

Report of the Chairman on internal control procedures

Article L.225-37 of the French Code of Commerce (modified by Article 117 of the French Financial Security Act) 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 2 of the Corporate Governance chapter, page 134.

The Chairman's report on internal control procedures follows.

1. Principles governing conduct and behaviour

The businesses in which VINCI operates require its teams to be geographically close to customers in order to provide them promptly with solutions suited to their needs. In order to facilitate this high degree of responsiveness, and 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 decided 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

of both the divisions 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 and government departments, internal relationships, personnel management, safety, etc). An integral part of operational managers' duties is to take decisions alone on matters falling within their area of competence but to handle any difficulties encountered 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 these principles to their staff by appropriate means and to set an example. This responsibility cannot be delegated to functional departments;
- safety of persons;
- 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

The Group has adopted the definition given by 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.

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

3. General organisation and environment of internal control

3.1 The Board of Directors and the Audit Committee

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

The Board of Directors has delegated certain specific tasks to the Audit Committee regarding internal control and risk management.

3.2 The Executive Committee

The Executive Committee has seven members: the Chairman and CEO who is 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 Chairmen of the Energy and Roads business lines), the Chairman

of the Construction business line, the Chief Financial Officer and the Vice-President, Corporate Communication, HR and Synergies. 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.

3.3 Directives

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

- taking new business, replies to tenders and offers of services and for projects, studies, service provision, concessions 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.

These directives define the thresholds above which specific authorisation has to be obtained or prior information submitted to the Chairman and CEO or certain VINCI functional departments or both.

3.4 Internal audit

The internal audit department's role is to supervise the improvement of procedures while ensuring that they are adapted to the Group's situation and organisation, complying with the demands of the Financial Security Act. It also records and follows up the decisions taken by the VINCI Risk Committee, charged with authorising acceptance of business above certain thresholds (see paragraph 4.1). Lastly, it undertakes specific assignments requested either by General Management, or the Group's Financial Management or by the Management of the various business lines.

The internal audit department works with business lines' internal audit staff, with whom it undertakes joint assignments, or personnel seconded for this purpose by the operational department concerned or personnel from certain of the holding company's functional departments. Following the example of Eurovia, which formed an internal audit department several years ago, specific organisations have been set up in 2004 by VINCI Concessions and VINCI Energies. VINCI Construction is reviewing the organisation of its internal control, building on the arrangements already existing within the six sub-groups forming the business line.

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 strongly decentralised structure. The main

task of the holding company's various functional departments is 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 the taking of operational decisions, which remain the business lines' responsibility.

In 2004, the holding company in particular issued guidelines concerning cash management within the Group. It also updated the procedures applicable to the holding company in respect of cash management and accounting.

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 in connection with contracts spanning several years.

4.1. Procedures for authorisation of new business: the Risk Committee

Strict procedures are applied before orders are accepted. All replies to tenders must be authorised on the basis of pre-established thresholds set out in directives given to operational management by the Group Chairman, the General Management of each business line or by the VINCI Risk Committee.

The VINCI Risk Committee has to assess:

- external growth transactions;
- 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 a traditional invitation to tender, project organisation, a public-private partnership, or a concession), both in France and foreign countries.

It applies to all projects of an amount exceeding a threshold set in the business line Management's Directives; the threshold relates to the operation in question as a whole, 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 of authority and responsibility put 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 Committee's purpose is to examine business which, particularly because of its size, financial structure, location or specific nature, may be considered as presenting a special risk; other factors may be adopted as criteria for examination, in particular regarding tenders that include a large technical risk. Submission to the Risk Committee constitutes formalisation of the commitment made by the manager of the entity concerned as to the expected level of profit on the project presented.

The Committee is usually composed of the Chairman, one of the Co-Chief Operating Officers, the Chief Financial Officer, and the Chief Audit Officer (for the holding company), and the manager of the business line concerned and representatives from the operational staff (the general manager, project manager, design office, 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 and long-term contracts in connection with concessions). 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 twice a week in 2004.

4.2 Internal control with respect to financial and accounting information

The Budget and Consolidation Department, part of the Finance Department, is responsible for the production, reliability and analysis of the financial information distributed inside and outside the Group. In particular the Department is in charge of:

- preparing and agreeing the Group's half-year and annual 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);

- establishing and monitoring the Group's accounting policies and procedures, preparation of the transition to the IFRSs with effect from 1 January 2005 and preparation of the opening IFRS balance sheet at 1 January 2004 (the state of progress of the IFRS transition project is described in the IFRS Transition section in the Report of the Board of Directors, page 154);

- co-ordination of the "Vision" Group 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 are formed to examine the position of each business line and its financial data, in the presence of the Group Chairman.

The monthly report on business on a consolidated basis, new orders taken, the Group's order book and the net borrowing position is prepared by the Finance Department at the end of every month for the previous month, 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 Budget and Consolidation Department lays down a timetable and closure instructions for the preparation of the half-yearly and annual accounts. These instructions, sent to the business line Finance Departments, are presented in detail to the staff in charge of consolidation.

The line items in the consolidation pack under the "Vision" system are defined beforehand by the Budget and Consolidation Department. The Group's accounting rules and methods are also laid down in the form of procedures. Provisions for liabilities, deferred tax, and off balance sheet commitments are the subject of specific monitoring.

At each accounts closure, business lines submit a dossier with analysis and comments on the consolidated data to the Budget and Consolidation Department.

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, after they have been presented to the business lines 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 declarations, Group Management and business line managements confirm that they consider that the effects of any misstatements noted by the Statutory Auditors but not corrected are not, either individually or in aggregate, material with regard to 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 their concession activities (airports, car parks and Cofiroute) and allow regular monitoring of the progress of projects.

5. Action plan to strengthen internal control

5.1 The project launched in 2003

VINCI initiated an active approach by launching an action plan in 2003 intended to enhance the quality of the internal control system tailored 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 entities and processes.

The second stage was related to the current organisation of internal control, the aim being to describe the existing internal control arrangements implemented within the Group. Self-assessment questionnaires on the internal control environment, approved by the Executive Committee, were sent at the end of 2003 to managers of a sample of 23 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.

A third stage related to the listing of the risks and the associated controls. The objective of this stage 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 risks and controls that exist within the Group and the business lines. This work resulted in the identification of those processes for which an assessment of internal control should be made by the various entities. The main area to be assessed as a priority was acceptance of new business. The main risks inherent in the Group's activities are analysed in the "Risk Management" section of the Report of the Board of Directors.

5.2 Work carried out in 2004

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

- distribution of the Chairman's directive (see paragraph 3.3) to all the operational and functional managers of business lines in France and abroad, representing approximately 1,000 managers within the Group;
- harmonisation and improvements to the formalisation of certain procedures (through the creation of working groups and specific dedicated resources), including cash management and accounting 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, using outside assistance;
- implementation in certain foreign subsidiaries of management methods and procedures used in France (e.g. at Eurovia, in the USA and the Czech Republic) ;
- 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 10 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 and media – brands and logos);
- specific internal audit field assignments in the Roads, Concessions and Construction business lines in France and abroad;
- selection of a further 67 entities, in addition to those questioned in 2003, for the annual survey based on the internal control self-assessment questionnaires, comprising three parts: the control environment and risk assessment, the control exercised over financial information, and the control exercised over operations and monitoring of projects.

This approach has enabled the analysis made in 2003 to be added to and refined and changes from one year to the next to be monitored.

5.3 Work remaining to be done in 2005 and beyond

VINCI's various business lines now have an awareness of internal control and are organised to make progress in this area. The priorities for the years to come have been defined as follows: formalisation of procedures, strengthening of control in foreign subsidiaries (in particular through the implementation of the management tools used in France), the start of internal control assessment in particular through specific internal audit assignments.

The annual internal control survey based on self-assessment questionnaires will also be introduced in more operational or functional entities, in France and abroad. The information collected will result in annual action plans being prepared.

5.4 Matters under consideration

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 business line level, while ensuring that VINCI's principles of conduct, which are grounded in the autonomy of operational entities, are widely disseminated and imperatively complied with, 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;
- guarantee financial information of quality.