

REPORT OF THE CHAIRMAN ON THE WORK OF THE BOARD OF DIRECTORS AND ON INTERNAL CONTROL PRO- CEDURES, AS REQUIRED BY THE FINANCIAL SECURITY ACT

Article L. 225-37 of the French Business Code (modified by Article 117 of the French Financial Security Act of 17 July 2003) requires the Chairman of the Board of Directors of VINCI to report on:

- how the Board of Directors' work is prepared and organised; and
- the internal control procedures put in place by the Group.

The Chairman's report on the work of the Board of Directors is given in paragraph 3 of the Corporate Governance chapter, on page 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 each profit centre manager to take the required operational decisions rapidly, a decentralised organisation has been implemented in each of the four business lines (Construction, Roads, Energy and Concessions).

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

This obligation is carried out in compliance with the following principles of conduct and behaviour, to which VINCI has resolved to make a strong commitment:

- rigorous compliance with the rules common to the whole Group, in particular in respect of delegation (see paragraph 3.3), acceptance of business (see paragraph 4.1) and 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;
- 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 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;
- 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, 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 or specific assignments in order, in particular, to satisfy themselves that these principles are applied effectively.

2. THE OBJECTIVES OF INTERNAL CONTROL

2.1. DEFINITION

Pending publication of the recommendation being prepared under the aegis of the AMF, VINCI again in 2005 adopted the definition of the Committee of Sponsoring Organisations (COSO), which is the most commonly accepted definition internationally:

"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."

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 THE ENVIRONMENT OF INTERNAL CONTROL

3.1. THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE

The VINCI 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 in the Group's business, in particular its major strategic choices.

The Board of Directors has delegated certain specific tasks to the Audit Committee regarding internal control and risk management, such as for example the monitoring of provisions and off-balance sheet commitments.

3.2. THE EXECUTIVE COMMITTEE

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

Chairman of the Construction business line, the Group's Vice-President, Chief Financial Officer and its Vice-President, Corporate Communication, Human Resources and Synergies.

In 2005, the Executive Committee had seven members: the Chairman and CEO, who was also the Chairman of VINCI Concessions, the Director and Co-Chief Operating Officer who became Vice-Chairman of the Board of Directors at the beginning of 2005, the two Co-Chief Operating Officers (who are also the Chairmen of the Energy and Roads business lines), the

As from 9 January 2006, the members of the Executive Committee are: the Group's Chief Executive Officer, the Chairmen of the Construction, Energies and Roads divisions, the Chief Executive Officer of VINCI Concessions, the Executive Vice-President, Chief Financial Officer and its Executive Vice-President, Corporate Communications, Human Resources and Synergies.

3.3. GUIDELINES

The Chairmen of the companies heading business lines (VINCI Energies, Eurovia and VINCI Construction) and the Chief Executive Officer of VINCI Concessions exercise the powers given to them by law. Under the Group's internal organisation, they are also required to comply with the guidelines issued by VINCI's Chief Executive Officer. These guidelines apply to the following areas:

- acceptance of new business, replies to tenders, offers of services and for projects, studies, provision of services, concessions (including public private-partnerships) and project organisation;
- real-estate investments;
- financial investments and divestments;

- employment matters;
- financial and banking relations, tax, insurance;
- guarantees, collateral and security;
- external and internal communication;
- major risks.

In particular, these guidelines require compliance with the holding company's procedures regarding the acceptance of new business or the making of investments. These procedures define the thresholds above which specific authorisation has to be obtained or prior information submitted to the Chairman 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 holding company's general procedures and to supervise the improvement of procedures in place in divisions, while ensuring that they are adapted to the Group's situation and organisation, in compliance with the demands of the Financial Security Act. It also organises the meetings of the VINCI Risk Committee charged with examining and authorising the acceptance of new business that exceeds certain thresholds (see paragraph 4.1). It records and follows up the Risk Committee's decisions. Lastly, it un-

dertakes specific assignments requested either by the Group's General or Financial Management or the Management of the various business lines. The internal audit department works with business lines' 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 THE BUSINESS LINES

The holding company has staff restricted to some 150 people, suited to the Group's decentralised structure. The holding company's various 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 business lines on technical matters without interfering in operational decisions, which remain the business lines' responsibility.

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 business line, in particular for the monitoring of projects and forecasting of results, especially for contracts spanning several years.

4.1. PROCEDURES FOR AUTHORISATION OF NEW BUSINESS: THE VINCI RISK COMMITTEE

Strict procedures are applied before orders are accepted. All replies to tenders that exceed set thresholds must be authorised in accordance with the Group's procedures.

The VINCI Risk Committee has to assess:

- acquisitions and disposals of activities;
- the terms and conditions of submitting offers and in particular the related technical, legal and financial commitments;
- all transactions relating to property development, concessions or long-term commitments, including the associated financing.

This procedure covers all public- or private-sector business whatever the manner in which the enterprise is contacted (e.g. directly, or through an invitation to tender, project organisation, a public-private partnership or a concession), both in France and in foreign countries.

It applies to all contracts of an amount exceeding a threshold set in the procedures; this amount relates to the operation in question taking all lots together, whatever the share obtained by Group entities.

Other thresholds, lower than those necessitating consideration by the Risk Committee, trigger submission of prior information to VINCI General Management on an alert form. Lastly, under the system of delegation and sub-delegation in place, other thresholds trigger a requirement for a formal agreement from the business line's General Management, under the procedure specific to and defined by each business line.

The Risk Committee's objective is to examine business that, particularly because of its size, financial structure, location or specific nature, bears a special risk; other factors may be adopted as criteria for examination, in particular regarding tenders that involve a large technical risk.

Submission to the Risk Committee constitutes formalisation of the commitment made by the manager of the subsidiary in question as to the expected level of profit on the project presented.

The Committee is usually composed of the Chief Executive Officer or Co-Chief Operating Officer, the Chief Financial Officer, and the Chief Audit Officer (for the holding company); the Chairman of the business line concerned and representatives from the operational staff (the general manager, project manager, design office manager, etc.) and functional departments (legal, insurance, finance, etc.) of the company presenting the project. 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, or long-term concessions contracts).

Submission to the Risk Committee is obligatory whenever the thresholds determined on the basis of the business line and the nature of the business are exceeded.

The holding company's Risk Committee, in its various configurations, met on average three times a week in 2005.

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 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 individual company and consolidated financial statements and forecasts (consolidation of budgets, budget updates and three year forecasts), applying the same procedures as for the preparation of the consolidated financial statements;
- the definition and monitoring of Group accounting procedures and the transition to IFRS as from 1 January 2005;
- 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 business lines 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 business line's position and financial data, in the presence of the Group's Chief Executive Officer and its 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 business lines, and is distributed to the General Management.

The Management of each business line prepares a specific report on the month's key events.

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

The line items entered in the consolidation pack by divisions through the "Vision" system are defined beforehand by the Budgets and Consolidation Department. The Group's accounting rules and methods are also laid down in the form of widely distributed procedures. Specific monitoring is carried out for some areas, e.g. provisions, deferred tax and off-balance sheet commitments.

At each accounts closure, business lines send the Budgets and Consolidation Department a dossier with analysis and comments on 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.

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 and after they have been presented to the Management of the business lines in question and the VINCI holding company.

Before signing their reports, the Statutory Auditors request letters of representation from Group Management and business line management. In these representations, Group Management and business line managements confirm that they consider that the effects of any still unresolved anomalies noted by the Statutory Auditors, either individually or in aggregate, do not have a material impact on the financial statements taken as a whole.

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

5. ACTIONS UNDERTAKEN TO STRENGTHEN INTERNAL CONTROL

5.1. WORK CARRIED OUT BEFORE 2005

In 2003, VINCI initiated an action plan intended to enhance the quality of the internal control system, without bringing into question its features adapted to the management organisation in force in the Group, which combines an entrepreneurial culture, the autonomy of operational staff, 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 processes.

The second stage related to determining and describing the current organisation of internal control, the aim being to describe the internal control arrangements put in place by 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 listing the risks and associated controls. 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 resulted in the identification of the processes that the various entities should assess from an internal control viewpoint. Acceptance of new business was identified as the main area to be assessed as a priority. The main risks inherent in the Group's activities are analysed in the "Risk Management" section of the annual report.

In 2004, the decisions taken in 2003 on the improvement of the internal control environment were implemented:

- distribution of the Chief Executive's guideline (see paragraph 3.3) to all the operational and functional managers of business lines 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

5.2. WORK PERFORMED IN 2005

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 (internal 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 business lines. Analysis was made using various criteria: division, business line, geographical area, revenue.

This survey showed that satisfaction with the quality of internal control increased on average by 8% for the Group against 2004.

Furthermore, an assessment of the operation of the information systems has been launched in a representative sample of entities. These will complete a self-assessment questionnaire comprising four sections:

- the information systems environment;
- acquisition, development and deployment of software and hardware;
- operation;
- information systems security;

This work will continue in 2006.

Internal control in the **Construction division** is performed at the level of each of its sub-divisions: Sogea Construction, GTM Construction, VINCI Construction Grands Projets, VINCI Construction Filiales Internationales, Freyssinet, VINCI PLC (UK) and CFE (Belgium). Each sub-division sets up its own system adapted to its organisation and business, the area where it operates and the size of its sites. Internal control arrangements are therefore well suited to a given entity but in general scarcely applicable to another one. An entity such as VINCI Construction Grands Projets, which is certified ISO 9001 and 14001, has long since implemented rigorous

- at holding company level and a complete revision of operational procedures in the Roads business line; 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 business lines where none existed (Concessions and Energies) and an increase of business lines' 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 appointments or functions, acquisition or disposal of securities and reorganisation, property and other tangible assets, human resources, budgetary management, banking relations and financial commitments, administrative management, media – brands and logos);

procedures that are applied well. Purely French entities, such as Sogea Construction, have made great efforts to strengthen their internal control, in particular as regards the formalisation and appropriate dissemination of operating rules. The procedures also now include constant verification of compliance with the terms of the charter (see paragraph 5.1 above). In 2005, VINCI Construction has sought to strengthen internal control in its Central and Eastern European subsidiaries (in Poland, Hungary, the Czech Republic, etc.) and this will continue in 2006.

The **Energies** division has finished drawing up the first part of a set of rules applicable to all its entities. This relates in particular to the internal control policy and organisation within the division. A second part, involving the drafting of procedures on 18 processes it considers have priority (e.g. acceptance of orders and debt collection), will be completed in 2006.

The VINCI Energies internal audit department formed at the end of 2004 carried out 27 assignments in 2005.

VINCI Concessions formed its internal audit department at the end of 2004. While following each of the division's specific activities, the initial internal audit work programme looked at those entities that were considered as having the greatest autonomy rather than the sectors making the largest contribution to profits. The objective of these first assignments was therefore to determine the situation in entities that were sometimes far from the centre. Future assignments will focus more on monitoring implementation of the division's procedures on a recurring basis.

VINCI Concessions conducted 12 internal audits in 2005, at Cofiroute (1), VINCI Park (4), Airport Services (4) with 3 in the other concessions. In general, the audits confirmed the implementation, within the entities audited, of the division's internal control procedures regarding develop-

ment (authorisation of new business) and the production and reliability of financial and accounting information.

In 2005, Eurovia's objectives were to:

- harmonise and fine-tune formalisation of certain procedures, in particular in the area of operations;
- improve internal control by continuing the deployment of the division's management methods and procedures in certain foreign subsidiaries;
- progressively deploy the division's computer system in foreign subsidiaries.

With the completion of the project, it is evident that:

- the division's organisational structure, with its shared service centres, provides a balanced share of power between operational and functional responsibilities that is favourable to the performance of internal control;

5.3. WORK TO BE DONE IN 2006 AND BEYOND

VINCI's various business lines now have an awareness of internal control and are organised to make progress in this area. The two priorities for the coming years have been defined as follows:

- to strengthen the degree of internal control in foreign subsidiaries, in particular by appointing full time financial controllers and deploying the management tools used in France;
- to assess internal control, in particular by sampling during specific internal audit assignments.

The annual internal control survey based on self-assessment questionnaires will be introduced in more operational or functional entities abroad. The information collected will result in the preparation of annual action plans for each country and division.

- the management methods have been formalised (in the form of a management manual, written procedures and guides);
- an internal audit charter has been prepared and distributed within the division; the internal audit department carried out 32 assignments in 2005, resulting in recommendations that will be followed up;
- the procedures for the acquisition of companies and control over tendering are correctly defined and followed;
- the involvement of the division's General Management in the execution of management control and internal audit functions strengthens their effectiveness.

In its international subsidiaries, Eurovia started deployment in 2005 of the Kheops management information system, which is a version of the Khepra system already used in France as adapted for the foreign entities. Eurovia's management principles will therefore be gradually implemented across the whole division.

While striving to continue to improve the organisation of internal control within the Group, VINCI intends maintaining light command structures, at both holding company and divisional level. The Group's operating principles, based on the autonomy of operational entities, will be widely disseminated and compliance with them will be imperative, the objectives being to:

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