
Report of the Chairman on the work of the Board of Directors and on internal control procedures, as required by the Financial Security Law

A - Introduction

Article L225-37 of the French Code of Commerce (modified by Article 117 of the French Financial Security Law) requires the Chairman of the Board of Directors of VINCI to report on:

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

B - Preparation and organisation of the Board of Directors' work

1. The Board of Directors' work

The Board of Directors' internal rules require that the Board examines and gives prior approval to any significant transactions undertaken by the Company and in particular the determination of its strategic decisions, acquisitions and disposals of equity holdings and assets of a material amount that are likely to alter the structure of the Company's balance sheet and, in any case, all acquisitions and disposals of equity holdings and assets of €500 million or more, as well as any transactions that fall outside the Company's announced strategy.

In 2003, the Board of Directors discussed all major issues relating to the Group's activities, in particular its important strategic choices. The Board met four times in 2003 and the average attendance rate at its meetings was 75 %.

In 2003, the Board:

- approved the financial statements for 2002 and for the first half of 2003 and examined the various budget updates;
- discussed the main acquisition projects: the Group's strategy in the motorway sector and in particular the management of and changes to its holdings of shares in Autoroutes du Sud de la France;
- decided to issue new shares reserved for employees under the Group savings schemes and implemented a new share subscription option plan;
- approved the objectives of the share buy-back programme and decided to cancel the Company's own shares held by reducing the capital stock in order to cancel out the dilutive effect of the exercise of share subscription options;
- undertook a regular examination of the Group's financial situation and changes in its borrowing;

- set the distribution policy to be proposed to shareholders;
- adopted its internal rules, which form a charter of Directors' obligations and duties;
- co-opted a new Director (Quentin Davies);
- named the Director charged with the permanent assessment of the Board's work (Patrick Faure);
- completed the membership of the Audit Committee (Quentin Davies) and the Investment Committee (with François David);
- examined the Group's position with regard to internal control and studied the work undertaken in connection with the Financial Security Law;
- reviewed the situation of the work undertaken by the Finance Department in preparation for the transition to the new IFRS accounting standards.

2. The Board Committees' work

2.1. The Audit Committee

This Committee has the following duties:

- in respect of the **financial statements**: to examine the Group's annual and half-yearly, consolidated and parent company financial statements before they are submitted to the Board; to satisfy themselves that the accounting policies and methods are appropriate and consistently applied from one period to the next; to prevent any non-compliance with these rules; to monitor the quality of the information given to shareholders; and to examine the budgets and budget updates throughout the period, before they are presented to the Board;
- in respect of the Company's **external audit**: to assess proposals on the appointment of the Company's Statutory Auditors and their remuneration and to examine with the Statutory Auditors their work programmes, conclusions and recommendations, as well as actions taken as a result;
- in respect of the Company's **internal audit**: to assess the Group's internal control systems with the managers of the internal audit function and to examine with them the internal audit work programmes and actions, their conclusions and recommendations arising, and the actions taken as a result;
- in respect of **risks**: to satisfy themselves that these are appropriately assessed by the Company, in particular by way of regular review of the schedules of provisions for liabilities and charges and off balance sheet commitments.

This Committee is chaired by Dominique Bazy and its other members in 2003 were Henri Saint Olive and Quentin Davies, none of whom is a member of the Group's General Management. The Committee met three times in 2003 and in particular examined, other than the financial statements:

- the provisions;
- the new information system installed for the production of the consolidated financial statements;
- the organisation set up to prepare for the transition to the adoption of IFRSs;
- the organisation and procedures implemented by VINCI in connection with its internal control, in particular in the context of the Financial Security Law.

2.2. The Investment Committee

This Committee is charged with examining any external growth or divestment projects that are likely to have a material impact on VINCI's business, results or stock market valuation, before they are submitted to the Board.

The Committee is chaired by Dominique Ferrero and its other members are Willy Stricker, Yves-Thibault de Silguy and François David. It met once in 2003.

2.3. The Remuneration Committee

This Committee has the following duties:

regarding remuneration:

- to make recommendations to the Chairman concerning the remuneration, pension and health and death benefit plans, benefits in kind and miscellaneous pecuniary rights, including any options granted to the Chairman, the Co-Chief Operating Officers and main executives of the Group to subscribe to or purchase the Company's shares;
- to propose to the Board an aggregate amount of Directors' fees and the manner of their allocation;

regarding appointments:

- to examine all proposed appointments to Directorships and to provide the Board with an opinion, a recommendation or both;
- to prepare recommendations at the appropriate time regarding succession to the posts of Chairman of the Board, Chief Executive Officer and Co-Chief Operating Officers.

The Committee is chaired by Serge Michel and its other members are Patrick Faure and Alain Minc. It met twice in 2003.

C - Internal control procedures

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, each of the four business lines (Construction, Roads, Energy and Concessions) has a decentralised organisation to enable each profit centre manager to take the required operational decisions rapidly.

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

This responsibility 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 and accounting information (see paragraph 4.2). These common rules, which take account of the high degree of decentralisation and the strong autonomy of operational managers – deliberately restricted in number, given the range of the Group's activities – must be strictly applied by the staff concerned;
- transparency and loyalty of staff towards their line management superiors and towards functional departments. 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, etc). An integral part of operational managers' duties is to take decisions alone on matters falling within their area of competence but to handle these difficulties with the assistance, if necessary, of their line management superiors or the VINCI 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 by appropriate means (orally, in writing or both) and to set an example. This responsibility cannot be delegated to functional departments.
- safety of personnel;
- a culture of financial performance.

Operational managers, at all levels including the highest, regularly carry out visits in the field 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 is obliged to act in all circumstances in the enterprise's corporate interest. It considers all major matters affecting the Group's business, in particular its major strategic choices.

The Board of Directors has delegated the following duties to the Audit Committee regarding internal control and risks:

- the assessment of the Group's internal control systems, with the managers of the internal audit function;
- the examination, with the same people, of the internal audit work programmes and actions, the conclusions and recommendations arising, and the actions taken as a result;
- the regular review of the main financial risks faced by the Group.

3.2. The Executive Committee

The Executive Committee, comprising the Chairman, the Co-Chief Operating Officers, the Chairmen of the Concessions, Construction, Energy and Roads business lines, the Chief Financial Officer and the Vice-President, Corporate Communication, HR and Synergies of VINCI, decides on the Group's strategy and its policies on acquisitions and on risk taking.

3.3. Directives

The Chairmen of the companies heading business lines (VINCI Concessions, VINCI Construction, VINCI Energies and Eurovia) 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 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

There has been an internal audit department at holding company level since the merger of VINCI and GTM. The Chief Audit Officer's role is currently to organise meetings of the VINCI Risk Committee and to undertake specific assignments requested either by General Management or the Group's Financial Management or both, or by the Management of the various business lines. The Chief Audit Officer uses the staff business of lines' internal audit departments, where

these exist, personnel seconded for this purpose by the operational department concerned or 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 Group's strongly decentralised structure means that the holding company has a deliberately small staff, of some 130 people. The main task of the various functional departments is to ensure that the Group's rules and General Management's decisions are applied. Secondly, 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.

4. The main internal control procedures

The main procedures below are common to all companies in the Group. There are also 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 for taking on new business are applied. All replies to tenders must be approved 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 the VINCI Risk Committee.

The VINCI Risk Committee has to assess:

- the terms and conditions of submitting offers and in particular the related technical, legal and financial commitments;
- all transactions relating to project organisation, property development, concessions or related activities, 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 or concession), both in France and foreign countries.

It applies to all projects of an amount exceeding a threshold set in business line Managements' Directives; this amount relates to the operation as a whole, taking all lots together, whatever the share obtained by Group entities.

Other thresholds, lower than those necessitating consideration by the Committee, trigger submission of prior information to VINCI General Management by way of an alert sheet. 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 each business line. The Committee's objective is to examine business which, particularly because of its size, financial structure, location or specific nature, may be considered as bearing 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 composed of the Chairman, the Co-Chief Operating Officer, the Chief Financial Officer, the Chief Audit Officer, the Manager of the business line concerned and representatives from the operational staff (the general manager, project manager, engineer, etc.) and functional departments (legal, insurance, finance, etc.) of the company presenting the project. 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.

4.2. Internal control with respect to financial and accounting information

The Budget and Consolidation Department, part of the Finance Department, has a special responsibility with respect to the reliability 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, with the objective of transition to the IFRSs for 2005;
- 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, monthly monitoring of commercial data, and monthly monitoring of borrowing).

The budget procedure is common to all Group 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 budget update, management committees are formed to examine the position of each business line and its forecast results, 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 cash situation 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. Key data and events as reported by business line management are included in a monthly information letter.

Annual and half-year accounts closures.

The Budget and Consolidation Department lays down a timetable and instructions for the preparation of the accounts. These instructions, sent to the business line Finance Departments, are presented to the staff in charge of consolidating sub-groups at a meeting held before the closure date.

Each business line prepares its consolidation pack using the "Vision" information system. The line items in the consolidation pack are defined by the Budget and Consolidation Department. Accounting rules and methods are also laid down in the form of procedures. Provisions for liabilities and charges, deferred tax and off balance sheet commitments are the subject of specific monitoring.

Business lines submit a dossier with analysis and comments on the

consolidated data to the Budget and Consolidation Department.

The Statutory Auditors present their observations to the Audit Committee at meetings held to examine the half-year and annual accounts before they are presented to the Board of Directors. The Statutory Auditors also report to the Audit Committee on their work at holding company level and within the main sub-groups, on completion of their work on the half-year and annual accounts.

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 irregularities 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.

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.

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 allow regular monitoring of the progress of projects.

5. Action plan to strengthen internal control

5.1. Launch of the project

VINCI has initiated an active approach by launching an action plan intended to enhance the quality of an internal control system which is tailored to the management system in force in the Group, which combines an entrepreneurial culture, the autonomy of operational staff, transparency and loyalty, and network-based operations.

At the initiative of the Chairman of VINCI, the Co-Chief Operating Officer has asked the Chief Financial Officer to set up a team dedicated to implementation of this project. A Steering Committee has therefore been formed comprising the Chief Financial Officer, the Chief Legal Officer, the Head of the Budget and Consolidation Department, the Chief Audit Officer and the Financial Officers of the Group's main entities.

This project comprises several steps of which the first, now completed, covered the work described below. The initial task is to identify the main risks and the associated controls for the main entities and processes. In a second stage, the quality of the internal control will be assessed.

5.2. Work carried out

Having determined the main entities where initial identification should be made of the main processes, risks and associated controls (namely the lead companies of business lines and their main subsidiaries), the following work was carried out:

Understanding of the internal control: The objective was to obtain an initial view of the Group's internal control arrangements. Self-assessment questionnaires on the internal control environment were prepared by the Steering Committee, reviewed by the Executive Committee, and sent to the Chairmen of the business lines and the