

# 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 by the Chairman in liaison with the Company's Finance Department (the Audit Department being included therein) and Legal Department.

The "Corporate governance" section of this report was submitted to the Appointments and Corporate Governance Committee.

The "Risk management and internal control procedures" section 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 control procedures. This section 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 2015.

## A. Corporate governance

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

- Rules of corporate governance (page 128)
- Organisation of VINCI's corporate governance (page 128)
- Composition of the Board of Directors (page 130)
- Independence of the members of the Board of Directors (page 137)
- Conditions of preparation and organisation of the work of the Board (page 139)
- Assessment of the composition and functioning of the Board of Directors (page 142)
- Principles and rules for determining the remuneration and benefits of the Chairman and Chief Executive Officer and of the Chief Operating Officer (pages 143 to 146)
- Principles and rules for determining the remuneration and benefits of the Vice-Chairman and Senior Director (page 149)
- Principles and rules for the payment of Directors' fees (page 149)
- Formalities for participation of shareholders in the Shareholders' General Meeting (page 154)
- Publication of information required by Article L.225-100-3 of the French Commercial Code (page 193).

## 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 there are appropriate risk management and internal control systems in place in its subsidiaries.

As a result of opening up the capital of VINCI Park to new shareholders in June 2014, VINCI's stake in the company has been reduced to 25% and it is no longer fully consolidated. VINCI Park is therefore no longer included in the scope of risk management and internal control, which relates to fully consolidated subsidiaries (see the list of principal entities in chapter J of the notes 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 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 monitoring the Executive Management performance, defining the Group's strategic choices, ensuring that these choices are properly implemented and that the Group functions properly. It considers all major matters concerning the Group's business. In its report, the Board includes an account of the principal risks and uncertainties the Group faces.

In 2003, the Board adopted a set of internal rules and created four specialised committees: audit; strategy and investment; remuneration; and appointments and corporate governance. 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 2014 in this regard are presented in chapter D, "Corporate governance", of the Report of the Board of Directors, page 140. They are in line with the recommendations of the AMF working group on audit committees (dated July 2010) and the 2013 Afep-Medef code.

The **Executive Committee**, composed of 13 members at the time of writing of this report (see page 129), 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 functions with a streamlined staff (244 people at 31 December 2014).

The centrally based **Ethics Officer**, in liaison with the operational and functional departments, ensures that the Code of Ethics and Conduct is properly understood and applied throughout the Group. 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 plays a leading role in deploying and implementing 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 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.
- Concerning auditing: it carries out its own assignments, 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. 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 paragraph 4.3 below for a description of its way of functioning), the business line risk committees, and the treasury committees (see Note 22 to the consolidated financial statements, page 263).

### 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 falls in the reporting process (for accounting and financial, health and safety, environmental, etc.) and in the meetings stated in the existing procedures related to commitments and periodic monitoring of operations as described in chapter 4 hereafter. This approach involves operational managers, but without complicating the Group's internal operating methods. Thanks to it, the Executive management can subsequently be informed on risks that have occurred, their consequences and the action plans.

A risk-mapping process encompassing all the Group's activities was established in 2009 with a methodology in line with the white paper "implementing the AMF reference framework". This mapping is reviewed annually. It 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.

Risk scorecards are created from the mapping system specific to each business. They are used to present and assess, in a uniform manner, events that might affect projects examined by the Risk Committee.

### 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 about rules pertaining to them;
- 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 infraction or fraud.

As indicated in the "Sustainable Development" chapter, pages 20-31, 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 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 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;
- transactions relating to property development, 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 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 most 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 the Group;
- the Chief Audit Officer;
- the operational representatives of the entity presenting the project.

The VINCI Risk Committee, in its various configurations, met 300 times in 2014 and reviewed 338 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 Finance Department on the basis of detailed information provided by the business lines.

The Executive Management of the business lines and divisions prepares a monthly report 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 the 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 20-31, and in HR monitoring, with a particular emphasis on 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 CFOs of the business lines and the Group 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 Group Executive Management and Executive Management of the business lines.

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

### 5.1 Tasks carried out in 2014

The annual self-assessment survey of internal control quality in the VINCI Group was carried out on 490 legal entities in 2014 (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 topics highlighted in 2014 were hygiene, health, safety and security. The survey was conducted using specialised software that also enables entities to manage their action plans. The report prepared by the holding company's Audit Department was presented to the Audit Committee in December 2014.

To ensure smoother communication within the Group, the following improvements were made to the IT system in 2014:

- implementation of a Group-wide social and collaborative network based on Web 2.0 technologies;
- overhaul of the Group's directory, which has become the basis for identification and authentication of all employees.

An initiative to prevent external fraud, which is included in the risk mapping through several fraud types, has involved several Finance Department units and the Security Department in order to counter the increase in fraud attempts in 2014. The central system includes upward reporting of information on attacks directed at the business lines and dissemination of specific information to CFOs and anti-fraud coordinators. Internal fraud prevention is based on the Code of Ethics and Conduct as well as on related initiatives and training intended to raise awareness.

The business lines and divisions prepared a report summarising the specific actions carried out in 2014 and mentioning in particular audits (around 100) and reviews carried out.

In addition, VINCI's Audit Department carried out audits at Eurovia, VINCI Energies and VINCI Construction. Furthermore, two external audits were carried out at VINCI SA: one on the "Vision3" reporting and consolidation system, and the other on IT system security.

These various controls did not reveal any problems that might have a significant impact on the business or financial statements of the Group.

### 5.3 Tasks to be carried out in 2015 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.