

Report of the Chairman on the work of the Board of Directors and internal control procedures

Article L. 225-37 of the French Code of Commerce requires the Chairman of the Board of Directors of VINCI to report on:

- how the Board of Directors' work is prepared and organised;
- the principles and rules established by the Board of Directors to determine all types of compensation and benefits paid to company officers; and
- the internal control procedures put in place by the Group.

The Chairman's report on the work of the Board of Directors and the principles and rules established by it to determine all types of compensation and benefits paid to company officers are given in paragraph 2.7 of the Corporate Governance chapter on page 146-152. The section below relates to the internal control procedures.

1. Principles governing conduct and behaviour

The businesses in which VINCI operates require the personnel involved to be geographically close to customers in order to provide them promptly with solutions suited to their needs. In order to enable the manager of each profit centre – some 2,500 in total in the Group – to take the required operational decisions rapidly, a decentralised organisation has been implemented in each of the four business lines (Concessions, Energy, Roads and Construction) and in VINCI Immobilier.

This organisation entails delegation of authority and responsibility to operational and functional staff at all levels.

This delegation of authority to operational and functional management staff is carried out complying with the general guidelines (see paragraph 3.3) and the principles of conduct and behaviour to which VINCI is strongly committed:

- rigorous compliance with the rules common to the whole Group, in particular in respect of entering into commitments, risk-taking (see paragraph 3.3), acceptance of business (see paragraph 4.1) and submission of financial, accounting and management information (see paragraph 4.2). These common rules, which are deliberately restricted in number, given the range of the Group's activities, must be strictly applied by the staff concerned and their teams;
- transparency and loyalty of managers towards their line management superiors and towards functional departments and the holding company. In particular, all managers must inform their superiors of any difficulties encountered in the performance of their duties (e.g. with respect to carrying out work on sites, relations with customers, government departments and suppliers, internal relationships, personnel management, safety, etc). Although an integral part of operational managers' duties is to take decisions alone, within the framework of the general guidelines received, on matters falling within their area of competence, any difficulties encountered must be handled with the assistance, if necessary, of their line management superiors or divisional or holding company functional departments;
- compliance with the laws and regulations in force in the countries where the Group operates, and, in particular, rigorous compliance with the rules on competition and ethical behaviour;
- responsibility of operational executive managers to communicate the Group's principles governing conduct and behaviour to their staff by appropriate means and to set an example. This responsibility cannot be delegated to functional managers;
- safety of persons (employees, external suppliers, sub-contractors, etc.);
- a culture of financial performance.

Operational and functional managers at all levels, including the highest within the Group, regularly carry out field visits and specific, unannounced assignments in order, in particular, to satisfy themselves that these principles are applied permanently and effectively.

2. The objectives of internal control

2.1 Definition

On 31 October 2006, the French Stock Market regulator, the *Autorité des marchés financiers* (AMF), published the findings of the working group formed under its aegis. This publication, entitled "The Internal Control System – Reference Framework" recommends the use of the standard published by the Committee of Sponsoring Organisations (COSO), which is the most commonly accepted internationally. The Group already applied this standard and continued to do so in 2007.

According to COSO, "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."

In January 2007, the AMF published its recommendations for the implementation and control of this reference framework. Even though they are optional, the Group has undertaken the action that appeared necessary in order to comply with the reference framework's general principles on internal control.

2.2 Limits of internal control

One of the objectives of internal control is the prevention and control of risks arising from an enterprise's activities and the risks of error and fraud, in particular in the areas of accounting and finance.

However, like any control system, internal control, however well designed and implemented, cannot provide an absolute guarantee that these risks have been completely eliminated.

3. General organisation and environment of internal control

3.1 The Board of Directors and the Audit Committee

VINCI's Board of Directors represents all the shareholders collectively and commits itself to act in all circumstances in the enterprise's corporate interest. It considers all major matters arising during the Group's business, in particular its major strategic choices.

The Board of Directors, which adopted a set of internal rules in 2003 and set up ad hoc committees for audit, appointments and remuneration, and strategy, has delegated certain specific tasks to the Audit Committee regarding accounting rules and procedures, and the monitoring and analysis of accounts and forecasts, internal control and risk management, such as for example the monitoring of provisions, off-balance sheet commitments and the level of debt.

3.2 The Executive Committee

The Executive Committee currently has ten members:

- the Director and Chief Executive Officer;
- the Senior Executive Vice-President, who is also Chairman of Eurovia;
- the Executive Vice-President and Chief Financial Officer;
- the Chairman of VINCI Construction;
- the Chairman of VINCI Construction France;
- the Chairman of VINCI Energies;
- the Chief Executive Officer of VINCI Concessions;
- the Chairman of VINCI Autoroutes France, who is also Chairman of ASF;
- the Vice-President, Business Development;
- the Honorary Chairman of Eurovia.

The Executive Committee is in charge of executing the Group's strategy and of defining and implementing its management policies, relating to finance, human resources, safety, insurance, etc.

3.3 General guidelines

The Chairmen of the companies heading divisions (VINCI Energies, Eurovia and VINCI Construction), the Chief Executive Officer of VINCI Concessions and the Chairman of VINCI Immobilier, exercise the powers given to them by law.

Under the Group's internal organisation, they are also required to comply with the general guidelines issued by VINCI's Director and Chief Executive Officer.

These apply in particular to the following areas:

- the entering into **commitments**, and in particular the acceptance of new business of a significant size or involving significant potential risks; corporate acquisitions and disposals; property development, investments and divestments; and material off-balance sheet commitments;
- the submission of **information** in connection with the Group's requirements for accounting and financial data or relating to events that are material for the Group, in particular in respect of litigation, disputes and insurance policies and claims.

In particular, these general guidelines require compliance with the holding company's procedures regarding the acceptance of new business or the making of investments. These procedures define thresholds above which specific authorisation has to be obtained from the appropriate committees – the Risk Committee (see paragraph 4.1), the Strategy Committee of the Board of Directors (see paragraph 3.1) – or prior information has to be submitted to the Director and Chief Executive Officer or certain VINCI functional departments or both.

3.4 Internal audit

The Internal Audit Department's role is to draw up and distribute the general procedures laid down by the holding company and to supervise the situation in each division as regards procedures, ensuring in particular that they are adapted to the Group's situation and organisation, while complying with the requirements of the Financial Security Act of 1 August 2003.

It also organises the meetings of the VINCI Risk Committee charged with examining and authorising the acceptance of new business that exceeds certain thresholds.

In this connection, it records and follows up the Risk Committee's decisions.

Lastly, it undertakes specific assignments requested either by the Group's General or Financial Management or the various divisions' General Management.

The Internal Audit Department works mainly with divisions' internal audit staff, with whom it undertakes joint assignments, personnel seconded for this purpose by the operational department concerned and personnel from certain of the holding company's functional departments.

3.5 The role of the holding company in relation to divisions

The holding company has staff restricted to some 140 people, suited to the Group's strongly decentralised structure. In particular, the holding company's functional departments have to ensure that the Group's rules and procedures and General Management's decisions are applied. Furthermore, and depending on needs expressed, these departments advise divisions on technical matters but do not interfere in the taking of operational decisions, which are the sole responsibility of the divisions.

4. The main internal control procedures

The main procedures described below are common to all companies in the Group. There are specific procedures within each division, in particular for the monitoring of projects and forecasting of results, especially for contracts spanning several years.

4.1 VINCI Risk Committee procedures

Strict procedures are in force that must be complied with before new business is accepted.

The VINCI Risk Committee has to assess:

- acquisitions and disposals of activities;
- the terms and conditions of submitting offers for work worth more than the thresholds set, and in particular the associated technical, legal and financial commitments; these thresholds relate to the entire operation, taking all lots together, whatever the share obtained by Group entities in the operation, and however the enterprise is contacted (directly, through an invitation to tender, etc.);
- all transactions relating to property development, concession operation, public-private partnerships (PPPs) or long-term commitments, including all associated financing, whether in France or abroad.

For construction work contracts, other thresholds, lower than those necessitating consideration by the Risk Committee, trigger submission of prior information to VINCI General Management on an alert form. If the Chief Audit Officer considers that the alert form renders it necessary, in particular in view of the offer's specific technical, geographical or financial features and the associated risks, he may propose that a specific Risk Committee meeting be held.

Lastly, under the system of delegation and sub-delegation in place, other thresholds trigger a requirement for a formal agreement from the division's General Management, under the procedure specific to and defined by each division.

The Risk Committee's objective is to examine business that, particularly because of its size, financing, location or specific nature, bears a special risk, whether technical, legal, financial or other.

Submission to the Risk Committee constitutes formalisation of the commitment made by the manager of the subsidiary in question to his or her superiors as to the quality of the analysis made and therefore of the offer envisaged, and consequently, the expected level of profit on the project presented.

The Risk Committee is usually comprised of the following members:

- the Director and Chief Executive Officer;
- the Executive Vice-President and Chief Financial Officer;
- the Chief Audit Officer;
- the Chairman (or Chief Executive Officer) of the division in question;
- representatives from the operational staff (the general manager, project manager, design office, etc.);
- representatives of the functional departments (legal, insurance, finance, etc) of the company or division in question.

Moreover, the composition of the Risk Committee may be altered depending on the purpose of its meeting (e.g. examination of property transactions, acquisitions of companies, concessions contracts and public-private partnerships).

The holding company's Risk Committee, in its various configurations, met 190 times in 2007.

4.2 Internal control with respect to financial and accounting information

The Budgets and Consolidation Department, part of the Finance Department, is responsible for the production and analysis of the financial, company and consolidated information distributed inside and outside the Group, which it must ensure is reliable. In particular the Department is in charge of:

- preparing, agreeing and analysing VINCI's half-year and annual parent company and consolidated financial statements and forecasts (consolidation of budgets, budget updates and three-year forecasts);
- the definition and monitoring of the Group's accounting procedures and the application of the IFRSs;
- co-ordination of the "Vision" Group financial information system, which incorporates the consolidation process and which is used to unify the various VINCI reporting systems (accounting and financial information, human resources information, commercial data, borrowing).

The budget procedure is common to all divisions and their subsidiaries. It is built around five key dates in the year: the budget for the next year in November followed by four updates in March, May, September and November. For each of these stages, management committees meet to examine each division's position and financial data, in the presence of the Group's Director and Chief Executive Officer and its Executive Vice-President – Chief Financial Officer.

A monthly report on business, new orders taken, the Group's order book and consolidated net borrowing position is prepared by the Finance Department on the basis of detailed information provided by the divisions. It is distributed to the General Management and the members of the Executive Committee.

The Management of each division prepares a specific report on the month's key events. These are centralised at the holding company and then distributed to the General Management and the members of the Executive Committee.

This information is also sent to the Internal Audit Department.

The Budgets and Consolidation Department lays down a timetable and closure instructions for the preparation of the half-yearly and annual accounts. These instructions, sent to the divisions' Finance Departments, are presented in detail to the staff in charge of consolidation in the entities in question.

The Group's accounting rules and methods, including the definition of reporting documents and consolidation packages, are set out in widely distributed procedural notes. Specific detailed monitoring is carried out for some areas – such as provisions for liabilities, deferred tax and off-balance sheet commitments.

At each accounts closure, divisions send the Budgets and Consolidation Department a dossier with an analysis with commentary of the consolidated data submitted.

The Group Finance Department presents the accounting treatment it intends using for any complex transactions to the Statutory Auditors, in order to receive their prior opinion, and to the Audit Committee.

The Statutory Auditors present their observations on the half-year and annual accounts to the Audit Committee before they are presented to the Board of Directors. The Statutory Auditors first present their observations to the Management of the divisions in question and of the VINCI holding company.

Before signing their reports, the Statutory Auditors request letters of representation from Group Management and divisional management. In these representations, group management and divisional management confirm, in particular, that they consider that all items at their disposal have been submitted to the Statutory Auditors to enable them to perform their duties and that the effects of any anomalies still unresolved at the date of those representations and noted by the Statutory Auditors do not have a material impact, either individually or in aggregate, on the financial statements taken as a whole.

Divisions have their own management accounting systems tailored to their business. Specific budgetary control tools linked to the accounting system have been installed in the Energy, Roads and Construction divisions and each of the concession activities (motorways, car parks, etc) and allow regular monitoring of the progress of sites and contracts.

5. Actions undertaken to strengthen internal control

5.1 Reminder of work carried out before 2007

In 2003, VINCI initiated an action plan intended to enhance the quality of the internal control system, without bringing into question the principles and features of its management organisation, which combines, in a decentralised environment, an entrepreneurial culture, the autonomy of operational managers, transparency and loyalty, and network-based operations.

The project comprised several stages, of which the first, completed in 2003, was to identify the main risks and the associated controls for the main Group entities and major business line processes.

The second stage related to determining and describing the current organisation of internal control, the aim being to describe the internal control arrangements existing in the various divisions. Self-assessment questionnaires on the internal control environment, approved by the Executive Committee, were sent in 2003 and 2004 to managers of a sample of entities, selected from the largest and most representative entities. Their replies were analysed and a list was drawn up of the main procedures in existence.

The third step, in 2003 and 2004, involved extending the listing of risks and associated controls to all Group entities. The objective here was to use the self-assessment questionnaires and the interviews conducted with VINCI's General Management, the managers of the main business lines and VINCI's functional departments to list the main risks and corresponding controls existing within the Group and the business lines. This allowed the identification of the critical processes that the various entities should assess from an internal control viewpoint. In this connection, the order-taking process appeared to be a priority. The main risks inherent in the Group's activities are analysed in the "Risk Management" section of this registration document (see pages 169-174.)

2004 also saw the implementation of the decisions taken in 2003 on the improvement of the internal control environment:

- distribution of the Chief Executive's general guidelines (see paragraph 3.3) to all the operational and functional managers of divisions in France and abroad;
- harmonisation and fine-tuning of the formalisation of certain procedures (through the creation of working groups and specific dedicated resources), including in particular cash management and accounting at holding company level and a complete revision of operational procedures in the Roads division; holding company procedures have also been made available on the Group's intranet;
- implementation in certain foreign subsidiaries of management methods and procedures complying with Group policy;
- creation of internal audit functions in those divisions where none existed and an increase of divisions' head-office management control staff;
- implementation of a charter in the largest operational entity of the Construction business line (Sogea Construction), covering its ten internal operating rules on risk taking, financial engineering, outside functions or appointments, acquisition or disposal of securities, reorganisation, property and other tangible assets, human resources, budgetary management, banking relations and financial commitments, administrative management, communication and the use of brands and logos.

The survey made in 2005 to assess the quality of internal control under the Financial Security Act covered 193 Group entities (including 38 foreign entities) which replied to 120 questions grouped into three self-assessment questionnaires (control of operations and monitoring business; control of financial information; the control environment and risk assessment). The three questionnaires used in previous years were first simplified and clarified by a working group of experts from the Group's various divisions. They were analysed using various criteria: division, business line, geographical area, and revenue.

In 2006, 208 entities (including 45 outside France) were questioned and replied to these same questionnaires.

Furthermore, in 2006, more detailed replies to the questions were requested, with five possible answers instead of three. Given the general improvement in internal control within the Group, this allowed the subjects requiring particular attention to be identified more precisely.

Lastly, improvements to the software used for these surveys allowed each division and sub-division to use the information generated by this survey better, in order to carry out the necessary improvements.

As in the previous year, the information was analysed by the Internal Audit Department according to several criteria: division, business line, geographical area, and revenue.

A project to assess the operation of information systems has also been launched with 13 entities in continental France, forming a representative sample. These replied to a self-assessment questionnaire comprising four sections:

- the information systems environment (32 questions);
- acquisition, development and deployment of software and hardware (43 questions);
- operation (27 questions);
- information systems security (56 questions).

5.2 Work carried out in 2007

In 2007, before the survey on the assessment of internal control within the Group was made, the questionnaires were reviewed by a committee of experts from the divisions and the holding company in the light of the results of the 2006 survey and the recommendations published in January 2007 by the AMF, with a view to taking them fully into account.

The annual survey related to 218 entities (including 37 outside France) representing more than 60% of the Group's consolidated business. The questionnaire comprised 130 questions for operational entities (211 entities surveyed) and 73 questions for the holding companies (7 entities surveyed). Furthermore, to ensure full compliance with the AMF's recommendations, a specific questionnaire has been sent to the Chairman of the Board of Directors covering matters relating solely to his function; this questionnaire was duly completed.

The replies were analysed by the Internal Audit Department using the criteria of geographical area, business line, entity size and process. A summary was presented to the Audit Committee.

A project to update the mapping of the Group's information technology risks, with the assistance of external specialists, was launched at the end of 2007, continuing the work carried out in 2006.

This project, run by the holding company's Internal Audit Department and Information Systems Department, will produce a report in 2008.

At **VINCI Construction**, the management control and internal audit functions are mainly performed at the level of the various sub-divisions, given the division's size and the variety of its activities. The construction division's holding company has a small number of staff, and its role is to define common rules, based on the Group's rules but adapted to the specific features of its business, to monitor internal control work programmes drawn up by the sub-divisions (including the deployment of new computerised tools or new procedures), to verify their consistency and progress, and lastly to initiate audits at its own initiative or at the Group holding company's suggestion.

The sub-divisions in the construction division are VINCI Construction France, VINCI Construction Grands Projets, VINCI Construction Filiales Internationales, Freyssinet International, Solétanche Bachy (since 2007), Entrepouse Contracting (since 2007), VINCI plc (UK), and CFE (Belgium).

In 2007, following the formation of VINCI Construction France, through the merger of Sogea Construction and GTM Construction, major work has been started to harmonise methods and resources. This involved extending the use of the internal control charters and manuals previously developed and used by Sogea Construction to the new sub-division and pursuing a project to replace the financial management and accounting systems, launched in 2006, which should enable a single tool to be selected and deployed. This unification should allow internal control to be simplified and strengthened.

At the same time, various internal audit assignments were conducted in 2007. The two main ones were at regional management level, in the Rhône-Alpes and South-west regions, which together account for several dozen profit centres audited.

The points looked at in priority in these audits were:

- order-taking;
- purchases;
- production of financial information.

In 2007, Freyssinet International continued the audit campaign started in 2006 on the basis of a very detailed questionnaire, based on the Group questionnaire and adapted, focusing mainly on financial, legal and computing issues. Five internal audit assignments, of which four were outside France, were also carried out, looking at procedures and accounts.

VINCI PLC (UK) has started a project to overhaul its management tools and redefine its internal control staff's duties and resources. Run by an interdisciplinary team (the Finance Leadership Team), the aim of this project is to harmonise, unify and reinforce procedures and computing tools, thus contributing to an improvement of the internal control culture in all the enterprise's functions, enhancing the effectiveness of internal control.

Solétanche Bachy joined the Group in 2007. One of the main areas of action taken with regard to internal control since that date has been the deployment of the Group's rules and procedures throughout the sub-division.

Like VINCI Construction Grands Projets and a large part of VINCI Construction France, Solétanche Bachy's main subsidiaries are certified ISO 9001:2000; this results from the implementation and strict application of numerous operational and administrative procedures. This has also allowed an internal control culture to be developed.

VINCI Construction Filiales Internationales has continued the development of a corpus of inter-departmental internal control rules, building on those laid down by the Group. Several internal audit assignments have also been carried out, in particular in Eastern Europe.

VINCI Energies has continued the work commenced in previous periods, and 37 new process specification forms have been added to the division's internal control manual. The division's specific self-assessment questionnaire has been added to, with the number of questions increasing from 281 to 344. It was completed by 630 profit centres in 2007 (compared with 580 in 2006), representing 95% of the total of the division. The division's internal control staff carried out 24 assignments in 2007, of which 5 in profit centres outside France (three in Germany, one in the Czech Republic and one in Poland). Various processes were reviewed, with particular emphasis on order-taking. In addition, staff from the division's various finance departments conducted 71 internal control reviews in its profit centres, in particular in order to verify correct application of the internal control manual.

In 2007, **Eurovia** continued the work already under way on strengthening its internal control. Progress has been made in the harmonisation and continuing deployment of methods and management tools (Kheops, Ermes) across the division. Since the beginning of 2007, these have been in use in the UK and the USA. They are now used in all the French, and most of the foreign, businesses, enabling greater homogeneity in the processing of accounting, financial and management data, together with greater transparency, thus further facilitating their analysis and enabling simpler and more systematic control.

At the same time, the staffing and resources of the internal control departments – located in centres of shared services – have been increased. This enables them to provide greater services to operational entities and to act more proactively.

Likewise, the implementation of Group internal control rules applicable throughout Eurovia has contributed to this harmonisation. The implementation of a risk-centred approach in the division's holding company's departments and the mapping of risks have also contributed in 2007 to a heightening of employees' awareness of control. In the future, this approach will be adapted and extended throughout the division.

The division's internal audit department conducted 29 assignments in 2007, of which 10 were outside France. The key areas considered in these audits included:

- order-taking and monitoring of the order book;
- the management of subcontracting and the associated contractual formalities;
- HR management procedures;
- use of the division's management tools, and in particular inclusion in Kheops.

VINCI Concessions has the means to coordinate the implementation of internal control, which remains the responsibility of the division's constituent companies.

In addition to VINCI Concessions' resources, ASF, ESCOTA and VINCI Park also have their own audit functions. The VINCI Concessions internal audit department also carries out specific reviews of some infrastructure concession entities directly, and these are updated regularly.

In 2007, several dozen assignments were carried out at VINCI Park to ensure that the procedures for the operation of its car parks were complied with. Particular attention was paid by ESCOTA to the procedures for delegating authority and rights of signature. Lastly, Cofiroute has sought to verify the quality of its toll debt collection and anti-fraud procedures. The assignments carried out in the various companies in 2007 revealed no anomalies that would raise doubts as to the level of internal control in the entities audited.

VINCI Immobilier continued the project commenced in 2006 to overhaul all its procedures, which was made necessary by the merger of Sorif and Elige that led to its formation.

Following a phase in which existing arrangements were identified and analysed, internal control procedures have been established and implemented.

A review of IT tools has also been carried out. This allowed a mapping of IT risks to be drawn up, which was used extensively when deploying new IT facilities.

As from 2008, all these tools (procedures and new IT systems) should enable further improvements to be made to internal control.

5.3 Work to be done in 2008 and beyond

VINCI's various divisions are aware of the importance of internal control and are deploying the necessary resources in consequence.

In 2008, the priority areas for improvements identified for all divisions include:

- continuation of the formalisation of the internal control rules in divisions or their main entities, in order to have comprehensive standards, adapted to the various businesses but covering all internal control issues;
- continued deployment of management tools that are common to the various divisions, especially in the foreign subsidiaries;
- integration of the entities acquired in 2007, by deploying the procedures and resources common to the Group and those specific to their division, to ensure rapid dissemination and implementation of the Group's internal control culture, tools and practices;
- assessment of internal control, in particular by sampling during specific internal audit assignments carried out by management controllers or internal auditors assigned solely to those duties.

Moreover, it has been decided to undertake a review of the divisions' and sub-divisions' information systems, in order to assess their quality, long-term viability and security. This project, run by the Group's Internal Audit Department should enable the risks relating to internal control and information systems to be mapped.

This review will take most of 2008.

It will enable precise analyses to be made of the various situations and, if necessary, detailed work programmes to be devised to remedy any anomalies identified.

The annual internal control survey based on the self-assessment questionnaires will be extended further, in particular to the entities acquired in 2007, but also to a larger number of foreign entities. Lastly, to improve the use made of the questionnaires, they will be adapted for certain business lines – mainly concession operation – and the computer system used will be improved to allow each division to make better use of the data relating to its level.

VINCI will strive to continue to improve the organisation of internal control within the Group, while maintaining light command structures, at both holding company and divisional level and pursuing the following objectives:

- ensure the correct application of the Group's rules and procedures;
- monitor changes in regulatory requirements;
- maintain effective management of the main risks;
- guarantee financial information of quality.