

# **REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF AUTOROUTES PARIS-RHIN-RHÔNE ON THE PREPARATION AND ORGANISATION OF THE BOARD'S WORK AND ON INTERNAL CONTROL YEAR ENDED 31 DECEMBER 2009**

In accordance with the provisions of Article L. 225-37 of the French Commercial Code (*Code de Commerce*), the Chairman of the Board of Directors is required to submit a report, attached to the Management Report, on the preparation and organisation of the Board's work and on the internal control and risk management procedures put in place within the APRR Group.

The Company has adopted unequivocally the AFEP-MEDEF recommendations on the compensation of executive corporate officers of listed companies published on 6 October 2008. The Company does not refer to any other code of corporate governance as may be drawn up by other associations or confederations of business enterprises. Since its shares were first listed on a regulated market in November 2004 and its subsequent privatisation in February 2006, the Company has adapted its practices as and when needed to take into account changes in regulations and recommendations pertaining to corporate governance. To this end, it has amended its Memorandum and Articles of Association, adapted the Board's bylaws and implemented new organisation and procedures in the areas of legal, financial and corporate governance.

## **I.** **PREPARATION AND ORGANISATION OF THE BOARD OF DIRECTORS' WORK**

The Chairman of the Board of Directors organises and oversees the work of the Board and reports back to the General Meeting.

The Chairman ensures that the Company's different management bodies function properly, and in particular that the Directors are able to perform their duties.

Pursuant to Article L. 225-51-1 of the Commercial Code, the Board of Directors decided not to separate the functions of Chairman and Chief Executive Officer.

The Company's general management has been entrusted to the Chairman of the Board of Directors, Mr Jean-François Roverato, who was appointed Chief Executive Officer on 7 January 2008.

The Chief Executive Officer represents the Company in its relations with third parties. He has been vested with the broadest powers to act under all circumstances in the Company's name. He exercises his powers within the limits set forth in the object's clause subject to those powers expressly granted by law to the Shareholders' General Meeting and to the Board of Directors.

The Chief Executive Officer's powers are exercised within the limits fixed by the Board of Directors and summarised hereunder in Chapter II.

Further to the resolution passed by the General Meeting of 23 June 2009, which set at 68

years the age limit for the Chairman of the Board of Directors and the Chief Executive Officer, the term of office of Mr Jean-François Roverato as Chief Executive Officer was extended on 28 August 2009 and will now end at the same time as his term of office as Board Director.

Mr Philippe Nourry was appointed as Deputy Chief Executive Officer by the Company's Board of Directors on 7 January 2008. Working under the authority of the Chief Executive Officer, he has been tasked with overseeing the Group. He exercises his powers within the limits fixed by the Board of Directors, in agreement with the Chief Executive Officer, and summarised hereunder in Chapter II.

## **1 Board of Directors**

### **1.1 Composition of the Board of Directors**

On the date this report was drawn up, the Board of Directors comprised twelve members, eight of whom represent the majority shareholder Eiffarie and four of whom are from French local and regional authorities.

Board members were as follows:

- Jean-François Roverato
- Bruno Angles
- Gérard Bailly
- Edward Beckley
- Louis de Broissia
- Philippe Delmotte
- Robert Galley
- Andrew Hunter
- François Massé
- Arnaud Montebourg
- Max Roche
- Peter Trent

Finally, in application of the concession agreement entered into by APRR, board meetings are attended in a consultative capacity by a government representative, in the person of the Director of Transport Infrastructures at the Directorate General for Infrastructure, Transport and the Sea.

### **1.2 Competence of the Board and succinct presentation of the Board's activity in 2009**

The Board of Directors determines the guidelines for the Company's activities and ensures they are implemented. Subject to those powers granted expressly to the General Meeting and consistent with the limits set forth in the object's clause, the Board considers all matters relating to the proper functioning of the Company and debates all matters concerning the Company.

#### **1.2.1 Strategic orientations, business plan and financial situation**

At least once a year, the Board of Directors reviews the annual financial statements prepared by the Company and by the Group and the implementation of the strategy, business plan and financial policy defined for the Company and for the Group.

#### **1.2.2 Prior authorisations**

The Board of Directors is advised by the Company's senior management of all matters

requiring prior approval by the Board.

### **1.3. Functioning of the Board of Directors**

Internal regulations have been drawn up governing the functioning of the Board of Directors. These regulations are intended to define the scope of the responsibilities of the Board and its members and the manner in which the Board functions. It is the Board that defines the competence of ad-hoc committees and the matters coming under their purview.

### **1.4 Principles governing the organisation of Board meetings**

The Chairman of the Board of Directors convenes the Board as and when he deems necessary in the best interest of the Company.

The memorandum and articles of associations and internal regulations of the Board of Directors set forth the conditions under which members participate in board meetings by videoconference and other means of telecommunications.

The Board of Directors conducts an annual assessment of its work. In 2009, the Board met on five occasions. The attendance rate was 65% in 2009 compared with 77% in 2008.

## **2 Internal regulations of the Board of Directors and ad-hoc committees**

The internal regulations are determined by the Board of Directors. These regulations define the manner in which function the Board and its two ad-hoc committees: Audit and Risks Committee and Selection and Compensation Committee. These regulations also contain the Directors' Code of Ethics.

### **2.1 Group Audit and Risks Committee**

In accordance with its regulations, the Audit and Risks Committee consists of three members chosen by the Board of Directors for their expertise. Two members are Company Directors. The Chairman of the Audit and Risks Committee is appointed by the Board of Directors.

The French Government representative is notified of committee meetings and may attend them in a consultative capacity. The Audit and Risks Committee met twice in 2009.

The Committee reviews the procedures for the preparation of the company financial statements and consolidated financial statements. It ensures that the accounting methods are appropriate and transparent, that they are applied consistently, and that internal procedures for collating and checking the information contribute to achieving these goals.

Each year, the Audit Committee informs the Board of Directors as to the checks carried out and observations arising from its work. It also refers to the Board issues relating to any options regarding the accounting standards being applied. Finally, it makes recommendations regarding the appointment and renewal of the statutory auditors and the quality of their work.

Further to the objectives set in APRR's internal audit charter, the Committee is informed of:

- the work and programme of the internal audit department;
- the annual internal audit plan, to ensure it covers key risks areas; and
- due consideration given to recommendations made by the internal and external auditors.

More generally, the Committee issues opinions on any accounting, financial or tax issues brought to its attention or that it felt it needed to consider.

Concerning risk management and internal control, and in relation to the objectives set by the group risk management charter and policy, the Audit and Risks Committee has been assigned the following responsibilities:

- assess the global effectiveness of the risk management and internal control system, including key corporate governance policies; and
- review the findings of risk mapping, including the mapping of major risks to which the Group is exposed, so as to take the full measure of the most important risks and the manner in which these risks are managed.

## **2.2 Selection and Compensation Committee**

The Selection and Compensation Committee is charged with reviewing applicants for key management positions within the Company and the Group and with issuing proposals and opinions in this regard. It establishes the procedures for selecting independent directors to be appointed in the future and submits proposals regarding the fixed and variable compensation of key management personnel and their terms and conditions of employment.

The Selection and Compensation Committee consists of four members chosen by the Board of Directors. Committee members are Board Directors. The Committee's Chairman is appointed by the Board of Directors. The Committee is convened by its Chairman as and when needed.

## **2.3 Compensation and board fees paid to Directors and Officers**

### **2.3.1 Principles and rules for the compensation of the Directors and Officers defined by the Board of Directors (paragraph 7 of Article L. 225-37 of the French Commercial Code)**

On 17 December 2008 the Company adopted unanimously and unequivocally the AFEP-MEDEF recommendations on the compensation of executive corporate officers of listed companies published on 6 October 2008. The recommendations can be consulted on the website of the French Confederation of Business Enterprises at [www.medef.fr](http://www.medef.fr)

### **2.3.2 Compensation paid in respect of the year ended**

The Shareholders' General Meeting has not voted a resolution setting the total amount to be paid by way of board fees to the Company's Directors.

The only Executive Directors of APRR are its Chief Executive Officer and Deputy Chief Executive Officer.

The Company's Chief Executive Officer did not receive any compensation from the Company.

The Company's Deputy Chief Executive Officer, Mr Philippe Nourry, was paid a total compensation of €430,350 for the year ended 31 December 2009, consisting of a fixed remuneration amounting to €253,000 and of a variable remuneration amounting to €177,350. This represents a decrease of 5% compared with 2008, in respect of which Mr received a fixed remuneration amounting to €253,000 and of a variable remuneration amounting to €200,000.

No options to subscribe to or purchase the Company's shares have ever been awarded by the Company.

The above information meets disclosure requirements for the standardised presentation of compensation paid to executive corporate officers contained the AFEP-MEDEF recommendations published on 6 October 2008.

## **2.4 Contract Award Commission**

The Company has set up a Contract Award Commission charged with defining internal regulations for negotiating and performing contracts, as well as with issuing opinions binding on the Company regarding public works, supply and service agreements exceeding specified thresholds.

The Contract Award Commission operates according to the specifications appended to the service concession agreement. It does not per se constitute an ad-hoc committee reporting directly to the Board of Directors.

The Contract Award Commission met five times in 2009.

## **2.5 Functioning of the Board of Directors of AREA**

AREA, which is 99.82% owned by the Company and constitutes its main subsidiary, also has its own internal regulations governing the functioning of its Board of Directors. These regulations are based on the general principles underlying the internal regulations adopted for APRR's own Board of Directors. Corporate governance principles are identical. A majority of AREA's board members also sits on the Board of Directors of APRR.

## **2.6 Shareholder attendance at General Meetings**

Pursuant to Article 19 of the Company's Memorandum and Articles of Association, any shareholder may as of right attend General Meetings and participate in the deliberations, in person or by proxy, whatever the number of shares held, on production of valid proof of identity. However, attendance at General Meetings is subject to the shares having been recorded in the name of the shareholder or of an intermediary on the shareholder's behalf in accordance with regulatory requirements at least three working days before the General Meeting, no later than midnight Paris time, either in registered form in the company's register or in bearer form in the register kept by the authorised intermediary. The shares' recording in bearer form in the register kept by the authorised intermediary is evidenced by a certificate of ownership issued by this intermediary.

## **2.7 Information governed by Article L. 225-100-3 of the French Commercial Code**

Information governed by Article L. 225-100-3 of the French Commercial Code is disclosed and explained in the Directors' Report submitted to the General Meeting if such information is likely to be of significance were a public bid to be made.

The full text of this report can be found in the Annual Report that is available from the Company's website at [www.aprr.com](http://www.aprr.com). This report is posted to the website after the board meeting held to approve its content.

II

## **INTERNAL CONTROL PROCEDURES**

APRR Group has inspired itself from the Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This states that internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

This definition is based on a number of key concepts, which are that:

- Internal control is effected by people. It is not merely policy manuals and forms, but people at every level of an organisation.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board.

Internal control consists of five interrelated components integrated into the management process: control environment, risk assessment, control activities, information and communication, and monitoring.

### **1 Powers of the Chief Executive Officer**

The Chief Executive Officer is vested with powers by law. He is responsible for managing the Company and for representing the Company in its dealings with third parties. He is vested with the broadest powers to act on behalf of the Company in all circumstances, provided that these acts are consistent with the object clause and not expressly of the competence of the Shareholders' General Meeting or Board of Directors.

The Board of Directors controls the powers of the Chief Executive Officer in the case of major decisions relating to the Company and/or its subsidiaries when the amounts in question exceed €15 million.

The powers of the Deputy Chief Executive Officer are controlled in the same way as those of the Chief Executive Officer. It will be recalled that the Deputy Chief Executive Officer assists the Chief Executive Officer implement the policies defined for the APRR Group.

### **2 Financial management and information**

The financial management of APRR and AREA have been placed under the authority of a single Chief Financial Officer.

The presentation of the company financial statements is identical and they are prepared applying the same accounting policies and methods at both companies.

The Group's consolidated financial statements are included in the consolidated financial statements of Eiffage Group. It is the same statutory auditors who report on the two sets of consolidated financial statements.

#### **2.1 Organisation of accounting function and payment systems**

Responsibilities for maintaining the accounting records and for payment instructions

are allocated as follows:

- o Group Finance Department

The Group Finance Department defines the accounting methods and practices applied by the different group entities. It controls these and ensures that they are applied consistently.

The Department produces the consolidated statements. In terms of scope, these statements cover APRR, AREA (a 99.82% owned subsidiary of APRR), Adelac (a 49.9% owned subsidiary of AREA) and Axxès (in which APRR has a 22.8% participating interest and AREA a 5.3% interest). Adelac and Axxès are accounted for using the equity method.

The Department records operating expenses and capital expenditure by head office departments as well as loans. It is responsible for initiating the corresponding payments.

It is responsible for recording toll receipts settled on a subscription basis or using credit and other charge cards, as well as rental income from leasing commercial premises and telecommunication installations.

It consolidates and controls the accounting records of the Regional Departments and submits direct debit instructions to the bank. Finally, it produces the tax returns and accounting statements.

- o APRR Regional Departments

The operations of APRR are coordinated by APRR's Operations Department, to which three Regional Units report. The operations of AREA are coordinated by AREA's Operations Department.

The accounting departments of the Regional Departments record operating expenses, capital expenditure, toll receipts (apart from amounts settled by subscribers or using credit or other charge cards) and miscellaneous revenue. Payment instructions are authorised in compliance with the delegation of power in application.

- o AREA Finance Department

AREA's Accounting Department is responsible for all accounting entries relating to the company's operations.

It records the operating expenses and capital expenditure by the different departments as well as entries relating to the loans and to the commercial premises. All parameters relating to the operating expenses and construction expenditure are determined by AREA's Accounting Department.

## **2.2 Production and control of accounting statements**

In accordance with regulations, the Group prepares consolidated financial statements applying International Financial Reporting standards (IFRS). The company financial statements of APRR and its subsidiaries are prepared in accordance with generally accepted accounting principles in France.

These financial statements are audited by independent auditors in accordance with applicable professional standards. The consolidated financial statements are

available on the Company's website.

The Company has complied with the requirements of the so-called Transparency Directive since 2007 without having to avail itself of the transitional measures.

### **2.3 Organisation and control of capital expenditure and cash flow management operations**

#### **a) Capital expenditure monitoring**

The Group's capital expenditure programme is drawn up on a pluri-annual basis. Monthly budgets for the current year and annual budgets for subsequent years are updated on a quarterly basis from the information provided by the operational departments concerned.

The Group's capital expenditure commitments arise from the concession agreements entered into by APRR and AREA and are specified and supplemented in the contract-based plans signed for the periods 2004 to 2008 and 2009 to 2013.

#### **b) Forward looking statements**

The Company seeks to assess business prospects over the remaining term of the concession based on macroeconomic parameters and communicates these estimates to the State pursuant to its obligations under the concession agreement.

#### **c) Cash and debt management**

Cash flow management gives rise to monthly reporting indicating estimated and actual cash flows at the level of the different companies (i.e. APRR and AREA) and at group level. More specific reporting is produced for the quarterly updates and on the balance sheet dates. Financing requirements are monitored using the information received each month on operating expenses and capital expenditure.

Cash flow management is now performed for both AREA and APRR by the Group Treasury Department applying common procedures.

Debt management involves arranging the financing needed by the Group and includes monitoring obligations and covenants for the various loan agreements and market financing as well as interest rate risk management, including making recommendations to limit exposure to this risk.

### **2.4 Budgetary control and reporting**

The Group produces monthly management reports, which contain operational and financial indicators measuring traffic, revenue, productivity, quality, safety, operating expenses, investment expenditure, cash position, employee numbers and EBITDA for the month and year-to-date, comparing actual performances with the budget and with the prior year. This report is produced on the 15<sup>th</sup> of each month.

As regards the preparation of the budget, each department draws up initial proposals regarding employee numbers and operating expenses in September or October of each year. These proposals are consolidated. Meetings are held with the Finance Department and Human Resources Department to fine tune these proposals, which are then validated by senior management.

Once validated, the budgets are notified to the departments and integrated into the human resources and management systems. The budgets are broken down in monthly budgets.

During the year, budget estimates are reviewed on a quarterly basis in April, July and October. The results of this process are communicated internally along with a revised income statement.

Capital expenditure is the object of pluri-annual budgets, which are revised on a quarterly basis.

These budgets are discussed at meetings attended by the Group's Executives, the Finance Department and the Operational Departments concerned

In 2009, a Group Commitment Committee was set up. All projects exceeding a specified ceiling (in 2009, €100 thousand, except for infrastructure work for which the ceiling was €1 million). Each project (or operation) must be approved by this Committee, on which the Deputy Chief Executive Officer, the Chief Financial Officer, the Major Investments and Construction Director, the Purchasing and Quality Assurance Director, the Engineering and IT Systems Director and the two Operations Directors sit.

The Group's Deputy Chief Executive Officer and Chief Financial Officer ensure decisions taken are consistent with the contract-based plan and with the operational and financial objectives being pursued when the budget is being prepared and on the occasion of the quarterly updates in accordance with the procedure described above, implemented in consultation with the Company's operating and functional departments. It is these departments that are ultimately responsible to senior management for achieving the objectives.

### **3 Management information systems**

The Group's Engineering and IT Department, which was set up mid-2008, concentrated its effort on the standardisation of the information systems of APRR and AREA.

The new sales information system (SITEL project) was started up at APRR on 19 October 2009. It will be rolled out at AREA in 2011 after new functions have been added to the system in 2010.

As regards the projects for managing working time and on duty shifts (ATOS) and managing staff employed on a temporary basis (PIXID), development work is ongoing, with both applications scheduled for rollout in 2010.

The overhaul of the Group's human resource infocentre (ORISON project) has been launched. Work drafting the terms of reference for the future investment and purchasing information systems has been completed.

Two on the Group's Internet sites - [autorouteinfo.fr](http://autorouteinfo.fr) and [aprr.fr](http://aprr.fr) – were overhauled to feature the latest technological advances and enhance further their appeal.

The Group constantly strives to modernise its information technology and telecommunication infrastructures to meet both present and future needs. Important projects have been undertaken to enhance the performance and security of the installations while reducing running costs.

Virtual server technology has been rolled out on a large scale within the Group's

information system, along with new networked data storage systems.

The overhaul of APRR's broadband multimedia federative network was launched. Work is scheduled for completion in 2010. The new network will be rolled out at AREA in 2011. The standardisation of the telecommunication security systems of APRR and AREA has been launched and is expected to be completed in 2010, when the Group will have a unified system. Finally, AREA has completed the rollout of the radio system used for its operations (PMR TETRA), which is identical to the one in service at APRR.

#### 4 Procedures manual

The business activities carried on by APRR are organised around a set of procedures that underlie the various processes in place at the Company.

These procedures are available to the personnel on the APRR Intranet, based on the unit to which the personnel are attached and level of responsibility.

#### 5 Procurement monitoring

In accordance with the riders to the APRR and AREA concession agreements approved by Decree 2007-815 of 11 May 2007, public works contracts with a value of more than €2 million (excluding taxes) and supply and service contracts with a value of more than €240,000 (excluding taxes) entered into by the Group in connection with the concession remain within the scope of Decree 2005-1742 of 30 December 2005, which sets out the rules applicable to contracts concluded by the adjudicating authorities listed in Article 3 of Order No. 2005-649 of 6 June 2005 regarding contracts concluded by certain public or private entities that are not subject to the French Public Procurement Code (*Code des Marchés Publics*).

Accordingly, these contracts must give rise to an information notice at European level and a tender invitation must be staged before awarding these contracts.

APRR and AREA each have a Contract Award Commission that operates in accordance with the provisions of Article 6 of the specifications appended to their respective concession agreements, which are identical.

These Commissions are responsible for defining the internal rules for awarding and performing contracts and issuing opinions on the award of contracts for work, supplies and services that comply with the aforementioned thresholds.

In 2009, these two Commissions reviewed a total of 19 contracts that breakdown as follows:

Number of contracts	APRR	AREA
Service contracts	4	1
Supply contracts	5	-
Public works contracts	6	3

Note that in certain instances, a procedure may cover several contracts. These contracts were concluded after completing the following procedures:

Number of contracts	APRR	AREA
Open procedures	3	2
Restricted procedures	11	2
Competitive dialogue	1	-

The Commissions issued favourable opinions on the award of the contracts.

Each year a report on the activities of the Contract Award Commissions covering the previous year is drawn up and submitted to the National Contracts Commission (*Commission Nationale des Marchés*).

## **6 Organisation of internal audit or risk management in the Group**

Internal audit and risk management are two distinct but nonetheless complementary functions placed under the responsibility of the Group Audit and Risk Management Department. This Department reports directly to senior management.

The Department is responsible for implementing all measures necessary to apply the recommendations issued by the French institute of internal auditors and thereby comply with international auditing standards. In 2007, the services rendered by the Department were assessed and certified by the French Institute of Internal Auditors (*Institut Français de l'Audit et du Contrôle Internes*). This certification was renewed in 2008 and 2009.

Every quarter, the Group Audit and Risk Management Department reports back to the Audit and Risk Committee, when it informs the Committee of the findings of its work. The Group Audit and Risk Management Department presented its 2009 annual report and 2010 audit plan to the Audit Committee in January 2010.

## **7 Group internal audit**

Internal audit is an independent and objective function that provides the Group with assurances regarding the controls exercised over its operations. It also makes proposals for improving these operations and enhancing the effectiveness and efficiency of its processes.

In 2008, the Group's internal auditors carried out 13 general or specific assignments at APRR and AREA covering operational and functional aspects as well as the day-to-day operations and the information system. The internal audit team also has recourse to temporary external resources to complete its assignments.

## **8 Self-assessment of internal control**

In 2009, the Group Internal Audit and Risk Management Department conducted a second self-assessment of internal control at 40 decentralised operating units of the Group: APRR districts and AREAS's toll plazas, maintenance centre and traffic centre.

For 2009 self-assessment, 117 questions were put to the APRR districts, 81 to the AREA toll plazas, 84 to the AREA maintenance centres and 62 to the AREA traffic centre. The level of internal control was assessed at each entity, first for each question and then for each process.

The questionnaires for extending the annual self-assessment of internal control to the 49 main internal control participants at the APRR and AREA Operations Departments (excluding decentralised units) were drawn up in 2009. However, this extension of the internal control self-assessment system to all entities of the two Operations Departments was deferred until 2010.

## **9. Risk management**

Risk management is aimed at identifying, assessing, processing and monitoring the risks to which the Group is exposed. These risks are of diverse nature: operational, financial, strategic, human, regulatory and reputational.

Risk management is based on a structured, documented process for updating risk mapping and for processing, monitoring and controlling risks. This process has been formalised in a document entitled “APRR Group Risk Management Policy and Charter”.

The process for identifying risks and their hierarchy implemented by the Group consists of 4 stages:

- Risk mapping: identifying and setting priorities for all risks arising from the Group’s business activities and its external environment.
- Updating of risk mapping: periodic updating of mapping process and hierarchy for risks arising from the Group’s business activities and its external environment.
- Risk processing: management supervision of actions taken to mitigate those risks considered as a priority, i.e. major risks.
- Risk monitoring and control: periodic monitoring of action plans.

The Group’s 33 risk exposures have been classified into 7 categories:

- Construction
- Operations
- Toll receipts
- Legal and reputational
- Human resources
- Administrative and financial
- Corporate strategy

The organisation tasked with risk management is based on a centralisation of risk management supported by a network of risk managers.

2009 marked the third full year in which the risk management system in its present form was applied.

## **10 Forward planning**

In terms of audit, internal control and risk management, the objectives in 2010 will be:

- the completion of the 2010 internal audit plan;
- the completion of the annual internal control self-assessment procedure for all of centralised and decentralised units coming under the Group’s two Operations Departments; and
- the continuing application of the risk management process.

.....2010

Jean-François Roverato  
Chairman of the Board of Directors