management provisions.

Within the Finance & Procurement Cluster, the management control department (DCG) of the Finance Department plays a role of counterpart in guiding performance and its management, vis-à-vis the Departments and entities. In addition, the accounting and tax department, part of the Financial Department, defines and updates the internal control accounting and tax guidelines, on the basis of which RTE entities draw up the part of their internal control management plan in this area, and directs the company’s relations with the Statutory Auditors.
2.1.4. Delegation of powers

The delegation of powers and representation within RTE are based on a two-level system:
- delegations which are carried out for the sake of the internal organisation of the company in its day-to-day management, which are known as “management delegations”;
- delegations which are intended to identify people exercising powers and responsibilities in terms of criminal liability, which are called “delegations of powers and responsibilities”.

Management delegations

These delegations (established voluntarily by the company) are intended to organise areas of day-to-day RTE management, which are not likely to give rise to issues of criminal liability.

In a public limited company governed by an Executive Board and a Supervisory Board, it is the Executive Board that exercises executive powers on behalf of the company on a collective basis. It is therefore for the Executive Board as a whole to delegate its powers for carrying out actions concerning the company’s administrative management.

Delegations of powers and responsibilities

Delegations of powers and responsibilities enable the delegator to transfer part of his powers and responsibilities to a delegate, who exercises them in his place. These delegations, in contrast with management delegation, divest the delegator of his or her powers.

In a company whose size and geographic extent do not allow senior executives to personally ensure that there is compliance with all regulations, these delegations allow the recognition of responsibilities as close as possible to where they are exercised.

2.2. RISK MANAGEMENT AND CONTROL POLICY AND IMPLEMENTATION

Risk management is implemented in line with the company’s project and objectives.

- The Audit and Risks Department, belonging to the Legal and Control cluster, is tasked with designing the risk management system, managing the network of internal control correspondents and promoting a culture of risk anticipation and control throughout RTE.

- Every six months, the Executive Committee examines the map of major risks. In 2016, the map of major risks was presented to the Executive Committee on 11 July and 14 November. Presentations to the CSEA took place on 5 October and 1 December 2016.

This map of major risks to the company in 2016 outlined the significant changes, with the introduction of seven new risks of strategic dimensions:
- The challenge, at the European level, to the TSO model in the current national grid
- The redefinition of the roles between the various players in transport and distribution, the regional authorities and other stakeholders on a regional level
- The insufficient capacity to take the company’s environment into consideration, and as a consequence, to innovate and manage change
- Failures of high-stake projects
- Mismatch between RTE’s economic model and the underlying trends of contextual changes
- Insufficient social cohesion and acceptance with regard to the necessary transformation
- Insufficient consideration by external stakeholders of RTE’s fundamental characteristics (player on a regulated market, operator bound by real-time obligations pertaining to the safety and the security of the electricity system).

Certain older major risks appear in the risk map in a new form, in the shape of the following major risks:
- Large-scale conventional and/or cyberattacks against RTE’s IS and vital infrastructures
- Widespread incident on the power grid (blackout)
- Discontinuity of critical activities
- Discrimination / Non-compliance
- Fraud and corruption
- Societal opposition and insufficient support by public players of RTE’s positions on different issues and of transport infrastructures
- Safety of employees, service providers and third parties
- Insufficient social cohesion and acceptance with regard to the necessary transformation.
Finally, other risks that were previously major are now included in the map of “business” risks.

– “Business” risks are incurred by the activities of one of RTE’s 16 business lines (Development-Engineering, Operations, Maintenance, Procurement, Human Resources, etc.). The business risks are mapped onto the company’s major risks. At the beginning of the year, each Business Line Director sends the Business Monitoring Priorities to the different operational entities exercising activities within the scope of the business line.

– The risks facing the operational entities or central functions are identified on the basis of the major risks, the business risks and a more local analysis. Entities’ risk mapping are therefore compiled from the risks attached to processes, projects and activities carried out by the regional entities.

Moreover, the guide to RTE’s internal controls was revised to produce a more operational tool that management finds easier to use.

Finally, the various audits carried out internally have contributed to identifying the levels of risk management stated for the major risks relating to the scope of these audits.

### 2.3. RTE CONTROL ACTIVITIES

#### 2.3.1. Control procedures relating to the functioning of the internal processes of RTE Departments

Publication by the business lines of their supervisory priorities (backed up by the mapping of their main risks) began in 2013. At the start of each year, they are updated on the basis of the results recorded in the preceding year and the changes in the business risks maps.

Entity managers of provide the managers of business lines to which the entity contributes with reasonable assurance that they control the principal risks of these business lines. From this perspective, they implement the instructions of the business lines, while taking the specifics of their entity into consideration, and organise the monitoring of their internal control system on the basis of the directions issued by the business lines, by:

- identifying the principal discrepancies/dysfunctions,
- devising and directing an annual plan for supervising the internal control procedure (analysis of discrepancies, post-control tests, audits, etc.),
- assessing, every year, its system in its internal control report.

Moreover, as of 2012, the entity manager also has an internal control reference framework (the RTE internal control guidelines), established under the authority of the Audit and Risks Department with assistance from RTE Business Line Directors, which presents a checklist of questions they should consider in order to control risk linked to the entity they manage.

Supervision encourages the entity manager to draw up and steer a programme of actions for improvement or correction, aimed at remedying weaknesses identified.

#### 2.3.2. Control procedures relating to the functioning of internal processes of the Finance and Procurement Cluster

The Risk Control Unit, consisting of two people, is responsible for managing the internal control and risk management processes of entities in the Finance and Procurement Cluster, in line with the company’s guidelines proposed by the Legal and Control Cluster. In addition, in its supervisory role, it ensures the completeness and robustness of the internal control and risk management systems in place. Finally, 2016 saw an experiment intended to assess the contribution made by data mining tools to internal controls.
2.3.2.1. Preparation and processing of financial and accounting information

Organisation and role of the Finance Division (FD)
The FD, along with the Procurement Division, makes up one of RTE’s eight clusters of activities.

It co-ordinates the work of a group of experts in the fields of accounting, taxation, management control, cash management, debt management, the economy, regulation and finance.

Its role is to:
- contribute to the strategic reflection and financial performance of RTE;
- produce the annual accounts and consolidated financial statements for the RTE Group in accordance with the deadlines and standards applicable;
- manage RTE’s cash and financing;
- ensure the financial equilibrium of RTE, especially during pricing discussions with the regulator, in accordance with laws and regulations and internal control procedures.

It is organised into four departments:
- DDCG: Management Control Department
- SCF: Accounting and Tax Department
- SFT: Treasury and Financing Department
- TREFF: Pricing Regulation Economy Finances Subsidiaries Department

Drawing up of prospective financial information

Every year, the Pricing Regulation Economy Finances Subsidiaries Department produces RTE’s budget and updates it three times in succession. It also produces medium-term economic and financial outlooks which are used as a basis for the internal allocation of resources and for dialogue with external players in question (Supervisory Board, CRE, rating agencies).

On the basis of these forecasting exercises, the Management Control Department allocates resources by business line and monitors them, as part of its contribution to the financial performance of RTE, while the Treasury and Financing Department deduces cash balances and financing requirements for its own activities (cash management and debt management).

In 2016, together with the other parts of the company, the various entities of the FD conducted various analyses and case studies with a view to participating in the discussions on prices with the CRE, as part of the determination of the new price for the use of the public electricity network (TURPE 5), and in the work related to the transfer of a minority share of RTE’s capital by EDF.

Group accounting standards

The Financial Department (FD) is responsible for producing RTE’s consolidated accounts, drawn up in compliance with IFRS standards as approved by the European regulation of 31 December 2016, and parent company accounts drawn up according to the rules in force in compliance with the 2016 General Accounting Plan.

The Accounting and Tax Department is responsible for keeping a regulatory watch on accounting standards and it defines the accounting standards that are applicable Group-wide.

Drawing up accounting information: the process of drawing up RTE’s financial statements

The Accounting and Tax Department is organised by Cluster, each one representing the main areas of the business. This organisation has the advantage of adapting to all organisational changes in the company and of facilitating better management of skills, guaranteeing the reliability of accounting and tax-related figures.

The monthly reporting process ensures that the Group’s reports are reliable. Usually, a “pre-closing” process on 31 May and 30 November result in an in-depth examination in line with the same principles as the annual closing. In 2016, the usual pre-closure in November was replaced by a closure of the accounts in October, which underwent a limited review5 by RTE’s Statutory Auditors. This change was due to the ongoing discussions between RTE’s single shareholder, the “Caisse des Dépôts et Consignations”, and “CNP Assurances”, with a view to the latter acquiring an interest in RTE’s capital. The Group does not draw up half-yearly financial statements.

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5 RTE’s accounts on 31 October 2016 have been closed by the Executive Board.
The principal accounting options along with the major transactions of a given period are analysed prior to the final closing and are reviewed by the Statutory Auditors. This procedure helps to ensure the early detection of any errors and their adjustment during the actual closing.

RTE, which is consolidated in the financial statements of the EDF Group in accordance with the “equity method”, provides EDF, in an aggregated manner, with the accounting figures and information necessary.

**Control of financial information**

As part of RTE’s internal control policy, each of the entities making up the FD draws up its Internal Control plan, in line with its risks analysis. The Risk Management Unit ensures that the systems put in place are relevant. In this regard, for example, a control tool is used to manage users who hold positions that are incompatible in terms of the separation of tasks. It should also be noted that feedback is received from the business lines on the causes of differences between achieved amounts and forecasts, in the aim of continually building up the reliability of forecasting exercises.

With regard to the management of counterparty risk, the principle of decentralised risk, adapted to the size and challenges of the company and based on the responsibility of players best placed to implement corrective actions, was selected. Accordingly, for the FD, this principle has been implemented within the Treasury and Financing Department within a framework setting out the rules to be followed by the cash operators, to be reported on a daily basis. In order to ensure that, following the actions implemented at an operating level, risk is controlled across the whole of RTE, a co-ordination and synthesis committee meets on a quarterly basis. It is a forum for periodic exchange between players concerned by a counterparty risk within the company. More specifically, at the end of the financial year, the appropriateness of provisions set up is checked in accordance with procedures under way with certain of RTE’s clients and/or suppliers.

**Management of accounting information**

The organisation of the permanent control of accounting information is based on the Internal Accounting and Taxation Control system handled by the Accounting and Tax Department. Accordingly:

- **the Accounting Manager** is responsible for the smooth running of the internal accounting procedures and the system for controlling accounting treatment, which guarantees the reliability of the Group’s accounting data, and he reports back to the company manager in charge of finances,

- **the accounting production clusters** carry out ongoing first level accounting checks on the operations for which they are responsible, followed by monthly analyses of changes in account balances and account contents (justification of accounts),

- **the “Drafting of Legal Documents, Subsidiaries and Doctrine Engineering” (EDLF) cluster** runs the system for drawing up monthly statements and the annual accounts. The system is based on instruction notes to the various players involved in recording of economic facts, the regular breakdown of control types and a shared plan of steps to be taken. The EDLF ID cluster uses analyses of change and of content of the accounts drawn up by the production divisions. From the last week of December, the EDLF ID cluster carries out a daily view of the progress of checks and end-of-year tasks to be performed, with all of the production divisions, management control and the IS and Telecoms Department;

- **an Internal Accounting and Taxation Control activity** steers the whole of the accounting and taxation control system in the “upstream” operational processes (assessment of the accounting quality of the operative events) and in the accounting processes for drawing up accounts (assessment of the accounting production “downstream”). In 2016, a drive was conducted to better harmonise this system with the company’s system by combining the best practices in each.

2.3.2.2. **Security and confidentiality of the information system**

The IS security objectives are defined in the RTE security policy. They break down into four major themes: the critical nature of information relating to areas of expertise (security level in view of challenges and clearances necessary), technical provisions (infrastructure and applications), organizational provisions, and the behaviour of players.

The IS Security Manager is responsible for ensuring the compliance of IS orientations with IS security policy and control of major risks to RTE IS security. He achieves
this through internal control in order to draw lessons and make proposals for action, and to coordinate the organisation of local network correspondents headed by Divisional Security Managers. He is the referent for risk files regarding IS security. He orders security audits. If necessary, he interviews pilots of major IS projects on the whole field of security issues. He approves the annual report on controlling RTE’s Information System security and defines the areas of progress to be prioritised.

For each project, a security analysis is carried out from the upstream phases (in conjunction with security players and the architects of the areas in question) in order to specify the functional security needs according to the topics defined. The project management guidelines explicitly state what the methods used to draw up and verify security requirements are to be during the opportunity and feasibility phases. Control of the implementation of the guidelines takes place during project reviews carried out as part of the decision-making process.

Assessment of the level of IS security at RTE is based on three distinct tools:

- permanent monitoring and systematic controls: carried out on all activities, operations and systems, with a view to determining if they have been implemented, conducted or used as intended, if they are producing the desired results, and if they are showing areas of vulnerability through being badly implemented;
- audits carried out with the aim of confirming that a system, activity or operation has been designed and implemented correctly to provide a reasonable response to the security objectives revealed by a risk assessment and/or evaluating its compliance with the security guidelines;
- the IS security dashboard, which processes the results of controls and audits as well as information derived from the processing of security incidents. This makes it possible to have an overall vision of the security situation, and more especially to monitor evolutions in RTE’s overall IS security levels, to escalate relevant alerts and information to RTE senior management, and to verify whether or not the strategy defined by RTE’s IS security policy is adapted and allows the control of security risks.

2016 saw the preparations for the launch of the sectoral breakdown of the military programming law. These orders were published in August 2016, for application on 1 October 2016. The Executive Board meeting on 7 November decided to launch the LPM project. Elsewhere, RTE took part in the PRANET 2016 exercise managed by the SGDSN. Finally, RTE actively participates in French and European working groups in the sphere of the cybersecurity of industrial ISs.

In 2016, as in previous years, several safety audits and compliance reviews were carried out. The information collected confirms that the safety level is sufficiently satisfactory in view of RTE’s current requirements. Improvement actions have been undertaken to correct vulnerabilities that have been identified.

2.3.2.3. Purchase control
For purchases carried out by the Purchasing Department as the operator, a supplementary control is carried out. In addition to the managerial control that is applied to all the transactions handled by a technician-purchaser pair, prior controls are systematically applied by to purchasing by a network of Purchasing’s most experienced buyers. The degree of control is adapted to the sensitivity of each case.

Other purchases, made by different entities, are controlled by managers in accordance with a control form made available in the procedure drafted by the Procurement Division for purchases without buyers. These purchases are controlled within the framework of the internal control plan that is in place within each entity.

The “purchasing ethics” policy, initially applied within the scope of the Purchasing department, has been extended as of 2012 to everyone engaged in purchasing. It aims in particular to guarantee the objectivity and independence of judgement of all players and their impartiality in relations with suppliers. Beyond the application of rules, it establishes certain principles of action and behaviour for everyone. These Ethics, which have been reviewed in the light of current issues and problems, were incorporated in Appendix 2 of RTE’s Internal Regulations in 2015.

In this context, a purchasing ethics officer has been appointed. Employees who are in doubt over how to
act in a situation that they suspect may entail risk with regard to an issue of purchasing ethics are required to refer the matter to their line manager or to the RTE purchasing ethics officer.

2.3.2.4. RTE’s shareholder control over its subsidiaries

In 2016, the Executive Committee became the instance that examines the main affairs affecting the activities of subsidiaries and holdings (changes to articles, significant contracts, capital operations, purchase or sale of assets, policy to determine dividends, strategic reviews, monitoring of activity, etc.) and approves the positions adopted by RTE, in its capacity as a shareholder, in the governance instances of its subsidiaries.

In 2016, RTE management also created a Diversification and Valorisation cluster, tasked in particular with supporting the development of RTE’s fully-owned subsidiaries. Together with the Finance Division, and on the behalf of the Executive Committee, this cluster monitors the activity of these subsidiaries and acts as a counterpart in the definition of their business plans. Once a quarter, the Finance Division presents the budgetary situation of the subsidiaries, a risk analysis and the corresponding actions in the Executive Committee dashboard. The D&V cluster reports to the Executive Committee on a regular basis. In 2016, four ad hoc Executive Committee meetings were held to analyse the medium-term strategy of the existing subsidiaries.

At the end of 2016, RTE was directly or indirectly involved in seven subsidiaries in which it held a minimum of 50% of the share capital and it had substantial influence in two companies (associated companies). Their financial weight in RTE’s accounts is relatively insignificant, however.

2.3.3. Technical Grid Control (CTO)

Articles 13 to 15 of the Decree of 1 December 2011 (included since January 2016 in article R. 323-30 of the energy code) introduce a technical control intended to check that the works comply with the technical specifications applicable to them. It is carried out when the grids go into service and repeated every 20 years. This control is carried out by a “technical body” with ISO 9001 quality certification that is at least functionally independent from the network manager. To meet this requirement, RTE put in place the CTO, an entity that falls under the Grids, Customers and Territories Cluster.

The application methods for these controls are defined by a ministerial order dated 14 January 2013, which sets out the list of checks to be carried out, cases where checks can be carried out on the basis of a survey of the parts of the work in question and cases of exemption from any checks. This order draws a distinction between the methods for the initial control carried out on a “new work” and those for controls on existing works. Independently of the control to check compliance of the grid with the applicable specifications, the CTO has also been given the role of “drawing attention to serious risks for people and for property” (Article 14 of the order). Accordingly, the control report should, if applicable, set out the most recent technical specifications for which compliance appears to it to be necessary.

In response to regulatory requirements, the CTO is certified ISO 9001 and accredited ISO 17020 as an inspection entity in its field of activity.

2.3.4. Organisation of controls relating to the environment and handling of sustainable development issues.

RTE has been certified ISO 14001 compliant by AFAQ and the certification was renewed in November 2016.

RTE’s Environmental Management System has a quadruple objective:
- complying with regulations,
- developing tangible, understandable and sustainable environmental behaviour,
- managing the environmental aspects of our activities (anticipating, prioritising, optimising, empowering),
- identifying and controlling RTE expenditure explicitly relating to environmental matters.
The environmental management system must reduce the environmental impact that RTE has identified and over which it has the means of exerting influence: identification of significant environmental aspects in order to prevent pollution (significant environmental impact). Whether carried out in-house or subcontracted, projects are monitored to the same standard. The skills of suppliers operating on behalf of RTE are evaluated on the work site.

Continuous improvement of the environmental management system is based on the Environment-Consultation Committee responsible for defining the orientations of RTE’s environmental policy and verifying that objectives have been met.

In this context, environmental management programmes are reviewed each year in order to evaluate the progress of its actions and guarantee that changes in regulatory requirements or the context, the viewpoints of interested parties, and regularly programmed internal and external audits are all taken into account. RTE carries out internal audits of its environmental management system in its entire scope every three years, using a specialised firm for this purpose.

The organisation of responsibilities at the level of the environmental management system is as follows. At national level, the Chairman of the Executive Board is signatory to the environmental policy. An Environment Co-operation Committee, chaired by the deputy Managing Director in charge of Networks, Customers & Territories, handles strategic management working with all of RTE’s business lines.

2.4. COMMUNICATION AND CIRCULATION OF INFORMATION

RTE’s financial literature is subject to annual updating (accounts audited by the Statutory Auditors, the basic EMTN prospectus approved by the French Financial Markets Authority, a financial presentation document validated by Banque de France, etc.). With respect to the publication of accounting and financial information, the company complies with to legal provisions. A review committee made up of people with varied skills has been set up in the Accounting and Tax Department. It verifies the reliability of information contained in management reports and the annual reports (parent company and consolidated accounts).

2.5. MANAGEMENT OF INTERNAL CONTROL

The company’s internal control system aims at ensuring the sustainable control over activities through:
- the development of plans to monitor risk control procedures at a national level and the regional entities, and to do so in the aim of ongoing improvement, taking into account checks carried out and the analysis of defects and malfunctioning,
- the carrying out of internal audits on the internal control procedures of the regional entities or the central functions,
- the annual assessment of the procedure which gives rise to a report, which, if necessary, can be used to make improvements to the procedure.

The internal control process is based on year-round monitoring of systems by RTE by audits and thanks to the analysis of the annual self-assessments of the internal control procedures of RTE entities (operational centres and divisions). This surveillance aims to provide “reasonable” assurance of risk management, because internal controls cannot provide absolute assurance that all the risks have been totally eliminated. Entity managers also make use of an internal control reference framework (the RTE internal control guidelines), established under the authority of the Audit and Risks Department with assistance from RTE Business Line Directors. The first quarter of 2017 will see the publication of a new version of this Guide, which illustrates the key steps of an entity’s main activities and the applicable RTE reference documents.
The guidelines for the actions planned for 2017 are in line with the priorities of the company project, and aim to simplify and improve the effectiveness of the risk management-internal controls system, while securing the "risks-control actions-monitoring of implementation-measurement of performance" chain.

2.5.1. Monitoring by audits
Each year, the Chairman of the Executive Board draws up a programme of audits, which he communicates to the Economic and Audit Supervisory Committee.

The annual audit programme includes audits of the internal control procedure for the regional entities, the main aim of which is to ensure the reality and efficiency of the provisions for controlling the activities implemented in these entities. In 2016, two audits of the departments’ internal control systems were carried out by RTE’s Audit and Risks Department.

The elaboration and implementation of action plans pursuant to audits are making progress in terms of timelines and the degree of implementation of the actions. In particular, the operational pilots responsible for drawing up the action plans are systematically accompanied in this activity by the audit mission. In addition, the Audit and Risks Department gives its view on the coverage of recommendations by action plans. A report on the implementation of the action plans consecutive to the audits was presented to the Executive Committee on 04 April 2016 and to the Economic and Audit Supervisory Committee on 19 April 2016.

2.5.2. Surveillance by assessment on the basis of the annual internal controls reviews
All of RTE’s central departments and operational entities reviewed their internal control systems at the end of 2016, with, in particular, the observations made in the various internal and external audits conducted in the course of the year, and a review of the state of progress of the actions determined further to audits, controls or malfunctions. Each director committed to controlling their “core business” or “cross-functional” activities, and to the actions to be taken in 2017 to continue improvements in the management of priority risks.

2.5.3. The fight against fraud
The conclusions of a study of RTE’s anti-fraud system by an external company have now been approved and provide a clear and substantiated vision of a structured system to be implemented, in particular within the framework of the Sapin 2 law (the decrees are expected). This system will call on ethical values and will be organised into the following phases: prevention, detection, investigation, processing, learning lessons.
In addition to the internal controls set out in this report, RTE’s activities are also subject to the following external controls:

- **The Energy Regulation Commission (CRE)**
  It approves, among other things, the investment programmes of the public power transmission system operator and it also proposes tariffs for the use of the transmission network to Ministers. It can perform audits in the financial sphere.

- **The Audit Office (Cour des Comptes)**
  The Audit Office inspects RTE’s accounts on a regular basis. It may also carry out other controls.

- **The French Tax Authorities (Administration fiscale)**
  The French Tax Authorities ensure the compliance of RTE with the stipulations of the Tax Code, particularly in terms of interpretation and/or implementation.

- **The Purchases Commission (Commission des Marchés)**
  The order of 17 October 2006 sets the rules of RTE’s Purchases Commission. This external Commission is called upon to exercise control over purchases made by RTE in accordance with the amounts:
  - systematic prior examination of purchases over or equal to the amount of €10m,
  - prior examination, if accepted by the Eligibility Committee, of purchases of between €5m and €10m,
  - prior examination, if accepted by the Eligibility Committee, of purchases of between €0.5m and €5m.
  Just one exclusion is provided for in Article 6 of the order: purchases for the supply of energy or fuel intended for the production of energy, in particular purchases for implementing services and reserves necessary for the stability of the network and purchases to set off losses linked to the transmission of electricity.

In 2016, 24 files were examined by RTE’s Purchases Commission for a total amount of €1,489 million. All of the files examined were approved.

- **Rating agencies**
  Rating agencies assess the standing of a signing debtor, i.e. its capacity to repay a debt. For such purpose, they give a rating after auditing the financial position of the company. These ratings are based on an analysis of balance sheets, price movements of previously issued shares and more qualitative elements connected with the strategy of the company, the make-up of its management and its environment. The ratings are
re-examined regularly. Standard & Poor’s, which has rated RTE since 2006, confirmed the company’s long-term rating on 18 November 2015 at A+, with a stable outlook.26 The agreement signed on 14 December 2016, determining the conditions of the transfer of 49.9% of RTE’s capital from EDF to the “Caisse des Dépôts/CNP Assurances”, prompted Standard & Poor’s to put RTE’s financial rating under surveillance on 21 December 2016, pending the next annual review, planned for the start of March 2017, to take a decision on RTE’s rating.

Statutory Auditors
Mazars and Deloitte & Associés are RTE’s statutory auditors. A review of accounting and internal control systems is applied, as part of their mission to certify accounts. The Auditors certify RTE’s accounts on 31 December and review the elements submitted by RTE to the parent company to enable it to draw up its consolidated accounts. They formulate any observations on the information regarding internal control and risk management procedures relating the preparation and processing of accounting and financial information contained in the Report of the Chairman of the Supervisory Board. They attend the meetings of the Supervisory Board and the Economic and Audit Supervisory Committee which examine the RTE accounts.

It should be pointed out that following the transposition of Directive 2009/72/EC, and in accordance with the provisions of Article L. 111-15 of the energy code, the company accounts must be certified by at least one Statutory Auditor who certifies neither the accounts of any other part of the vertically integrated company as defined by the energy code, nor the consolidated accounts of the vertically integrated company.

In order to ensure compliance with this provision, RTE’s Articles of Association now require the Statutory Auditors to present a document before their appointment by a General Meeting, and subsequently at each year’s General Meeting called to approve the annual accounts, specifying whether or not they are certifying the accounts of any other part of the vertically integrated company. This document was provided by Mazars on 6 January 2017 for the financial year 2016.

Autorité de Contrôle des Marchés Financiers (AMF)
(French stock market regulator)
Every year the AMF validates the reference document for RTE’s bond programme, by issuing a visa. The AMF also carries out a review of the accounts and the management report which may give rise to recommendations or questions to which RTE responds.
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<td>CRE</td>
<td>Energy Regulatory Commission</td>
</tr>
<tr>
<td>CSEA</td>
<td>Economic and Audit Supervisory Committee (French)</td>
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<tr>
<td>DAR</td>
<td>Audit and Risks Department (French)</td>
</tr>
<tr>
<td>DCG</td>
<td>Management Control Department (French)</td>
</tr>
<tr>
<td>EDLF</td>
<td>Drafting of Legal Documents and Subsidiaries</td>
</tr>
<tr>
<td>VIC</td>
<td>Vertically Integrated Company</td>
</tr>
<tr>
<td>TSO</td>
<td>Transport System Operator (French)</td>
</tr>
<tr>
<td>ITO</td>
<td>Independent Transmission Operator</td>
</tr>
<tr>
<td>MCO</td>
<td>Maintenance of Operational Conditions (French)</td>
</tr>
<tr>
<td>PCG</td>
<td>Chart of accounts (French)</td>
</tr>
<tr>
<td>REMIT</td>
<td>Regulation (EU) No. 1227/2011 on wholesale energy market integrity</td>
</tr>
<tr>
<td></td>
<td>and transparency published in the Official Journal of the European</td>
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<td></td>
<td>Union on 8 December 2011. REMIT prohibits market abuse on European</td>
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<td></td>
<td>electricity and gas markets and entrusts the monitoring of these</td>
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<td></td>
<td>markets to the Agency for the Cooperation of Energy Regulators</td>
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<td></td>
<td>(ACER), in cooperation with national authorities.</td>
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<tr>
<td>SCF</td>
<td>Accounting and Tax Department (French)</td>
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<td>SFT</td>
<td>Treasury Financing Department (French)</td>
</tr>
<tr>
<td>IS</td>
<td>Information System</td>
</tr>
<tr>
<td>TREFF</td>
<td>Pricing Regulation Economy Finances Subsidiary Department (French)</td>
</tr>
<tr>
<td>UFE</td>
<td>French Electricity Union (French)</td>
</tr>
</tbody>
</table>
Application of the recommendations of the AFEP-MEDEF Code by RTE

Pursuant to Article L. 225-68 al.8 of French company law (Code de commerce), RTE complies with the corporate governance code drawn up by the AFEP and the MEDEF (updated in November 2015).6

In line with the principle “apply or explain”, the report by the Chairman of RTE’s Supervisory Committee sets out in this appendix the provisions of the AFEP-MEDEF Code which have not been applied and the reasons why this is the case.

<table>
<thead>
<tr>
<th>RECOMMENDATIONS NOT APPLIED</th>
<th>EXPLANATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ representation (recommendation No. 7)</td>
<td>The AFEP-MEDEF Code recalls the rules set out in French company law (Code de commerce) relating to the appointment of directors to represent the shareholder employees (L. 225-23) and the director employees (L. 225-27 and L. 225-27-1). The representation of employees on the Supervisory Committee is organized by the ordinance No. 2014-948 of 20 August 2014 pertaining to the governance and operations on the capital of companies in which the government holds a stake (the order) (articles 7 and 8), and by the law No. 83-675 of 26 July 1983 pertaining to the democratization of the public sector (the DSP law), referring to the ordinance.</td>
</tr>
<tr>
<td>Minority shareholders (recommendation No. 8)</td>
<td>It is recommended that directors representing categories of specific interests should not be multiplied, at the risk of causing confrontation of particular interests. EDF is the sole shareholder of RTE. Furthermore, the cumulative application of the order and of article L. 111-43 of the energy code it is mandatory to have several categories of members on the Supervisory Board.</td>
</tr>
<tr>
<td>Minority shareholders (recommendation No. 9)</td>
<td>It is recommended a significant percentage of independent Directors on the Board of Directors (i.e. people who do not have a management position within the company or the group (i.e. who do not perform a management function within the Company or Group but also who do not have any particular link with the Company or Group). In controlled companies, the independent directors should account of at least one-third of the board. With regard to the specific composition of RTE’s Supervisory Board in application of the order, 8 of the 12 members of the Supervisory Board are appointed by the single shareholder, of which 4 are proposed by the State. Currently, 4 members of the Supervisory Board appointed by the shareholder hold positions within EDF, 1 member represents the State as a legal entity and 2 of the 3 members appointed by the shareholder on the proposal of the State are civil servants. Accordingly, the independence required by the recommendation is not achieved given the applicable laws but it can, nevertheless, be considered that a certain form of independence is complied with by the “minority” members defined in line with order No.2011-504 of 9 May 2011 which codifies the legislative part of the energy code and transposes Directive No. 2009/72/CE. These members must in fact comply with specific incompatibilities vis-à-vis the vertically integrated company (VIC) (see section 1.1.1 of this report) which provides solid guarantees in terms of independence with regard to the EDF shareholder and in a larger proportion than that required. The principle applied today is that the “minority” should be made up of four State representatives and one employee representative.</td>
</tr>
<tr>
<td>The duration of directors’ term of office (recommendation No. 14)</td>
<td>The duration of directors’ term of office cannot exceed four years (with the option of renewal). The term of office of the members of RTE’s Supervisory Board is five years in application of the articles of association. RTE wishes for the terms of office of the members of the Supervisory Board be equal to that of the members of the Executive Board.</td>
</tr>
</tbody>
</table>

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6 In accordance with the application guide published by the High Committee of Corporate Governance, the recommendations of the AFEP-MEDEF Code apply to financial periods closed before the publication of the revision of the Code in which they were introduced. In view of the publication date of the latest version of the AFEP-MEDEF Code (November 2016), the report of the President of the Supervisory Board is drawn up on the basis of the recommendations published in November 2015. RTE will take the recommendations of the AFEP-MEDEF Code revised in November 2016 into consideration for 2017.
<table>
<thead>
<tr>
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<th>EXPLANATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The duration of directors’ term of office (recommendation No. 14)</td>
<td>The fact that the mandates of members of the Supervisory Board are not spaced out is explained by the specific composition of this board, which makes it difficult to treat the member categories differently when the Board is replaced.</td>
</tr>
<tr>
<td>The committee responsible for selection or appointments (recommendation No. 17)</td>
<td>Given that employee representatives are elected, this recommendation only concerns members of the Supervisory Board who are appointed by the single shareholder.</td>
</tr>
<tr>
<td>Termination of the employment contract in the case of board representation (recommendation No. 22)</td>
<td>The capital of RTE can only be held by the government, EDF or a state-owned company (Article L. 111-41 of the energy code).</td>
</tr>
<tr>
<td>Remuneration of Executive Board members (recommendation No. 23)</td>
<td>Members of the Supervisory Board may not be pre-selected by a committee before they are appointed, unless this concerns the representatives appointed by the single shareholder on the proposal of the State, as legal entity (the representative of which is appointed by order) and employee representatives (who are elected by employees). With regard to the appointment of the Chairman and the members of the RTE Executive Board, which falls to the Supervisory Board, the following are the appointment rules specific to RTE, which explains the reasons why the recommendation has not been applied: - the Chairman of the Executive Board can only be named after notification to the CRE (energy regulation commission) and approval of the Minister responsible for Energy (L. 111-29 and L. 111-44 of the energy code); - members of the Executive Board are appointed on the proposal of the Chairman of the Executive Board and following notification to the CRE (L. 111-29 of the energy code).</td>
</tr>
<tr>
<td>Information on the remuneration of Executive Board members (recommendation No. 24)</td>
<td>Managers of RTE cannot hold shares in the company as RTE’s capital can only be held by the government, EDF or a state-owned company.</td>
</tr>
</tbody>
</table>
Statutory Auditors’ Report
Drawn up pursuant to article L. 225-235 of the French company law (Code de Commerce), the report of the Chairman of the Supervisory Board

Financial year ended 31 December 2016
To the Shareholders,

In our capacity as Statutory Auditors of RTE - Réseau de Transport d'Electricité and in accordance with Article L.225-235 of French company law (Code de commerce), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-68 of French company law (Code de commerce) for the year ended for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board 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.225-68 of French company law (Code de commerce), particularly in terms of corporate governance.

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,
- to attest that this report contains the other disclosures required by Article L.225-68 of French company law (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

The professional 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 the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the 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 Supervisory Board in accordance with Article L.225-68 of French company law (Code de commerce).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-68 of French company law (Code de commerce).

Courbevoie and Neuilly-sur-Seine, 13 February 2017

Statutory Auditors

Mazars
Francisco Sanchez

Deloitte & Associés
Patrick E. Suissa

RTE, Report by the Chairman of the Supervisory Board
Design/Production – Photo credits: BEAUCARDET William, BRANDSTROM Sophie, HERBERT Stéphane, GOLDSTEIN Julien.

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