

Report of the Chairman of the Board of Directors on corporate governance and internal control procedures

In accordance with Article L.225-37 of the French Commercial Code, the objective of this report of the Chairman of the Board of VINCI is to give an account of the composition of the Board of Directors, the application of the principle of equal representation of men and women on the Board, how the Board's work is prepared and organised, and the risk management and internal control procedures the VINCI Group has put in place.

This report was prepared with the Chairman in liaison with the Company's Finance Department (the Audit Department being included therein) and Legal Department.

The "Corporate governance" chapter of this report was prepared in liaison with the VINCI Group's Legal Department after consultation with all persons mentioned in the chapter and was then submitted to the Appointments and Corporate Governance Committee. The "Company officers' remuneration and interests" section was submitted to the Remuneration Committee.

The "Risk management and internal control procedures" chapter was prepared with the input of the VINCI Group's business lines and divisions. The required information was gathered from key personnel responsible for risk management and internal audit procedures. This chapter of the report was submitted for approval to the Audit Committee.

This report was approved by the Board of Directors at its meeting of 7 February 2017.

A. Corporate governance

The following points form an integral part of the "Corporate governance" chapter of the Report of the Chairman of the Board of Directors:

- Rules of corporate governance (page 133)
- Organisation of VINCI's corporate governance (pages 133 to 135)
- Composition of the Board of Directors (pages 136 to 137)
- Independence of Board members (page 143)
- Conditions of preparation and organisation of the work of the Board (pages 146 to 149)
- Assessment of the composition and functioning of the Board of Directors (pages 150)
- Company officers' remuneration and interests (pages 150 to 160)
- Formalities for participation of shareholders in the Shareholders' General Meeting (page 164)
- Publication of information required by Article L.225-100-3 of the French Commercial Code (page 206).

B. Risk management and internal control procedures

1. Introduction

1.1 Reference framework and definitions

In July 2010, the French stock market regulator, the Autorité des Marchés Financiers (AMF), published a document entitled "Risk management and internal control systems: reference framework". The VINCI Group uses this document as its reference framework.

"Risk" is the possibility that an event might take place with consequences that would adversely affect the Group's performance and achievement of its objectives, be they strategic, operational or financial, or related to the Group's reputation or compliance with laws and regulations.

The risk management and internal control systems participate in a complementary manner in keeping control over the Group's business.

The **risk management system** aims to identify and analyse the principal risks that the Group's subsidiaries encounter. It helps to:

- preserve the value, assets and reputation of the Group;
- secure decision-making procedures and other internal processes;
- ensure that initiatives are in line with the Group's values;
- foster a shared view of the principal risks among employees.

The **internal control system** is a set of resources, procedures, initiatives and conduct that correspond to the characteristics of the Group's businesses and that aim more specifically to ensure that:

- the instructions and guidelines set by the Executive Management are implemented;
- laws and regulations are complied with;
- the internal processes function correctly, notably those contributing to the safeguarding of assets;
- financial reporting is reliable.

These systems, however well designed and implemented, cannot provide an absolute guarantee that the Group will achieve its objectives.

1.2 Scope of risk management and internal control

In addition to managing a system specific to the VINCI holding company, the Group also ensures that appropriate risk management and internal control systems function in its subsidiaries.

The scope of risk management and internal control covers fully consolidated subsidiaries (see “List of the main controlled companies” in Note O to the consolidated financial statements).

2. Environment and organisation

2.1 Principles of action and conduct

The businesses in which VINCI operates require the personnel involved to be geographically close to customers in order to ensure the prompt delivery of solutions that are suited to their needs. To enable the manager of each business unit – of which there are around 3,000 in total in the Group – to take the required operational decisions rapidly, a decentralised organisation has been implemented in each business line.

In this context, the Group has delegated authority and responsibility to operational and functional staff at all levels of the organisation. These staff fulfil their responsibilities in compliance with the general guidelines (see paragraph 4.2) and with VINCI’s principles of action and conduct:

- compliance with the rules common to the whole Group in respect of commitments, risk-taking (see paragraph 4.3), acceptance of contracts (see paragraph 4.3), and reporting of financial, accounting and management information (see paragraph 4.5);
- transparency and loyalty of managers towards their line management superiors and towards the functional departments of the business lines and the holding company. An integral part of operational managers’ duties is to take decisions on matters falling within their area of competence, within the framework of the general guidelines they have received and accepted. Nevertheless, any significant difficulties encountered must be handled with the assistance, as necessary, of their line management superiors or the functional departments of the business lines and the VINCI holding company;
- compliance with the laws and regulations in force in the countries where the Group operates;
- adherence to the Code of Ethics and Conduct;
- responsibility of operational executive managers to communicate the Group’s principles governing action and conduct to their staff by appropriate means and to set a good example, the responsibility for which cannot be delegated;
- health and safety of individuals involved in the Group’s activities (employees, external service providers, subcontractors, etc.);
- a culture of financial performance.

2.2 Participants in the risk management and internal control processes

VINCI’s **Board of Directors** is a collegial body that is responsible for defining the Group’s strategic choices, ensuring that these choices are properly implemented and that the Group functions properly. It carries out the controls and verifications that it believes are timely and appropriate. It considers all major matters concerning the Group’s business. In its annual management report, the Board sets out the principal risks and uncertainties the Group faces.

In 2003, the Board adopted a set of internal rules and created four specialised committees: the Audit Committee, the Strategy and Investments Committee, the Remuneration Committee, and the Appointments and Corporate Governance Committee. The tasks delegated to the **Audit Committee** and the principal activities carried out in 2016 in this regard are presented in chapter D, “Corporate governance”, of the Report of the Board of Directors, page 147. They are in line with the recommendations of the Afep-Medef code. At the 7 February 2017 meeting of the Board of Directors, the Board’s internal rules were modified, in particular in order to take into account the measures resulting from the 17 March 2016 Order relating to Statutory Auditing, as well as the revisions made to the Afep-Medef code in November 2016.

The **Executive Committee**, composed of 13 members at 7 February 2017, is in charge of implementing the Group’s strategy, and of defining and monitoring the enforcement of its risk management, finance, human resources, safety, IT and insurance policies.

The **holding company’s** functional departments ensure that the Group’s rules and procedures as well as the decisions of VINCI’s Executive Management are correctly enforced. Furthermore, and depending on the needs that are expressed, these departments advise business lines on technical matters without interfering with operational decisions, which are the responsibility of the business lines under the Group’s decentralised structure. The holding company functioned with a staff of 264 people as of 31 December 2016.

An **Ethics Officer**, based in the holding company, ensures that the Code of Ethics and Conduct is disseminated, understood and applied throughout the Group, in liaison with the subsidiaries’ operational and functional departments. The Ethics Officer’s principal initiatives are detailed on page 29. His/her contact details are available on the VINCI intranet. Employees may contact the Ethics Officer directly and confidentially.

The **Audit Department**, which reports to the Chairman and Chief Executive Officer of VINCI, has a four-part role.

- Concerning risk management: based on guidelines from the Group’s Executive Management, it heads up the deployment and implementation of a structured system that makes it possible to identify, analyse and handle the principal risks. The Audit Department coordinates the risk management system by giving methodological support to the subsidiaries’ operational and functional departments. It organises and ensures the follow-up for the meetings of the VINCI Risk Committee, which reviews and authorises tenders exceeding certain thresholds set by the Group’s Executive Management or presenting particular technical or financial risks.
- Concerning internal control: in addition to drafting and disseminating the general internal control procedures set by the holding company, the Audit Department organises the annual self-assessment survey on the internal control of the Group’s subsidiaries.
- The department helps run the fraud prevention system in collaboration with the Security, Information Systems, Treasury and Financing departments.
- Concerning auditing: the department carries out its own assignments in the field, alongside or in support of the work performed by the business lines and by the holding company’s functional departments.

The **business lines** carry out their activities based on the principles of action and conduct described in paragraph 2.1. The operational teams in each business line are monitored at several levels: operational management, support functions (cost control, quality, safety, IT) and periodic internal audits.

Various committees bring together the people involved in decision-making, in particular the VINCI Risk Committee (see paragraph 4.3 below for a description of its way of functioning), the business line risk committees, and the treasury committees (see Note J.25 to the consolidated financial statements, page 273).

3. Risk management system

The policy set by VINCI's Executive Committee aims to comply with the legal requirements and to ensure that risks are monitored in a formalised, systematic and uniform manner as possible. Risk monitoring is integrated into the reporting process (for accounting and financial, health and safety, social and environmental data) and into the schedules set by the existing procedures related to commitments and periodic monitoring of operations as described in section 4 below. Through this approach, the Executive Management is informed on risks that have materialised, their consequences and related action plans.

Risk maps have been created for all of the Group's 11 business lines and divisions as well as for VINCI SA, thereby encompassing all the Group's activities in line with the methodology of the white paper entitled "Implementing the AMF reference framework". These maps are reviewed annually. The review involves:

- listing the main sources of identifiable risk, either internal or external, that represent obstacles to the achievement of the Group's objectives and which can be financial risks, risks to people or reputation risks;
- assessing risk severity on a qualitative scale, taking into account the potential impact, likelihood, and degree of control of the various events constituting risks;
- implementing proper handling of these risks.

Risk scorecards are created from the risk map for each of the business lines and divisions. They are used to present and assess, in a uniform manner, events that might affect projects examined by the Risk Committee. As part of the annual review of these risk maps, analysis of the financial risks related to climate change was initiated. The measures taken by the Group to reduce carbon emissions are set out in chapter E, "Workforce-related, environmental and social information", of the Report of the Board of Directors, paragraph 2.3, "Combating climate change", pages 183 to 185.

External fraud prevention involves several Finance Department and Security Department units. The central system includes upward reporting of information on attacks directed at the holding company and the business lines, plus analysis followed by dissemination of specific information and recommendations to CFOs and the Group's anti-fraud coordinators. In this regard, two fraud warnings were posted on the Group's intranet in 2016 and a booklet entitled "Fighting external fraud" was distributed in three languages. In addition, an internal debriefing was held regarding the fake press release sent to news agencies on 22 November 2016. It was aimed at improving our ability to prevent this risk and inform partners of the importance of verifying information.

Internal fraud prevention is based on the Code of Ethics and Conduct as well as on specific training or awareness initiatives.

4. Internal control system

The main procedures described below are common to all companies in the Group. They are complemented by specific procedures within each business line, in particular for the monitoring of projects and forecasting of results.

4.1 Compliance with laws and regulations

The Legal Department of the holding company is responsible for:

- maintaining a legislative watch related to the various applicable rules;
- informing affected employees about rules pertaining to securities transactions;
- monitoring major acquisition projects and disputes.

As indicated in the "Sustainable development" chapter, page 33, particular emphasis is placed on:

- safety of personnel on worksites and engineering structures through active implementation of the Group's accident prevention policy;
- purchasing and subcontracting.

4.2 Application of the guidelines and instructions of the Executive Management

The Chairman of VINCI Autoroutes, the Chief Executive Officer of VINCI Concessions, the Chairmen of the companies heading business lines in the Contracting business (VINCI Energies, Eurovia and VINCI Construction), 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 for them by VINCI's Chairman and Chief Executive Officer.

These apply to the following areas:

- adherence to the Code of Ethics and Conduct and the VINCI Manifesto;
- new commitments;
- reporting to the holding company of accounting and financial information, and information relating to human resources, safety, disputes and litigation, insurance policies and claims, etc.

These general guidelines concern in particular compliance with the holding company's procedures regarding bidding or investments. These procedures define thresholds above which specific authorisation must be obtained from the appropriate committees, namely the Risk Committee (see paragraph 4.3) or the Board of Directors' Strategy and Investment Committee, or where prior notifications must be issued to the Chairman and Chief Executive Officer of VINCI and/or to certain VINCI functional departments.

These guidelines are cascaded through the organisation by the heads of the business lines to their operational and functional staff for the provisions concerning them, as well as to managers serving as company officers in the companies in their business line.

4.3 Procedures related to new commitments – the VINCI Risk Committee

The role of the VINCI Risk Committee is to assess, ahead of the commitment phases:

- acquisitions and disposals of businesses;
- the terms and conditions of tenders for construction works which, by virtue of their complexity, specific financing characteristics, location or technical characteristics, entail specific risks, especially those of a technical, legal or financial nature;
- property development transactions;
- public-private partnerships (PPPs), concessions or long-term commitments.

The monetary thresholds for vetting by the Risk Committee before a bid is submitted are defined in the general guidelines. They apply to the entire project, taking all packages together. Thresholds below those necessitating a review by the Risk Committee require that an information sheet be sent to VINCI's Executive Management.

Risk Committee meetings are usually attended by the following members:

- the Chairman and Chief Executive Officer of VINCI or a delegated executive vice president for the most important projects;
- the Chairman (or Chief Executive Officer) of the business line involved;
- the Executive Vice-President and Chief Financial Officer of VINCI;
- the Chief Audit Officer;
- the operational representatives of the entity presenting the project.

The VINCI Risk Committee, in its various configurations, met 287 times in 2016 and reviewed 360 projects.

4.4 Procedures related to monitoring of operations

The business lines have an operations monitoring system tailored to the specific nature of their activities, which makes it possible to regularly monitor the progress of projects and contracts as well as human resources (HR) statistics. These systems are compatible with those used to prepare and process financial and accounting information as described below, as the holding company performs a consolidation for the principal indicators.

Monthly dashboard reports on business, new orders, the order book and the Group's net financial debt are prepared by the Finance Department on the basis of information provided by the business lines.

The senior management of the business lines and divisions prepares a monthly newsletter on key events.

The budget procedure is common to all Group business lines. It is built around five key dates in the year: the initial budget for year Y at the end of year Y-1, followed by four updates in March, May, September and November of year Y.

At these times, the performance of each business line and division is examined in the presence of the Group's Chairman and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of VINCI.

Lastly, the business lines also participate in regular monitoring of VINCI's social and environmental responsibility commitments as indicated in the "Sustainable development" chapter, pages 26 to 39, and in HR monitoring, with a particular emphasis on the safety of people working at each of the Group's sites.

4.5 Procedures related to the preparation and processing of financial and accounting information

The Budgets and Consolidation Department, reporting to the Finance Department, is responsible for the integrity and reliability of VINCI's financial information (parent company and consolidated financial statements), which is disseminated inside and outside the Group. To ensure the statements are produced, the department is specifically in charge of:

- preparing, approving and analysing VINCI's half-year and annual parent company and consolidated financial statements, as well as quarterly information, forecasts and the monthly dashboard reports;
- identifying, consolidating, monitoring and controlling the off-balance sheet commitments of the Group's subsidiaries;
- establishing, disseminating and monitoring the Group's accounting procedures and checking their compliance with the accounting standards in force;
- coordinating the Group's financial information system, which includes the consolidation process and unifies VINCI's various reporting systems.

The Budgets and Consolidation Department establishes the timetable and closing instructions for the preparation of the half-year and annual accounts and disseminates these in the business lines. The Group's accounting rules and methods are available on VINCI's corporate intranet. At each accounts closing, business lines transmit a package to the Budgets and Consolidation Department containing an analysis of the consolidated data submitted and comments thereon.

The Statutory Auditors present their observations, if any, on the half-year and annual accounts to the Audit Committee before they are presented to the Board of Directors.

Before signing their reports, the Statutory Auditors request representation letters from VINCI's Executive Management and senior management of the business lines.

5. Actions undertaken to strengthen risk management and internal control

5.1 Tasks carried out in 2016

The **annual self-assessment survey** of internal control quality in the VINCI Group was carried out on 492 legal entities in 2016 (including 174 outside metropolitan France), representing 84% of the Group's consolidated business. Apart from the recurrent topics related to the internal control system and to financial and accounting information, the specific topic highlighted this year was project acceptance procedures and warranty periods. The survey was conducted using specialised software that also enables entities to manage their action plans. It included a statement signed by the company officers and the chief financial officers of the participating entities indicating whether internal control was both sufficient and enforced. The report prepared by the holding company's Audit Department was presented to the Audit Committee in December 2016.

The business lines and divisions prepared reports summarising the specific actions carried out in 2016 and mentioning in particular **audits** (around 100) **and reviews carried out** (over 200). It is their responsibility to follow up on recommendations.

In addition, VINCI's Audit Department carried out audits at VINCI Airports, Eurovia, VINCI Energies and VINCI Construction. These various controls did not reveal any problems that might have a significant impact on the business or financial statements of the Group.

5.2 Tasks to be carried out in 2017 and beyond

VINCI aims to continue improving on how risk management and internal control is organised within the Group, while maintaining streamlined centralised structures, both at the holding company level and at the level of the business lines, in accordance with the Group's decentralisation principles. The various measures to be taken in relation to France's Sapin 2 Act will be decided on and put in place in compliance with the calendar set by the Act.

5.3 Cyber risks

As all activities increasingly depend on digital technology, the Group has strengthened its structure in this regard, deploying an active, three-pronged strategy:

- strengthening the protection of servers and transmitted information;
- raising awareness among personnel;
- gradually implementing backup and business recovery plans in the various business lines and departments.