

# Report of the Chairman of the Board 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 4 February 2016.

## 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 137)
- Organisation of VINCI's corporate governance (pages 137 to 139)
- Composition of the Board of Directors (pages 140 to 141)
- Independence of the members of the Board of Directors (page 148)
- Conditions of preparation and organisation of the work of the Board (pages 149 to 153)
- Assessment of the composition and functioning of the Board of Directors (pages 153 to 154)
- Remuneration and benefits of the Chairman and Chief Executive Officer and of the Chief Operating Officer (pages 154 to 164)
- Formalities for participation of shareholders in the Shareholders' General Meeting (page 168)
- Publication of information required by Article L.225-100-3 of the French Commercial Code (page 210).

## 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.

Like any set of controls, these two 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 relates to fully consolidated subsidiaries (see the 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 section 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 section 4.3), acceptance of contracts (see section 4.3), and reporting of financial, accounting and management information (see section 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 country where each Group company 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 (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 conducts controls and checks that it considers relevant. It considers all major matters concerning the Group's business. In its 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. It delegated to the **Audit Committee** responsibility for the monitoring of assignments defined by the 8 December 2008 Order transposing the European directive on statutory auditing into French law. The principal activities carried out in 2015 in this regard are presented in chapter D, "Corporate governance", of the Report of the Board of Directors, pages 150 to 151. They are in line with the recommendations of the AMF working group on audit committees (published in July 2010) and the 2013 Afep-Medef code.

The **Executive Committee**, composed of 12 members at the time of writing of this report (see page 21), 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 Executive Management's decisions are correctly enforced. Furthermore, and depending on the needs that are expressed, these departments advise business lines on technical matters but do not interfere with operational decisions, which are the sole responsibility of the business lines under the Group's decentralised structure. The holding company functioned with a staff of 253 people at 31 December 2015.

The centrally based **Ethics Officer**, in liaison with the operational and functional departments, ensures that the Code of Ethics and Conduct is properly disseminated, understood and applied throughout the Group. The main initiatives in this regard are detailed on page 32. The Ethics Officer's contact details are available on the VINCI intranet. Any employee may contact the Ethics Officer directly and in total confidentiality.

The **Audit Department**, which reports to the Chairman, has a three-part role.

- Concerning risk management: based on guidelines from the Executive Management, it heads up the deployment and implementation of a structured system, making 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 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 and helps run the fraud prevention system.
- Concerning auditing: it 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 section 2.1. The operational teams in each business line are monitored at several levels – operational management, support functions (cost control, quality, safety, IT) – and by way of periodic internal audits. Many individuals take part in these various levels of control, which may vary from one business line to another depending on how they are organised. Consequently, it is difficult to uniformly quantify all the resources allocated to these tasks.

Various committees bring together the people involved in decision-making, in particular the VINCI Risk Committee (see section 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 274).

### 3. Risk management system

The policy set by the Executive Committee aims to comply with the legal requirements and to ensure that risks are monitored in as formalised, systematic and uniform a manner as possible. Risk monitoring is integrated into the reporting process (accounting and financial, health and safety, social and environmental) and into the schedules set by the existing procedures related to commitments and periodic monitoring of operations as described in section 4 below. In this way, operational managers are involved, without complicating the Group's internal operating methods. This approach enables the Executive Management to be informed about risks that have occurred, their consequences and the action plans.

Risk maps have been created for all 15 major entities as well as for VINCI SA, encompassing all the Group's activities in line with the methodology of the white paper entitled "Implementing the updated AMF reference framework". These maps are reviewed annually. Mapping involves:

- listing the main sources of identifiable risk, either internal or external, that represent obstacles to the achievement of the Group's objectives;
- 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, which can be financial in nature, but can also impact the Group's human resources or its reputation.

Based on the risk maps created for the major entities, specific risk scorecards are prepared for each business. They are used to present and assess, in a uniform manner, events that might affect projects examined by the Risk Committee.

The fraud prevention system uses these general maps to extract one specific to fraud. External fraud prevention involves several Finance Department units and the Security Department. The central system includes upward reporting of information on attacks directed at the business lines, plus analysis followed by dissemination of specific information and recommendations to CFOs and anti-fraud coordinators. Internal fraud prevention is based on the Code of Ethics and Conduct as well as on specific initiatives and training to raise awareness.

### 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 employees concerned about rules pertaining to share transactions;
- monitoring major acquisition projects and disputes.

Documentation has been distributed and a variety of training and awareness sessions held in this regard, so as to prevent any infringement of regulations or fraud.

As indicated in the "Sustainable development" chapter, page 35, particular emphasis is placed on:

- safety of employees 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 Chief Operating Officer of VINCI/Chairman 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;
- entering into commitments, and in particular bidding for new contracts that are complex, of a significant size or involve significant potential risks; acquisitions and disposals; property transactions; and material off-balance sheet 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 section 4.3) or the Board of Directors' Strategy and Investments Committee, or where prior notifications must be issued to the Chairman and Chief Executive Officer 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 and 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 this review 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 for the m Re: Rapp Pres - 10-SRV - pour pointage ost important projects;
- the Chief Operating Officer of VINCI in charge of Concessions and/or the Executive Vice-President of VINCI in charge of Contracting;
- 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 285 times in 2015 and reviewed 351 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 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 Group's Finance Department on the basis of information provided by the business lines.

Senior management teams at all business lines and divisions prepare monthly reports 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 N at the end of year N-1, followed by four updates in March, May, September and November of year N.

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 its Executive Vice-President and Chief Financial Officer.

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 28 to 39, and in HR monitoring, with a particular emphasis on personal safety.

#### 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 forecasts;
- 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, as well as ensuring that significant transactions are recognised correctly from an accounting standpoint;
- 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 closure 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 closure, business lines transmit a package to the Budgets and Consolidation Department containing an analysis of the consolidated data submitted and comments thereon. The Group's CFO and the CFOs of all business lines review the principal options and accounting estimates.

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 from senior management in each business line.

## 5. Actions undertaken to strengthen risk management and internal control

### 5.1 Tasks carried out in 2015

The **annual self-assessment survey** of internal control quality in the VINCI Group was carried out on 478 legal entities in 2015 (including 166 outside Metropolitan France), representing 83% 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 in 2015 was worksite preparation. 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 2015.

The business lines and divisions prepared reports summarising the specific actions carried out in 2015 and mentioning in particular **audits** (around 100) **and reviews carried out**. It is the responsibility of the business lines and divisions to follow up on recommendations.

In addition, VINCI's Audit Department conducted audits at Eurovia, VINCI Energies and VINCI Construction. Furthermore, an external audit was carried out at VINCI SA on the security of the payment platform.

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 2016 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.