

## **Report of the Chairman of the Board of Directors on Corporate Governance and Internal Control**

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In accordance with paragraph 6 of Article L.225-37 of the French Commercial Code (*Code de commerce*), Frédéric Vincent, Chairman and CEO of Nexans – a holding company and parent of the Group – hereby presents the following report, which is appended to the Management Report for 2009 and divided into two parts:

- Part I, covering corporate governance matters (Corporate Governance Code, Board of Directors, Executive Management, Shareholders' Meetings, and compensation and benefits payable to executive corporate officers).
- Part II, dedicated to the internal control and risk management procedures set up by the Company.

This report, which was reviewed and approved by the Board of Directors on February 9, 2010, concerns the parent company and all Group companies included in the scope of consolidation.

In compliance with paragraph 9 of Article L.225-37 of the French Commercial Code, it is specified that the disclosures required by Article L.225-100-3 of said Code are included in the Management Report presented by the Board of Directors.

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## I. Corporate governance

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This part of the report was drawn up in conjunction with members of the Legal, Human Resources, and Group Finance Departments.

The reference framework applied by Nexans when preparing this report is based on the Corporate Governance Code applicable to listed companies published in December 2008 by the *Association Française des Entreprises Privées* (AFEP) and the *Mouvement des Entreprises de France* (MEDEF) (the "**AFEP-MEDEF Corporate Governance Code**"). However, Nexans has elected to make a differential application of some of the recommendations set out in the AFEP-MEDEF Corporate Governance Code, as described in section 2.4 below.

### 1. Composition of the Board of Directors

At December 31, 2009 the Board of Directors comprised 12 members from diverse backgrounds. Members are selected for their expertise and experience in industry, banking, or consultancy, enabling them to give informed opinions and advice in the best interests of the Company.

Directors elected since January 1, 2004 hold office for a four-year term, which may be renewed.

#### 1.1 Members of the Board of Directors

Gérard Hauser's term of office as Chairman and CEO expired during 2009. In accordance with the announced reorganization of Nexans Management, the Board of Directors appointed Frédéric Vincent as Chairman and CEO on April 3, 2009, with effect from the close of the Annual Shareholders' Meeting held on May 26, 2009 to approve the 2008 financial statements. Frédéric Vincent's term as Chairman and CEO runs for the remainder of his term as director, expiring at the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2011.

At December 31, 2009 the members of the Board of Directors were as follows<sup>1</sup>:

#### **Frédéric Vincent Chairman and CEO**

55 years old

8 rue du Général Foy, 75008 Paris

Number of shares held 4,836  
(including 1,000 held by his wife)

Number of corporate mutual fund units  
invested in Nexans shares 3,560  
(value of one unit = value of one share)

First appointed as a director April 10, 2008

Appointment as Chairman and CEO April 3, 2009 (with effect from May 26, 2009)

Expiration of current term 2012 Annual Shareholders' Meeting

Expertise/Experience In 1986, Frédéric Vincent joined Alcatel after working for a major auditing firm from 1978 to 1985. He moved to Alcatel's Cables and Components sector in 1989 and in 1994 was appointed Deputy Managing Director (Administration and Finance) for Alcatel's

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<sup>1</sup> Following the death of Jean-Louis Gerondeau in November 2009, who had been a director of the Company since May 10, 2007 and whose term of office was due to expire at the Annual Shareholders' Meeting to be held in 2011 to approve the financial statements for the year ending December 31, 2010.

submarine telecommunications activities, and in 1997, for Saft, Alcatel's batteries activity. He became Nexans' Chief Financial Officer and a member of the Executive Committee in 2000, was appointed Chief Operating Officer in 2006 and was elected as a director on April 10, 2008. He has been Chairman and CEO of Nexans since May 26, 2009.

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**Gianpaolo Caccini**  
**Director**

71 years old

President of Assovetro, the Italian Association of Glass Manufacturers  
Via Caradosso n°17, 20123 Milan, Italy

Number of shares held

487

First appointed as a director

June 15, 2001

Expiration of current term

2011 Annual Shareholders' Meeting

Expertise/Experience

From 1973 to 1980, Gianpaolo Caccini worked at the Saint-Gobain Group as Vice President, Sales, then managed several divisions, units and subsidiaries including Vetrotex Italie Spa and Saint-Gobain Desjonquères SA France. From 1996 to 2000, he was Vice President, North America and subsequently the Group's Deputy CEO, before serving as CEO from 2000 to 2004. He has been the President of Assovetro (the Italian Association of Glass Manufacturers) since 2004.

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**Jean-Marie Chevalier**  
**Director**

68 years old

Professor of Economics at the University of Paris IX Dauphine  
Place du Maréchal de Lattre de Tassigny, 75116 Paris, France

Number of shares held

420

First appointed as a director

October 23, 2003

Expiration of current term

2011 Annual Shareholders' Meeting

Expertise/Experience

Jean-Marie Chevalier held the position of Professor of Economics at the Universities of Grenoble and Paris XIII Nord before taking up the same post at the University of Paris IX-Dauphine which he has held since 1991. He also taught at IEP Paris between 1982 and 1990 and at ENA from 1988 to 1990. He has been a consultant for various companies, banks, government agencies and international organizations and since 1984 has acted as consultant for the Energy Department at the World Bank. He has also been a Senior Associate at Cambridge Energy Research Associates (CERA) since 1997.

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**Georges Chodron de Courcel**  
**Director**

59 years old

Chief Operating Officer of BNP Paribas and member of the Executive Committee  
3 rue d'Antin, 75002 Paris, France

Number of shares held

299

First appointed as a director

June 15, 2001

Expiration of current term

2011 Annual Shareholders' Meeting

Expertise/Experience  
Georges Chodron de Courcel joined BNP in 1972. After holding several management positions, he became Deputy CEO in 1993, then Managing Director in 1996. From 1999 to 2003 he was a member of the Executive Committee and Head of the Finance and Investment Bank of BNP Paribas and has held the post of Chief Operating Officer of the Group since 2003.

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**Jérôme Gallot**  
**Director**

50 years old

Chairman of CDC Entreprises  
137 rue de l'Université, 75007 Paris, France

Number of shares held 920 (jointly with his wife)

First appointed as a director May 10, 2007

Expiration of current term 2011 Annual Shareholders' Meeting

Expertise/Experience  
After serving as an Auditor at the *Cour des Comptes* for three years, between 1989 and 1992, Jérôme Gallot worked for the General Secretariat of the French Inter-Ministerial Committee on European Economic Cooperation, after which he joined the French Budget Directorate. He was successively Chief of Staff at the Ministries of Industry, Post, and Telecommunications, International Trade, and Public Services, before becoming Chief of Staff for the Deputy Finance Minister (1993 to 1997). Between 1997 and 2003 he served as Director General of the Department of Competition, Consumer Affairs, and Anti-Fraud Division within the French Ministry of the Economy, Finance, and Industry and was subsequently named Senior Executive Vice President and member of the Executive Committee of Caisse des Dépôts and Consignations. In 2006, he was appointed Chairman of CDC Entreprises.

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**Jacques Garaïalde**  
**Director**

53 years old

Managing Director of Kohlberg Kravis Roberts & Co. Ltd.  
Stirling Square, 7 Carlton Gardens, London SW1Y 5AD, United Kingdom

Number of shares held 500

First appointed as a director June 15, 2001

Expiration of current term 2011 Annual Shareholders' Meeting

Expertise/Experience  
After a period with Exxon Corporation, Jacques Garaïalde joined the Boston Consulting Group in 1982, where he worked successively as Consultant, Vice President, Senior Vice President, and Vice President Operations, Belgium and France (1995 to 2000). He served as Managing Director Europe for the Carlyle Group in London from 2000 to 2003 before joining the Kohlberg Kravis Roberts & Co group as Managing Director.

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**Gérard Hauser**  
**Director**

68 years old

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	16 avenue Georges Mandel, 75016 Paris, France
Number of shares held	38,268
First appointed as a director	October 17, 2000
Expiration of current term	2010 Annual Shareholders' Meeting
Expertise/Experience	From 1965 to 1975, Gérard Hauser held various managerial positions within the Philips Group. Between 1975 and 1996, he served as Chairman and CEO of Pechiney World Trade, and then Pechiney Rhénalu, following which he was appointed Senior Executive Vice President of American National Can and a member of the Group Executive Committee. He joined Alcatel Câble France in 1996 and became Chairman of Alcatel's Cables and Components sector in 1997. He was then appointed Chairman and CEO of Nexans in 2000 – a position he held until May 2009.

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**Colette Lewiner  
Director**

	64 years old
	Vice President, Global Leader Energy, Utilities & Chemicals of Cap Gemini Coeur Défense, Tour A, 110 Esplanade du Général de Gaulle, 92931 Paris-La Défense Cedex, France
Number of shares held	1,600
First appointed as a director	June 3, 2004
Expiration of current term	2012 Annual Shareholders' Meeting
Expertise/Experience	Following several years of physics research and university lecturing ( <i>Maître de conférences</i> at the University of Paris VII), Colette Lewiner joined Electricité de France in 1979 where she set up the Development and Commercial Strategy Department in 1989. She was appointed Chair and Chief Executive Officer of SGN-Réseau Eurysis in 1992, before joining Cap Gemini in 1998 to set up the International Utilities Department. After Cap Gemini's merger with Ernst & Young, she was made Head of the extended Energy, Utilities & Chemicals Department. In 2004, she set up the Global Marketing Department of Cap Gemini which she managed until 2007.

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**Guillermo Luksic  
Director**

	53 years old
	Chairman of the Board of Directors of Quiñenco Enrique Foster Sur 20, piso 14, Las Condes, Santiago, Chile
Number of shares held	500
First appointed as a director	April 10, 2008 (with effect from September 30, 2008)
Expiration of current term	2012 Annual Shareholders' Meeting
Expertise/Experience	Guillermo Luksic began his career in 1975 with the Quiñenco group where he was appointed Chairman of the Board in 1982. He is currently Chairman of the Boards of Directors of the Chilean companies Madeco, CCU, CNT Telefónica del Sur and Viña San Pedro Tarapacá and is a director of Embotelladoras Chilenas Unidas and Compañía Pisquera de Chile. He has been a member of the

Board of Directors of Banco de Chile since 2001, and in 2005 was appointed a director of Antofagasta plc, a London-based Chilean mining company with investments in Chile through its subsidiary Antofagasta Mineral S.A. He is also an advisor to and member of the management bodies of various non-profit organizations, including the Ena Craig foundation and the Centro de Estudios Públicos. He is also a trustee of the University of Finis Terrae in Chile.

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**François Polge de Combret  
Director**

68 years old

Senior Advisor of Calyon<sup>2</sup>  
65 rue de Courcelles, 75008 Paris, France

Number of shares held

500

First appointed as a director

May 15, 2006

Expiration of current term

2010 Annual Shareholders' Meeting

Expertise/Experience

François Polge de Combret was successively Honorary Advisor to the *Cour des Comptes*, and Advisor for economic and industrial affairs under Valéry Giscard d'Estaing (1971-1978), first at the French Ministry of Finance and the Economy, then to the President of the Republic. He subsequently served as the President's Deputy General Secretary between 1978 and 1981. He joined Banque Lazard in 1982, spending three years based in New York before being appointed a managing partner of the bank in Paris in 1985. In 2006 he left Banque Lazard to become a Senior Advisor at UBS and on January 5, 2010 was named Senior Advisor of Calyon.

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**Ervin Rosenberg  
Director**

74 years old

Advisor to the Chairman of the Management Board  
Compagnie Financière Edmond de Rothschild Banque  
47 rue du Faubourg Saint-Honoré, 75008 Paris, France

Number of shares held

500

First appointed as a director

June 15, 2001

Expiration of current term

2011 Annual Shareholders' Meeting

Expertise/Experience

Ervin Rosenberg began his career at BNP in 1965 where he joined the Industrial Business Division in 1984 and the Large Corporations Division in 1985. He was appointed Director of the Large Corporations Division in 1993. He subsequently became a member of BNP's Executive Management Committee and then Corporate Director in 1994, before being appointed Honorary Deputy Managing Director in 2000. Also in 2000 he was named Advisor to the Chairman of the Management Board of Compagnie Financière Edmond de Rothschild Banque, where he sat on the Supervisory Board until 2006 when he became a non-voting director.

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**Nicolas de Tavernost**

59 years old

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<sup>2</sup> Since January 2010 (previously at UBS Investment Bank).

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**Director**

	Chairman of the Management Board of the M6 Group 89 avenue Charles de Gaulle, 92575 Neuilly Cedex, France
Number of shares held	501
First appointed as a director	May 10, 2007
Expiration of current term	2011 Annual Shareholders' Meeting
Expertise/Experience	Nicolas de Tavernost began his career in 1974 as a Policy Officer for the French Ministry of International Trade ( <i>Commerce Extérieur</i> ) before becoming General Secretary at the French Chamber of Commerce and Industry in Zurich in 1976. He was then appointed as a Policy Officer for the Secretary of State for Post and Telecommunications and in 1981 was named head of mass market services for the videocommunications division within the French Government's Telecommunications Department. He joined Lyonnaise des Eaux in 1986 as Director of AudioVisual Operations. He has been Managing Director of M6 since it was formed in 1987, and was appointed Chairman of the Managing Board of the M6 Group in 2000.

Madeco, which owns approximately 9% of the Company's capital, is represented by Guillermo Luksic who has been a member of Nexans' Board of Directors since September 30, 2008.

Fonds Stratégique d'Investissement, which owns approximately 5% of the Company's capital, is represented by Jérôme Gallot who has been a member of Nexans' Board of Directors since May 10, 2007.

No directors are elected by employees.

*(See section 7.1 of the 2009 Management Report for the list of corporate offices and positions held by the corporate officers during 2009 as well as the list of the corporate offices ended during the last five years).*

## **1.2 Independence**

Each year, the independence of Nexans' directors is discussed by the Appointments and Compensation Committee and reviewed by the Board prior to publication of the Annual Report.

Following a review carried out by the Appointments and Compensation Committee, in early 2010 the Board examined the individual status of each of its members in relation to the independence criteria defined in the Board's Internal Regulations, which are based on the criteria set out in the AFEP-MEDEF Corporate Governance Code.

The Board subsequently deemed Gianpaolo Caccini, Jean-Marie Chevalier, Jérôme Gallot, Jacques Garaïalde, Colette Lewiner, Nicolas de Tavernost and Guillermo Luksic to be independent directors. Guillermo Luksic is considered independent as Madeco – of which he is Chairman – holds less than 10% of Nexans' capital and voting rights and does not exercise control over the Company, notably in light of the rules on the restriction of voting rights provided for in the Company's bylaws. Jérôme Gallot – who is a member of the Executive Committee of Fonds Stratégique d'Investissement (FSI), which owns more than 5% of Nexans' capital – is also deemed to be independent as FSI does not exercise any control over the Company.

The directors deemed by the Board as not being independent are as follows: Frédéric Vincent, in view of his position as Chairman and CEO of the Company; Gérard Hauser, in view of his previous position as Nexans' Chairman and CEO between 2001 and May 2009; and Georges Chodron de Courcel, François Polge de Combret and Ervin Rosenberg due to their positions within banks with which the Group has business relations, i.e. BNP Paribas, UBS (and subsequently Calyon), and La Compagnie Financière Edmond de Rothschild Banque respectively.

At December 31, 2009 seven of Nexans' twelve directors were therefore considered to be independent, representing more than half of the Board's total members.

### **1.3 Directors' rights, access to information and code of conduct**

The Board of Directors' Internal Regulations set out the principles adopted by the Company concerning the rights of Nexans' directors as well as their access to information and a code of conduct.

Directors are required to hold the minimum number of shares provided for in the Company's bylaws. The Internal Regulations also state that it is preferable for each director to hold at least 500 Nexans shares.

Corporate officers are not subject to any restrictions concerning the sale or transfer of their shares, with the exception of rules applicable to insider trading and the lock-up period applicable to shares held by executive corporate officers on exercise of stock options. A table detailing transactions in Nexans shares carried out by corporate officers during 2009 is provided in section 7.2 of the 2009 Management Report.

### **1.4 Additional information**

To the best of the Company's knowledge, there are no family relationships between Nexans' corporate officers, or any service contracts between any of the Board members and the Company or any of its subsidiaries.

Also to the best of the Company's knowledge, during the past five years none of its corporate officers:

- have been convicted of fraud;
- have been involved in any bankruptcies, receiverships or liquidations;
- have been the subject of any official public incrimination and/or sanctions by any statutory or regulatory authority;
- have been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from participating in the management or conduct of the affairs of an issuer.

As mentioned above, certain Board members or executive corporate officers serve as corporate officers and/or senior managers for companies that may enter into contractual agreements with Nexans for commercial transactions (e.g. customers) and/or financial transactions (e.g. investment banks and/or guarantors). As any such contracts are negotiated and signed under arm's length conditions, the Company is not aware of any possible conflicts of interest between the corporate officers' duties towards Nexans and their private interests and/or any of their other obligations.

Under the acquisition agreement signed with the Madeco group in February 2008, Nexans undertook to recommend at the Annual Shareholders' Meeting that a director nominated by Madeco be appointed as a director and that Madeco should maintain a representative on the

Board for as long as it retains 50% of its initial stake in Nexans. Apart from this undertaking and any related party agreements approved in advance by the Board, no agreements or arrangements have been entered into with the Company's main shareholders, customers, suppliers or other parties concerning the appointment of a Nexans corporate officer.

**2. Preparation and organization of the Board’s work**

The Board has adopted a set of operating procedures that enable it to effectively fulfill its duties.

**2.1 Internal Regulations**

In 2003 the Board adopted a set of Internal Regulations which is given to each new director. These regulations were amended by the Board on January 16, 2009 and updated at the Board meeting of February 9, 2010.

The purpose of the Internal Regulations is to supplement legal and regulatory rules and the Company’s bylaws by setting out (i) detailed operating procedures for the Board and its Committees and (ii) the duties of directors, particularly in light of the corporate governance principles contained in the AFEP-MEDEF Corporate Governance Code. This Code – which the Company uses as its reference framework – can be viewed in French via the website of the MEDEF ([www.medef.fr](http://www.medef.fr))

The Board's Internal Regulations – which can be viewed on Nexans' website particularly cover:

- the composition of the Board of Directors, including independence criteria;
- the Board’s roles and responsibilities, such as the prior approval of investment, restructuring, acquisition, merger and divestment projects involving material amounts;
- information provided to directors and directors’ code of conduct;
- the roles and responsibilities of the Board Committees.

The Internal Regulations also contain an appendix on the principles underlying Nexans’ executive compensation policy.

**2.2 Board meetings in 2009**

Board meetings are called in accordance with the applicable laws, the Company's bylaws and the Board's Internal Regulations.

The Board met eight times in 2009 with an average attendance rate of 88% (including for Jean-Louis Gerondeau who passed away in November 2009).

The number of meetings attended by each director in 2009 was as follows:

<b>Director<sup>3</sup></b>	<b>Number of meetings attended</b>
Frédéric Vincent <i>Chairman of the Board since the Shareholders’ Meeting of May 26, 2009</i>	8
Gianpaolo Caccini	8
Jean-Marie Chevalier	7

<sup>3</sup> Jean-Louis Gerondeau, who passed away in 2009, attended six of the eight Board meetings held during the year.

<b>Director<sup>3</sup></b>	<b>Number of meetings attended</b>
Georges Chodron de Courcel	8
Jérôme Gallot	8
Jacques Garaïalde	7
Gérard Hauser	8
Colette Lewiner	7
Guillermo Luksic	3
François Polge de Combret	8
Ervin Rosenberg	7
Nicolas de Tavernost	7

As stipulated in the Internal Regulations, prior to each meeting, Board members are sent details about any agenda items that require particular analysis and prior reflection.

The main topics discussed by the Board during its meetings in 2009 were as follows:

Monitoring the Group's key strategic areas	<ul style="list-style-type: none"> <li>- The 2009-2011 strategic plan (one meeting was dedicated to this subject)</li> <li>- Review of external growth opportunities and restructuring projects (five meetings)</li> </ul>
The Group's financial position, including cash flow and commitments	<ul style="list-style-type: none"> <li>- 2009 budget</li> <li>- Approval of the parent company and consolidated financial statements for the year ended December 31, 2008 and the six months ended June 30, 2009, after hearing the presentation of the Statutory Auditors and the report of the Chairman of the Accounts and Audit Committee</li> <li>- Seven presentations on business trends and the financial and/or net debt position of the Company and the Group; reports by the Chairman of the Accounts and Audit Committee on topics reviewed by the Committee</li> </ul>
Executive Management and compensation	<ul style="list-style-type: none"> <li>- Appointment of Frédéric Vincent as Chairman and CEO</li> <li>- Compensation and benefits payable to corporate officers, including termination benefits and performance-related objectives applicable to the Company's sole executive corporate officer</li> <li>- Quantitative objectives for 2009 used as a basis for determining the variable compensation payable to Group senior managers</li> </ul>
Corporate governance and internal control	<ul style="list-style-type: none"> <li>- Assessing the independence of directors</li> <li>- Amending the Board of Directors' Internal Regulations</li> <li>- Allocation of directors' fees</li> <li>- Internal Audit report and the Group risk map</li> </ul>
Market transactions	<ul style="list-style-type: none"> <li>- Issue of OCEANE bonds bearing 4% interest and redeemable in 2016</li> </ul>
Other	<ul style="list-style-type: none"> <li>- Notice of the Annual Shareholders' Meeting and approval of the reports required by law</li> </ul>

### **2.3 Appraisal of the Board of Directors**

In 2003 the Group set up an annual appraisal procedure concerning the Board's operating procedures in order to ensure that significant issues are properly prepared, dealt with and discussed at Board meetings. This appraisal is carried out each year by way of a detailed

questionnaire sent to each director. A summary of the individual assessments is drawn up by the Appointments and Compensation Committee and subsequently discussed by the Board.

In 2006, the specialized consulting firm Spencer Stuart carried out a formal appraisal procedure based on individual meetings with directors. In 2007 and 2008 the appraisal was once again carried out based on questionnaires sent to directors but a new version of the questionnaire was used incorporating improvements recommended by Spencer Stuart.

On January 16, 2009 the Board noted that its members were satisfied with the overall organization of the Board's work and the relevance of the topics addressed during meetings in 2008. The 2008 self-assessment led to the following two improvements: (i) implementing a procedure whereby the Chairman of the Accounts and Audit Committee gives the Board a summary presentation of all of the Committee's meetings, either when he reports on the Committee meeting dedicated to the accounts closing process, or following each Committee meeting; and (ii) encouraging directors to propose topics for discussion at Board meetings.

In late 2009, the specialized consulting firm Egon Zehnder carried out an appraisal of the Board of Directors. The firm's report on this appraisal, which is positive on the whole, was presented to the Board at its February 9, 2010 meeting.

## **2.4 Application of the AFEP-MEDEF Corporate Governance Code**

In accordance with paragraph 7 of Article L.225-37 of the French Commercial Code, it is specified that Nexans has elected not to apply the following three recommendations of the AFEP-MEDEF Corporate Governance Code:

1. Staggering the terms of office of directors (section 12 of the AFEP-MEDEF Corporate Governance Code)

Some of the terms of office of Nexans' directors are staggered. Nevertheless, seven of the current twelve terms are due to expire at the Annual Shareholders' Meeting to be called in 2011 to approve the financial statements for the year ending December 31, 2010.

2. Adoption of rules relating to the duties and operating procedures of the Accounts and Audit Committee (section 14.3 of the AFEP-MEDEF Corporate Governance Code)

The Accounts and Audit Committee has not adopted a specific set of rules relating to its duties and operating procedures but it is governed by the Board of Directors' Internal Regulations. The Company considers that this practice complies with good corporate governance rules and the underlying principles of the AFEP-MEDEF Corporate Governance Code.

3. Adoption of rules relating to the duties and operating procedures of the Appointments and Compensation Committee (section 16.2 of the AFEP-MEDEF Corporate Governance Code)

The Appointments and Compensation Committee has not adopted a specific set of rules relating to its operating procedures but it is governed by the Board of Directors' Internal Regulations. The Company considers that this practice complies with good corporate governance rules and the underlying principles of the AFEP-MEDEF Corporate Governance Code.

### 3. The Board Committees

The Accounts and Audit Committee and the Appointments and Compensation Committee were set up in July 2001. The rules relating to these Committees' membership structure, roles and responsibilities, and operating procedures are set out in the Board of Directors' Internal Regulations.

#### 3.1 The Accounts and Audit Committee

During 2009 the Accounts and Audit Committee comprised the following three members (except for the last Committee meeting<sup>4</sup>), all non-executive directors:

Georges Chodron de Courcel	Chairman	Not independent
Jérôme Gallot	Member	Independent
Jean-Louis Gerondeau	Member	Independent

Two of the Committee's members are particularly specialized in finance: Georges Chodron de Courcel, in his capacity as Chief Operating Officer of BNP Paribas, and Jérôme Gallot, in view of his career as an Auditor at the *Cour des Comptes* as well as the diverse financial positions he has held within the French Finance and Budget Ministry and his current duties as Chairman of CDC Entreprises, which forms part of the Caisse des Dépôts et Consignations group.

The Accounts and Audit Committee reports to the Board of Directors. Its overall role is to assist the Board on matters relating to preparing and controlling financial and accounting information.

In accordance with law and the Board of Directors' Internal Regulations, the main roles and responsibilities of the Accounts and Audit Committee are as follows:

- It examines the accounts and ensures the relevance and continuous application of the accounting methods used by the Company for its corporate and consolidated accounts.
- It monitors the process of preparing the financial information, the effectiveness of internal control and risk management systems and the independence of external auditors.

The Committee also:

- oversees the scope of consolidated companies, internal procedures for identifying off-balance sheet commitments and risks, the work conducted by the Internal Audit Department, and the selection of the Statutory Auditors;
- defines the rules for using the auditors' networks for non-audit related engagements; and
- may carry out specific studies, for which purpose it can contact the Company's senior level managers and report its findings to the Board.

In the course of its work, the Accounts and Audit Committee may request to meet with any member of the Finance Department and the Statutory Auditors, including without the presence of the Company's Executive Management. The Committee can also seek the advice of external specialists.

The Accounts and Audit Committee met six times in 2009, with an overall average attendance rate of more than 66.5%. The meetings were also attended by the Chief Financial Officer, the Head of Internal Audit and Nexans' Statutory Auditors.

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<sup>4</sup> Following the death of Jean-Louis Gerondeau in November 2009, on an exceptional basis only two members attended the last Committee meeting in December. On January 13, 2010 the Board appointed Jacques Garaïalde – an independent director – to replace Mr. Gerondeau.

The number of meetings attended by each member of the Accounts and Audit Committee in 2009 was as follows:

<b>Committee member</b>	<b>Number of meetings attended</b>
Georges Chodron de Courcel	6
Jérôme Gallot	6
Jean-Louis Gerondeau	3

In 2009, the Committee discussed the following main issues:

Financial information	<ul style="list-style-type: none"> <li>- Detailed presentation of the annual and interim financial statements by the Finance Department and review of provisions</li> <li>- Presentation by the Statutory Auditors on their work</li> <li>- Presentation by the Head of Consolidation on the work conducted on allocating Madeco and Intercond goodwill</li> <li>- Recognition in the financial statements of a receivables securitization project presented by the Head of Financing</li> </ul>
Internal control and risk management	<ul style="list-style-type: none"> <li>- Presentation by the Head of Internal Audit of the interim and annual status report on the 2008-2009 internal audit plan and follow-up on the measures undertaken</li> <li>- Monitoring risk identification processes and risk management systems. On this occasion the Head of Internal Audit and the Head of the Group Risk Management Department presented the method used for the Group's risk mapping process as well as a manual on Nexans' main internal controls published by the Internal Audit Department in 2009</li> </ul>
Other	<ul style="list-style-type: none"> <li>- Examining the renewal of the term of office of one of the Statutory Auditors</li> </ul>

### **3.2 The Appointments and Compensation Committee**

The Appointments and Compensation Committee comprises the following three members, who are all non-executive directors:

Jérôme Gallot	Chairman	Independent
Gianpaolo Caccini	Member	Independent
François Polge de Combret	Member	Not independent

The responsibilities of the Appointments and Compensation Committee are as follows:

- It proposes candidates to the Board of Directors for the appointment of new Board Members and corporate officers, for cooptation or proposal to the Shareholders at the Annual Shareholders' Meeting, together with a review and selection procedure prior to making contacts and succession plans for corporate officers.
- It examines the qualification of independent of each Board Member subject to the Board of Directors final decision.
- It formulates a proposal to submit for the Board's decision regarding the fixed and variable portions of compensation for executive directors based on the rules of determination that it defines, ensuring the consistency of these rules with the annual performance appraisal of the Company's senior-level managers and medium-term strategy and market practices.

- It defines the policy concerning stock option plans (the frequency, persons concerned and amount), which it proposes to the Board of Directors, and gives its opinion to the Board on plans proposed by the Management.

During 2009 the Appointments and Compensation Committee met four times with an attendance rate of 100% at all of the meetings.

The number of meetings attended by each member of the Appointments and Compensation Committee in 2009 was as follows:

<b>Committee member</b>	<b>Number of meetings attended</b>
Jérôme Gallot	4
Gianpaolo Caccini	4
François Polge de Combret	4

During the year the Committee particularly focused on the following matters:

Directors	- Assessing the independence of directors
Compensation and benefits	<ul style="list-style-type: none"> <li>- Determining the variable portion of Frédéric Vincent's and Gérard Hauser's compensation for 2008 and examining the calculation methods used (Group and individual performance objectives) for the variable portion of the compensation payable to the Chairman and CEO and the Chief Operating Officer for 2009</li> <li>- Determining compensation payable in 2009 to Frédéric Vincent in his capacity as Chief Operating Officer and Chairman and CEO (from June 2009)</li> <li>- In line with the AFEP-MEDEF recommendations adopted by Nexans in 2008, reviewing the termination benefits that would be payable to Frédéric Vincent as well as recommending to the Board the introduction of (i) an indemnity in the event that Frédéric Vincent's term of office as Chairman and CEO is terminated and (ii) a non-compete indemnity</li> <li>- Determining compensation payable to Gérard Hauser in 2009 in his capacity as Chairman and CEO</li> <li>- Payment procedures for the long-term incentive plan related to Stock Option Plan No. 8</li> </ul>
Other	<ul style="list-style-type: none"> <li>- Examining Nexans' stock option policy and strategy of associating employees with the Group's performance</li> <li>- Reviewing an employee stock ownership plan</li> </ul>

#### **4. Management structure**

In accordance with Article L.225-25-1 of the French Commercial Code, at its April 3, 2009 meeting the Board of Directors decided to appoint Frédéric Vincent as Chairman of the Board and Chief Executive Officer of Nexans SA. Frédéric Vincent replaced Gérard Hauser as Chairman and CEO at the close of the Annual Shareholders' Meeting held on May 26, 2009 to approve the 2008 financial statements.

The Company adopted this management approach of combining the functions of Chairman and CEO when it was first floated in 2001, as it is a structure suited to the Company's operating and

organizational procedures and its effectiveness has been demonstrated. The combination of functions enables Nexans to maintain a direct link between strategy and operations in a highly competitive and fast-changing environment, and to optimize the decision-making process. At the same time, thanks to (i) the Board's Internal Regulations (which have been updated in line with the AFEP-MEDEF Code) and (ii) the fact that the majority of Nexans' directors and Board Committee members are independent, the Company has put in place the necessary guarantees to ensure that its management structure complies with good corporate governance practices.

No restrictions have been placed on the powers of the Chairman and CEO by either the Board or the Company's bylaws. Consequently, the only applicable restrictions are those set down by law and those relating to transactions or decisions that require the prior approval of the Board as provided for in the Board's Internal Regulations (such as mergers, acquisitions or financing proposals representing a unit value of over 50 million euros).

## **5. Shareholders' Meetings**

Shareholders of Nexans are called to General Meetings and vote in accordance with the applicable legal provisions and the Company's bylaws.

Information on General Shareholders' Meetings and the procedures for exercising voting rights is provided in Articles 20 and 21 of Nexans' bylaws, which can be viewed on Nexans' website ([www.nexans.com](http://www.nexans.com), section Corporate Governance).

## **6. Compensation and benefits paid to corporate officers**

Nexans' corporate officers correspond to the twelve members of the Board of Directors at December 31, 2009. Frédéric Vincent, who holds the post of Chairman and CEO, was Nexans' sole executive corporate officer at that date.

The principles and rules approved by the Board of Directors for determining the compensation and benefits payable to the Company's corporate officers are described in section 7.3 of the 2009 Management Report (Compensation of corporate officers). The Board's Internal Regulations contain an appendix on Nexans' policy concerning the compensation of executive corporate officers based on the recommendations set out in the AFEP-MEDEF Corporate Governance Code.

Details on the compensation of executive corporate officers and the termination benefits that could be payable in the event of a loss of office, as decided by the Board in 2009, have been published on the Company's website, in accordance with the applicable legal requirements, the recommendations of the AFEP-MEDEF Corporate Governance Code and the Board of Directors' Internal Regulations.

## **II. Internal control procedures implemented at Nexans**

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This part of the report was drawn up in conjunction with members of the Internal Audit, Finance and Group Risk Management Departments.

### **1. Definitions, scope, objectives and limitations of internal control**

Within Nexans, internal control consists of implementing a set of rules and procedures throughout the Group with a view to obtaining reasonable assurance that its assets are safeguarded and its commitments are appropriate, and that its objectives comply both with the laws and regulations in force and the strategic guidelines and goals set by management.

Nexans takes a pragmatic approach to internal control, and has set up procedures in consideration of the specific aspects of the Group's businesses and operations and the risks identified. Internal control is designed by Nexans to be adapted to the management of its potential risks.

All internal control procedures applied within the Group, irrespective of whether they relate to financial information, are drawn up by the parent Company. They are then implemented in each country and within each entity, and reports are regularly sent to the relevant corporate department, which monitors and controls the procedures.

However, no system of internal control can provide absolute assurance that risks of errors and fraud have been completely eliminated or brought under control.

### **2. Internal control reference framework used by Nexans**

Following the January 2007 publication of the Reference Framework for Internal Control by the French financial markets authority (AMF), Nexans began working on a project to ensure progressive compliance of its procedures with the AMF's recommendations. In 2008, the Group's accounting and internal control manual was substantially revised and updated in order to factor in the recommendations contained in the AMF's Reference Framework. The new manual was put on-line on the Group's intranet in late 2008 and was therefore fully applicable in 2009.

In addition, in April 2009 the Internal Audit Department issued a manual setting out the main internal controls to be implemented within the Group's entities in order to ensure compliance with the AMF's Reference Framework.

### **3. General organization and description of the internal control procedures implemented**

Nexans implemented an internal control structure that provides for a clear definition of responsibilities, with adequate resources and skills and supported by appropriate procedures and systems.

### 3.1 Participants and structures in place: Group organization

In April 2009, Frédéric Vincent was appointed Chairman and CEO with effect from May 26, 2009, replacing Gérard Hauser who held the position until that date. The Company decided to continue with its strategic policy of combining the functions of Chairman of the Board of Directors and Chief Executive Officer in order to maintain a highly responsive decision-making process.

In June 2009, a **Management Committee** was set up, tasked with managing the Group and defining and directing its corporate strategy. More specifically, this Committee's roles and responsibilities include:

- Drawing up the Group's manufacturing strategy, market segment sales strategies and business development policy, and ensuring that these are correctly implemented.
- Overseeing the Group's various geographic areas.

The Management Committee is chaired by Frédéric Vincent and comprises three other members who are all Senior Corporate Executive Vice Presidents, to whom the units that formerly made up the Strategic Operations Department now report. These three members are as follows:

- The Chief Financial Officer, Senior Corporate Executive Vice President, to whom the Purchasing, Information Systems, Finance and Audit Departments report. In accordance with good corporate governance practices the Audit Department also has a dotted-line reporting relationship with the Chairman and CEO.
- The Senior Corporate Executive Vice President in charge of defining and implementing commercial and innovation policies. In this role he oversees the Industry, Infrastructure, and Building Markets Department, as well as the Key Accounts Managers Department and the Technical Department. He is also responsible for the MERA, Asia-Pacific, North America and South America Areas.
- The Senior Corporate Executive Vice President in charge of defining and implementing industrial policies, to whom the Industrial Management and Logistics Departments report. He is also responsible for the Europe Area.

The Communications, Human Resources and Legal Affairs Departments all report directly to the Chairman and CEO. Nexans' General Counsel has been appointed Corporate Secretary in order to better reflect the scope of his responsibilities, particularly concerning risk management and corporate governance, which are currently of critical importance.

The role of the **Executive Committee**, which is also chaired by Frédéric Vincent, is to reflect on, debate and discuss the challenges facing the Group. Its members comprise:

- The members of the Management Committee
- The Area Executive Vice Presidents
- The Heads of the Departments that report directly to the Chairman.

The Group has also set up a number of additional committees, including:

- A Sales, Marketing and Innovation Committee which is chaired by one of the Senior Corporate Executive Vice Presidents. This committee acts as a working group entrusted with defining and monitoring the implementation of the Group's product, sales and innovation strategies. Its members comprise the Heads of the Area Sales and Marketing Departments, the Head of the Industry, Infrastructure and Building Markets Department, the person in charge of managing and monitoring the work of the Key Account Managers, and the Heads of the Marketing Communication and the Technical Departments.
- An Industrial Committee, which is chaired by one of the Senior Corporate Executive Vice Presidents and acts as a working group tasked with defining the Group's industrial policy and overseeing its effective implementation. The members of this committee comprise the Industrial Director, the Logistics Director and other industry experts.
- A Mergers and Acquisitions Committee, which is chaired by the Chairman and CEO.
- A Careers Committee, which is chaired by the Chairman and CEO and monitors the career paths of the Group's key senior managers.
- A Corporate Social Responsibility Committee (CSR Committee), which was created in 2009 and is chaired by the Chairman and CEO. Two specialized committees – the Governance & Social Affairs Committee and the Environment & Products Committee – provide support to the CSR Committee.

Management in each of the countries in which the Group operates is responsible for the operating results of its legal entities and manufacturing plants. Performance is primarily assessed by product line through a full financial reporting process carried out on a monthly basis. The data compiled is examined as part of "Business Review" meetings which are attended by members of the Management Committee.

Since June 2009, the Group's operating countries have been organized into **seven geographic areas** – Western Europe, Central Europe, Northern Europe, North America, South America, Asia-Pacific, and Middle East, Russia & Africa. There are also two business groups which report to the Management Committee – the high-voltage terrestrial cables business group and the high-voltage submarine cables business group.

In addition, the Group's **corporate departments** contribute to the overall internal control process by providing the cross-business approach required in order for the Group to function effectively. These departments are as follows:

- o **The Industry, Infrastructure, and Building Markets Department** – a specific organizational structure for each of the Industry, Infrastructure, and Building markets was created at the beginning of 2007 in order to more effectively coordinate Nexans' product offering.
- o **The Industrial Management Department**, which assists the Group's geographic areas in industrial matters and oversees industrial strategy, capital expenditure budgets, and the Area and country-level Industrial Management Departments, which are responsible for the performance of Nexans' manufacturing plants. The Industrial Management Department is also very involved in managing Nexans' industrial equipment, managing and monitoring capital expenditure and industrial projects, and assessing any new manufacturing tools and processes. It proposes an industrial and environmental risk prevention policy to Group Management and is responsible for drafting the Group's environmental manual, which is

validated by the Executive Committee. It also ensures that the manual's rules and procedures are applied, with the help of a specialized external service provider.

- **The Technical Department**, which oversees all the Group's research and development projects, in particular through its Competence Centers and the Research Center.
- **The Information Systems Department**, which is responsible for defining the Group's IT policy and overseeing its implementation. In view of the important role played by information systems in maintaining Nexans' competitive edge, a Group-level Steering Committee has been set up to assist the Executive Committee when deciding on the Group's information systems strategy and budgetary priorities.
- **The Purchasing Department**, which ensures that the materials, equipment and services required for the Group to function smoothly are supplied in a reliable and cost-effective way within the set timeframes, in order to satisfy customer needs and enhance customer service. Purchasing is a strategic function and the department plays a major role in optimizing costs, quality, technology and lead-times. The responsibilities of the Group's Purchasing Department encompass selecting suppliers as well as negotiating and drawing up contracts, and monitoring and assessing each supplier. These responsibilities are delegated to each Group country with a view to unlocking all potential synergies by drawing on the Group's size and reach and working within a framework of cooperation and transparency. The Purchasing Department works in conjunction with all of Nexans' other departments and assists them in their efforts to achieve better performance at the best possible cost. It oversees the purchasing process for the Group as a whole and defines and verifies the implementation of Group purchasing methods and procedures designed to leverage costs, quality, timeframes, and technology.
- **The Human Resources Department**, which is in charge of defining and coordinating the Group's Human Resources policies, including establishing shared strategies, managing the careers of top international managers (recruitment, career development, succession plans), as well as organizing expatriation projects, international training programs and compensation packages for top managers. It handles relations with employee representatives at the European level, and is also tasked with coordinating the international network of Human Resources Directors.
- **The Communications Department**, whose remit is to manage all of the Group's communications – encompassing sales, corporate, internal, press, and new media – in collaboration with the other corporate departments concerned.
- **The Group Finance Department** (see section 3.3 below)

Lastly, the **Board of Directors** provides assistance in monitoring internal control, primarily through the work of the Committees and the Committee reports, as described below.

### **3.2 Participants and structures dedicated to internal control**

#### **a) The Accounts and Audit Committee**

As a result of the powers conferred upon it by law, the Board of Directors and the Board's Internal Regulations (see section 3.1 of part I of this report relating to the Corporate Governance), the Accounts and Audit Committee is involved in monitoring the implementation of internal control processes, exercising such control, and monitoring the

procedures in place. Each year, the internal audit plan is submitted to the Accounts and Audit Committee for approval, and the Committee is given a presentation on the main conclusions from the previous year.

## **b) The Internal Audit Department**

The Internal Audit Department was created on January 1, 2002, and in July 2005 was one of the first internal audit departments to be certified by the *Institut Français de l’Audit et du Contrôle Internes* (the French Audit and Internal Control Institute – IFACI). This certification was renewed by the IFACI in July 2009.

While reporting directly to the Finance Department, the Internal Audit Department also has a dotted-line reporting relationship with the Chairman and CEO. Its work is verified by the Accounts and Audit Committee.

The Internal Audit Department helps the Group to achieve its objectives by systematically and methodically assessing the suitability of risk management, control and corporate governance processes, as well as by monitoring these processes and making recommendations to strengthen their effectiveness.

The Group has set up an audit charter – approved by the Accounts and Audit Committee – which sets out the responsibilities of the Internal Audit Department.

The ongoing responsibilities of the Internal Audit Department, covering financial and administrative as well as operational matters, are to:

- identify, analyze, and assess risks;
- ensure that internal control processes are in place and are being applied;
- conduct internal financial audits;
- conduct operational audits in cooperation with the departments concerned;
- propose corrective measures and ways to implement them;
- identify and promote best practices.

To achieve these goals, the Internal Audit Department conducts audits to verify that the measures implemented are appropriate in relation to the Group’s potential risks.

A four- to five-year audit plan has been drawn up based on a risk map whose underlying process is described in section 5.1 below and in strict cooperation with the Group Risk Management Department. This audit plan covers a broad spectrum of issues including:

- Cash management and foreign currency risks
- Non-ferrous metal hedging risk
- Purchasing processes
- Inventory processes
- Sales processes
- Management of major turnkey projects,
- Legal, insurance, health and safety, and environmental issues
- Information systems
- Human resources

The Executive Committee and Accounts and Audit Committee review and update this audit plan annually.

After each audit is conducted, the Internal Audit Department issues a report containing recommendations which are subject to a formal and systematic monitoring procedure. Each report is sent to the Chairman and CEO, the Senior Corporate Executive Vice Presidents, the appropriate member(s) of the Executive Committee and the Head of the Group Risk Management Department, as well as the audited entity and the relevant corporate department managers.

In addition, the Internal Audit Department submits a report on its work twice a year to the Executive Committee and the Accounts and Audit Committee, and once a year to the Board of Directors.

During 2009, compliance audits were conducted in certain subsidiaries in France and abroad. A number of specific audit engagements were also carried out, notably in relation to purchasing, the implementation of restructuring plans and overseeing capital expenditure (in liaison with the Industrial Management Department).

The Internal Audit Department also organizes self-assessment procedures by drawing up questionnaires with the corporate departments concerned, which are sent to all of the Group's entities. These self-assessments provide an overview of the level of maturity of a particular process within the Group. Self-assessments performed recently covered issues such as corporate governance, health and safety in manufacturing plants and compliance with the Group's rules on contracts.

### **c) The Group Risk Management Department**

The Group Risk Management Department reports to the Corporate Secretary/General Counsel, who in turn reports to the Chairman and CEO. It works in close collaboration with the Group Internal Audit Department.

The role of the Group Risk Management Department was expanded and specified in 2009. Consequently, in addition to being in charge of risk management in general and monitoring insurance coverage, it is now responsible for corporate social responsibility and sustainable development issues as well as for coordinating real estate sales.

The role of the Group Risk Management Department is to:

- put forward a strategy for managing operating, commercial, industrial, and financial risks by seeking the optimum balance between:
  - insurance coverage (see section 6.4 "Insurance" of the 2009 Management Report);
  - risk prevention and other measures; and
  - the acceptance of certain risks
- propose and monitor the introduction of measures other than insurance for risk prevention and management purposes, including recommending and/or validating the appointment of risk managers within other corporate departments, a geographic area or certain countries or specific businesses that require dedicated resources, on a temporary or permanent basis, to develop risk management or ensure that it complies with the Group's directives;
- monitor changes in standards and practices, propose and coordinate progress plans relating to sustainable development, and monitor and improve the reliability of

social and environmental indicators (i.e. sustainable development indicators) with the departments concerned (predominantly the Human Resources Department and the Industrial Management Department). A representative of the Group Risk Management Department acts as the secretary for the CSR Committee created in 2009.

In view of the broad scope of these responsibilities, close cooperation is required with the corporate departments, operating departments and the Group's legal entities, in order to define and implement financially viable solutions in line with the directives set at Group level.

The priority risk management measures are set each year by the Head of the Group Risk Management Department together with the Management Committee and the Area Executive Vice Presidents. These priorities are defined based on (i) a review of the risk map drawn up every two years at Group level by the Internal Audit Department, and (ii) the extent to which the Group's main risks are controlled. This level of control is assessed for each risk in an annual report that compiles the analyses performed by working groups set up by the departments concerned and the Group Risk Management Department for the purpose of examining particular risks.

As part of the effort to improve risk control, the Group Risk Management Department is in charge of rolling out the Group's risk mapping system at both country and business group level. It is also responsible for ensuring that the system is properly set up and effectively used in each country and business group.

The risk map enables resources to be more effectively allocated and measures properly planned in order to reduce the most critical risks that could impact Nexans' profitability.

### **3.3 Organization framework for preparing and processing published financial and accounting information**

**The Group Finance Department** includes seven corporate departments:

- The Management Control Department
- The Consolidation Department
- The Treasury Department
- The Non-Ferrous Metals Management Department
- The Internal Audit Department
- The Tax Department
- The Financial Transactions Department (which includes the Mergers and Acquisitions Department and the Financial Communications Department).

All of these departments report to the Chief Financial Officer, who in turn reports to the Chairman and CEO.

In addition, the Finance Departments in each country report to the Country Manager and have a dotted-line reporting relationship with the Group Finance Department.

This structure ensures coordinated, consistent processing of financial information.

## **4. Internal information sharing**

The Group has set up a monthly reporting system covering all the activities of the operating entities (including commercial, financial and accounting, industrial, environmental, and other information) that gives operating and corporate departments access to relevant and reliable information in a timely manner to allow them to perform their duties.

## **5. Systems designed to identify and analyze the main risks and ensure that risk management procedures are in place**

### **5.1 Risk mapping**

A Group risk mapping process is performed every two years by the Internal Audit Department. The aim of this process is to (i) identify risks and areas of risk including risks identified by Management and controls that Management feels need addressing, and (ii) evaluate the impact of these risks on the Group's financial position. The risk map is used as a basis for preparing the Group's annual internal audit plan.

As in previous years, in 2009 risks were identified through interviews with Executive Committee members, the Managers of the corporate departments, Product Line Managers and Country Managers. These risks were appraised according to the frequency with which they are likely to occur and the gravity of the consequences should they actually occur. The results of the risk mapping process were presented to the Executive Committee, the Accounts and Audit Committee and the Board of Directors.

In 2009, the Group Risk Management Department strengthened the risk mapping process in two different areas:

- firstly, in relation to the major risks covered (see section 5.2 below); and
- secondly, by rolling out the risk mapping system to the Group's various operating countries, with significant involvement from local management.

### **5.2 Monitoring major risks**

Workshops were organized once again in 2009, bringing together operational staff and members of the corporate departments to tackle the Group's main identified risks described in section 6 "Risk Factors" of the 2009 Management Report, using the risk mapping process. The purpose of these workshops – which are coordinated by the Group Risk Management Department – is to propose solutions to remedy the risks or limit their impact.

A crisis management procedure has also been drawn up and a crisis simulation exercise was performed during 2009.

### **5.3 Committees set up to analyze and monitor the main risks**

#### **• The Disclosure Committee**

This Committee comprises the Chief Financial Officer, Corporate Secretary/General Counsel, Head of Management Control and Head of Consolidation, as well as the Corporate and Securities Counsel, Head of Internal Audit, Head of Group Risk Management, Head of Tax and the Area Controllers.

The Committee's objective is to identify all risks of any nature to which the subsidiaries are exposed, assess their materiality, and ensure that they are duly reflected in the financial statements and/or disclosed in the Group's published reports.

Its responsibilities include, in particular:

- identifying and assessing any material non-financial information;
  - drawing up a questionnaire to be sent to the subsidiaries to identify risks, and assessing the methods used to report such information;
  - compiling significant information and notably any cases of fraud that may have occurred within the entities; and
  - identifying and defining points that merit investigation by the internal audit team in order to assess and/or improve the reliability of the procedures in place and the information reported.
- All bids in excess of 25 million euros are subject to a review of the commercial, legal, financial, and technical terms and conditions of the related contracts. This review is performed by the **Group Contractual Tender Committee**. This Committee is chaired by the Chairman and CEO and comprises the Senior Corporate Executive Vice President and Executive Vice President of the Area concerned, as well as the Head of Treasury, Area Controller, Corporate Secretary/General Counsel, Head of Group Risk Management, and the operating manager(s) appointed by the Executive Vice President for the Area concerned.

Bids for amounts between 5 and 25 million euros (which constitute the vast majority of bids) are also reviewed by this committee but without the attendance of the Chairman and CEO.

- Any potential business acquisition or divestment projects, or possible strategic alliances or partnerships, are reviewed by Nexans' **Mergers and Acquisitions Committee**. This Committee is chaired by the Chairman and CEO and its other members are the Chief Financial Officer, Corporate Secretary/General Counsel, Head of Tax, Head of Financial Transactions, Head of Mergers and Acquisitions, and the Senior Corporate Executive Vice President and the Executive Vice Presidents of the Areas concerned.
- The **CSR Committee – Corporate Social Responsibility (Sustainable Development)**, chaired by the Chairman and CEO and assisted by two specialized committees: the Governance & Social Affairs Committee and the Environment & Products Committee, monitors risks within its remit. In particular, the Environment & Products Committee – made up of two representatives from the Management Committee, and from the Industrial Management and Technical, Purchasing, Legal Affairs, Group Risk Management, and Marketing Departments – oversees a program aimed at continuously improving the environmental performance of the Group's production sites. (See section 9.1 of the 2009 Management Report for a description of the organization of Nexans' commitment to sustainable development and the role of the CSR Committee.)

Lastly, the Group has drawn up a crisis management procedure and created a specific crisis management unit.

## 6. Control activities

Control activities are based on a financial and accounting reporting system and a set of internal control procedures.

### 6.1 Preparation of financial and accounting information

Financial and accounting information is generated in consolidated form as follows:

All information is obtained from the accounting systems of the legal entities, whose accounts are kept according to local accounting principles and then restated in accordance with the accounting

principles and methods applied by Nexans to prepare the consolidated financial statements, which are drawn up in accordance with IFRS pursuant to EC Regulation 1606/2002. The Group's entire financial and accounting reporting process is structured around the Hyperion System.

The breakdown by business segment and product line is based on the legal entities' financial statements. These statements are prepared according to standard accounting principles defined in numerous procedures. In particular, to ensure the consistency of the information produced, Nexans has an accounting manual which is used by all Group units and defines each line in the operating income statement analyzed by function for the unit as a whole and for their product lines.

Based on the Group's Medium-term Plan (covering three years), which sets out the main strategic and financial policies, each unit establishes an annual budget by product line in the last quarter of every year. The budget is discussed by both local and area Management and is submitted to Nexans' Management Committee for final approval. The Group's budget is presented to the Board of Directors and is broken down into monthly figures.

Each month, the units prepare a report broken down by product line, the results of which are analyzed by Management as part of the business review. The figures are compared with the budget and with actual data for the previous year. The consolidated results by area and by product line are analyzed with the Group Management Committee at area meetings.

A consolidated accounts closing procedure is carried out on a quarterly basis and a specific procedure is applied at the year-end. This specific year-end procedure involves Balance Sheet Committee meetings which are attended by Country Managers and where key decisions are made relating to the year-end close.

Any off-balance sheet commitments are reviewed by the Consolidation Department based on information provided by the business units, the Treasury and Non-Ferrous Metals Management Department, and the Corporate Secretary's Department.

Lastly, the Group has set up a half-yearly procedure whereby the Chief Executive Officers and Chief Financial Officers of all Nexans' subsidiaries sign internal representation letters giving a written undertaking concerning the quality and completeness of the financial information reported to the parent company.

## **6.2 Main financial and accounting internal control procedures implemented by the Company**

Over seventy procedures relating to financial and accounting information, and more generally the areas within the responsibility of the Finance Department, are currently applicable within the Nexans Group. These procedures – which are an addition to the financial and accounting rules implemented by the Group – deal with sensitive issues or risk factors identified (described in the Management Report) that are specific to Nexans' business and could have an impact on its assets or earnings. This is the case, for example, with the management of risks associated with exchange rates, interest rates, and the fluctuation of non-ferrous metal prices that are monitored by the Treasury and Non-Ferrous Metals Management Department, which reports regularly to the Group Finance Department.

The Internal Audit Department performs controls to ensure that internal control procedures are working properly and that they are complied with.

### **6.3 Specific procedures**

- **Rules specific to the management of risks related to non-ferrous metals**

In view of the importance of non-ferrous metals (copper, aluminum) to Nexans' various businesses and the risks associated with price fluctuations, Nexans has implemented a specific procedure for managing non-ferrous metals, which is overseen by a team reporting to the Group Finance Department.

In accordance with this procedure, each legal entity systematically hedges risks relating to metal prices and structure as soon as the risk arises. Hedging position limits are set which are reviewed regularly based on each unit's business trends, and the Internal Audit Department monitors that the limits are complied with.

Non-ferrous metal price risks are identified by the Group's operating subsidiaries. They are hedged through physical purchases and sales of metal inventory or transactions on commodities exchanges such as the London Metal Exchange (LME) and the New York Commodities Exchange (COMEX). Trades on these two exchanges are managed centrally for all subsidiaries by the Non-Ferrous Metals Management Department, except for those carried out by Olex in Australia and New Zealand, for practical reasons. The Group's Chinese subsidiaries also handle their own metals trades, conducted on the Shanghai Metal Exchange (SFHE), due to local legislative requirements.

- **Centralized cash management**

Nexans has set up a centralized cash management system for its principal subsidiaries for the purpose of international cash pooling; centralizing banking commitments; and centralizing the management of foreign currency risk.

### **6.4 Information on other internal control procedures**

There are approximately sixty such internal control procedures within the Group covering areas such as:

- Ethics: in 2009 the Group updated its Nexans Business Ethics and Conduct Code, which sets out the principles and rules of business ethics and conduct that all Group employees must comply with in the performance of their duties as part of the Group's Corporate Social Responsibility Program. The Group's reinforced commitment to this Program prompted it to sign the United Nations Global Compact pursuant to a decision by the Board of Directors' meeting of November 25, 2008. An ethics awareness program was rolled out during the year.
- Human resources: the Group applies a personal safety procedure in all geographic areas considered to be at risk.
- Communications
- Purchasing
- Information systems
- Quality
  - Intellectual property
  - Insurance
  - Legal issues
- Industrial and environmental issues: a charter is applied within the Group for managing industrial risks covering the protection of property, accident prevention,

personal safety, security and environmental protection. More specifically, the purposes of this charter are to:

- identify and quantify the risks to which Nexans is exposed;
- define priorities and recommend prevention and control measures to reduce the frequency and magnitude of such risks;
- organize Nexans' insurance program accordingly;
- organize crisis management plans.

The overall process is managed by the Industrial Management Department in liaison with the Finance Department, the Group Risk Management Department, and the Legal Affairs Department for insurance matters, with extensive interaction between the corporate departments and designated managers at various levels of the organization.

Nexans' environmental policies and procedures are described in the Board of Directors' Management Report.

## **7. Oversight of internal control**

The Board of Directors is responsible for overseeing the internal control system, firstly through its Accounts and Audit Committee (see section 3.1 of part I "Corporate Governance" of this report and section 3.2 above: "Participants and structures dedicated to internal control") whose role is to ensure that the procedures used are relevant and in line with the Group's objectives.

In addition, the Management Committee carries out monthly reviews of the Group activity, including business indicators and a review of the main risks.

The Internal Audit Department also plays an oversight role through the assignments it performs and the reports it draws up, as well as by monitoring the implementation of recommendations issued.

February 9, 2010

**Frédéric Vincent**  
**Chairman and CEO**