

3.4 CHAIRMAN'S 2006 REPORT ON INTERNAL CONTROL PROCEDURES

In accordance with the Law on Financial Security, the purpose of this report is to describe internal control procedures set up by the company. It focuses on TF1 SA's role as producer and broadcaster of the TF1 channel, but also its mission of co-ordination and participation in implementing control procedures in the subsidiaries over which it exercises exclusive or majority control.

In particular, TF1 monitors the harmonisation of the main financial procedures of the whole Group while respecting the specific characteristics of each business to preserve the appropriateness of the analyses and the speed of decisions. It also implements procedures for identifying risks for the whole scope of its responsibilities to work out appropriate procedures and controls for each critical cycle. The TF1 Group is particularly sensitive to the importance of internal controls, especially concerning accounting or financial matters, where reliability of information is crucial.

This report is the result of a the collection of information and analyses carried out in co-operation with the different contributors to internal control in TF1 and its subsidiaries, resulting in the factual description of the control environment and the procedures in place.

The work has been carried out in the framework of a common benchmark, where each subsidiary was supported in its reflection on its internal control system and the possible areas of improvement.

This approach, which underpins the overall Group internal control environment, is part of a dynamic process of continuous adaptation, which will in time enable TF1 to assess the appropriateness and effectiveness of its internal control.

3.4.1 – INTERNAL CONTROL OBJECTIVES

To analyse and present its internal controls system, TF1 has opted to keep the "COSO" (Committee of Sponsoring Organisations of the Treadway Commission) methodology for its 2006 report. This constitutes the benchmark for best practice currently adopted by the market's major players.

According to this benchmark, internal controls are defined as a process effected by an entity's Board of Directors, management and other personnel and designed to provide reasonable assurance regarding the achievement of the following objectives:

- reliability of financial reporting,
- compliance with applicable laws and regulations,
- optimisation of operations.

To achieve these objectives, the Group relies on procedures to ensure that management activity, operations and staff behaviour take place within a framework determined by applicable laws and regulations, representative social bodies and the company's internal values, standards and rules.

Furthermore, these procedures should enable the company to ensure:

- the safeguard of company assets,
- the prevention and detection of fraud and errors,
- the prevention and control of risks from the business,
- the accuracy and completeness of accounting records and the timely preparation of reliable financial statements.

As with any control system, there is no absolute guarantee that the risk of error or fraud is completely under control or eliminated.

3.4.2 - ENVIRONMENT AND CONTROL

3.4.2.1. General control environment

The principles of the Group's corporate governance, its organisational structure and the transmission of its values and rules constitute the general internal audit environment.

- The organisation and composition of the Board of Directors and specialised committees which assist it (Audit Committee, Compensation Committee and Director Selection Committee), as described in the section of the report on the preparation and organisation of the work of the Board of Directors and the Committees, are compliant with corporate governance rules and conducive to effective internal controls.
Indeed, the key decisions, for example the acquisition of audiovisual rights (football rights, contracts with the major film studios, etc.) are taken at the highest level and mirror the principles of transparent and rigorous management.
- The three-year plan reflects the mid-term strategic directions, and the resulting annual plan makes up the framework of commitments made by the managers of the different Group entities. As such, this plan is also a key element of the internal control environment. It defines the objectives in terms of sales levels and costs, as well as the resources, entities and organisation to be mobilised. The three-year plan also involves the respect of a structured approach to achieving these objectives.
- Powers are delegated on the basis of guidelines set by the Group to ensure that the Group fulfils its obligations towards outside parties. Delegation pursues the twin objectives of making operational staff take on responsibility and adequately fulfilling commitments.
The separation of functions is designed to permit an independent control by making every effort to dissociate functions related to operations, protection of assets and their recording in the accounts.
The parent company functions (Finance, Human Resources, Legal, etc.) support and supervise the different TF1 Group entities in their areas of expertise. They also distribute, and assure the respect of, the cross-functional procedures and participate in the validation of procedures specific to the different group business lines
- The TF1 Group also focuses on the respect of ethical values distributed through its internal procedures and operating guidelines (the Eticnet guidelines on proper use of IT resources), as well as through the distribution of the ethics guidelines deployed by the Bouygues Group in December 2006. The aim of the Group's code of conduct is to induce managers and staff to adhere to key common values, without replacing common sense and the respect and sense of responsibility of everyone. With this code, the Group is committed to respecting the most stringent standards of business conduct. It also includes an alarm mechanism to enable Group employees to point out irregularities appearing in certain pre-defined areas that they have become aware of in carrying out their jobs.
In 2006, TF1 joined the United Nations' Global Compact, demonstrating its will to adopt and promote and encourage respect of the principles and values of human rights, the environment, working standards and the fight against corruption.
Finally, the Bouygues Management Institute organises regular seminars which TF1 executives attend. The objective of these seminars is to encourage managers to reflect on their role, responsibilities and the respect of ethical principles in their daily work and to rally all Group leaders around common values.
- TF1 is active in a sector that is subject to constant change, mainly as a result of technology advances. It therefore ensures a high level of skills among its employees, notably through an ambitious policy of selection and on-going training, which contributes to a positive internal control environment

3.4.2.2. Risk assessment

The Bouygues Group has initiated a wide-ranging risk management process, particularly in the areas of quality, safety and the environment and sustainable development. In this context, Bouygues leads two committees, which regularly bring together the business managers of the group to discuss these questions.

Furthermore, in 2004, TF1 set up a process, in collaboration with external consultants, to identify risks and define a decision-making system for crisis management. This system, called "REAGIR," brings together several departments (Technical, HR, Legal, etc.) with the aim of designing and

updating the main systems to resume key processes in the event of disturbances. It is responsible for maintaining and upgrading the different procedures through regular preventive measures, but also on the basis of the principle of continuous improvement in safety of people and goods, infrastructures, systems and data.

The main business risks that TF1 tries to identify and constantly cover are linked to three major processes – the acquisition and production of audiovisual content, the broadcasting of programmes and the marketing of advertising space.

3.4.2.3. Control activities

3.4.2.3.1. Channel management and control of programme compliance

The programmes broadcast are subject to monitoring by the CSA in the framework of the convention the TF1 channel signed. As a result, TF1 has set up a department of programme compliance, which carries out up-stream control of programmes to be broadcast. This work, in certain instances carried out with the advice of the General Secretariat, also enables to channel to minimise the various legal risks inherent in broadcasting television programmes.

3.4.2.3.2. Technology and Internal Resources Department

TF1's Technology and Internal Resources Department (DTMI) is responsible for producing broadcast programmes, the design, implementation and maintenance of IT and technical systems, as well as the management of the property portfolio, logistics operations and general services.

DTMI guarantees broadcasting continuity by ensuring that the necessary human and technical resources are available and utilised.

For several years, this department has been responsible for steering the identification, control and prevention of TF1's major risks and handling the analysis and operational management of risks. Since 2004, this has meant the organisation and driving of the "REAGIR" Committee.

Finally, the DTMI monitors emerging technologies and services and provides the benefits of its know-how by pooling technical, IT, operations and logistics procurement.

3.4.2.3.3. Administration and Finance Department (DGAAF)

The DGAAF includes the central financial departments and plays a strong control role through its cross-functional procedures, methods, and the principles it spreads throughout the Group.

- Central Accounts and Tax Department (DCCF)

The DCCF is responsible for defining the applicable accounting principles and guaranteeing the reliability of the systems for collating and processing financial information and the consistency of accounting methods.

It ensures that parent company and consolidated financial statements give a true and fair view of the activity of Group companies and in compliance with existing standards and regulations. The DCCF ensures that this information is supplied in the correct format and in a sufficiently timely manner for its effective use.

The DCCF includes the TF1 SA accounting department and the consolidation department as well as giving functional guidance to the subsidiaries' accounting departments.

It helps to co-ordinate and constantly update the teams by setting and distributing rules, procedures and methods applicable throughout the Group. The DCCF ensures implementation of the principle of separation of tasks between authorisers and payers.

In addition, the DCCF provides - for the entire Group - tax know-how and consultancy services and co-ordination of the work of the statutory auditors and of any tax inspections.

- Management Control Department

The Management Control Department presents segmented financial data according to economic criteria in order to analyse performance, plan activity and results as well as, in a more general manner, steer operations of TF1 SA and its subsidiaries.

It carries out detailed analysis of the Group and, as part of this process, combines similar economic units into relevant categories: subsidiaries, sales departments, technical or functional entities, programme units or divisions as appropriate.

The effectiveness of the system in each entity depends on the complementary working relationship between the individual operational manager, who draws up and commits to a plan validated by the General Management, and the member of the management control team who reports to the operational manager and who assists him/her at every stage in the process. The latter controls the commitments to and compliance with the plan, proposes corrective measures and ensures their implementation. He/she controls commitments and the respect of the plan, proposes corrective measures and assures their implementation. He/she also assures the application of Group procedures and standards in liaison with central functions.

- Financial Communications and Investor Relations department

The Financial Communications Department is instructed by the Chairman to provide the market with TF1 Group financial information. It ensures that the information is communicated on a timely basis, according to the applicable rules and after ensuring its validity before release.

- Treasury and Finance Department

The Treasury and Finance Department is responsible for managing operations connected with finance, investment, hedging of foreign exchange and interest rate risks and secure payment methods for all companies in the Group, with the exception of some subsidiaries (TCM etc.). These have their own treasury department, which ensure their own funding.

This centralised organisation enables:

- the consolidation of interest and exchange rate risks,
- the maintenance of a level of expertise equal to the complexity of the issues,
- the maintenance of the confidentiality of procedures and security of payment,
- the delegation of powers to a limited number of employees who alone are authorised by General Management to handle a limited list of financial operations for the entire Group companies, according to defined authorisation thresholds and procedures.

3.4.2.3.4. Human Relations Department

The Human Resources Department plays a key role in the selection, induction and development of human resources for the efficient functioning of the various TF1 Group entities.

The Human Resources Department monitors compliance with the French Labour Code and changes in labour policy in conjunction with the various employee representative bodies. The Human Relations Department also co-ordinates the group's professional training, which has the objective of developing the technical, interpersonal and managerial skills required in the exercise of each employee's responsibilities.

3.4.2.3.5. General Secretariat and Legal Affairs Department

The Group General Secretariat co-ordinates and drives two main functions that are organised as follows:

- The Legal Affairs Department, which is responsible for defining and supervising the group's policy on contracts, monitoring the various aspects of company law within the Group, as well as centrally co-ordinating insurance and property matters, for example, by ensuring coverage, premiums and franchises correspond to the risks in question.

- The Regulatory and Judicial Affairs Department, which co-ordinates relations with external organisations and authorities, ensures that TF1's regulatory obligations are met and closely follows all litigation.

The General Secretariat also assumes a role in co-ordinating and driving all legal matters forward. Lawyers can be assigned centrally or to different subsidiaries.

Finally, the General Secretariat monitors and participates in the application of a consistent policy of delegation of powers. In particular, the subsidiaries over which TF1 exercises exclusive control are granted delegation of power based on guiding principles defined at Group level. With regard to subsidiaries with joint control, internal control is organised based on the TF1 Group's expertise and in compliance with agreements between shareholders.

3.4.2.4. Information and Communications

The DTMI defines the IT systems needed to generate information and manage operations securely and efficiently, this in liaison with the operational and functional management concerned.

Extensive financial information systems, notably accounting, management and consolidation tools, are deployed throughout the Group. Specific business applications are used where necessary in certain entities of the group.

In close co-operation with the DGAAF, the DTMI provides:

- support and training for users,
- monitoring to ensure that information is handled in the same way: supervision and configuration of common tools.

TF1 uses specific applications developed in-house and also software packages available on the market. These applications are analysed, monitored and operated rigorously to ensure their availability, integrity, security and compliance with legal obligations.

The strategy of developing and steering information systems is executed through project committees and the Software Committee, which include the main TF1 functions.

To ensure that staff receive information on the Group and its development, the Internal Communications department, reporting to Human Relations, provides a magazine every four months and a monthly newsletter.

In 2006, a new Intranet portal "Declic" was rolled out, allowing employees to understand the environment in which they operate and managers to collect the information they need to manage their teams. It also enables all employees to access information on the Group (organisation, programmes, etc.), information about the audiovisual sector published in the press, as well as offers of mobility and training and the Intranet sites of the other companies in the Group or the parent company.

Also, the organisation of employee conferences enables staff to exchange views on the Group's development, challenges and strategy.

3.4.2.5. Steering internal control

Internal control systems must themselves be monitored continuously by management and by means of ad hoc assessments, carried out by people who have no direct authority over, or responsibility for the operation in question.

3.4.2.5.1. Internal Audit

Since 2004, the TF1 Group has had its own internal audit department, which has taken over the assignments previously handled by the central audit system of the Bouygues Group, with the exception of assignments covering the reliability, security and operation of information systems, which are still the responsibility of the latter.

The TF1 Group's Internal Audit carries out assignments in the different group entities and in various areas (finance, operations, organisation) according to an annual plan approved by General Management and the Audit Committee. To guarantee its independence, Internal Audit reports to the highest level of the Group, and this represents one of the elements of implementation of corporate governance principles.

Assignments are carried out according to a rigorous methodology. They result in a report containing recommendations, which in turn give rise to an action plan and follow-up.

Internal audit is an analysis, control and information tool that enables the identification, control and improvement of risk control.

Through its expertise, Internal Audit naturally plays a support role on occasions in the elaboration of the internal control framework, but schedule and application ultimately remain the responsibility of the Group departments.

Internal Audit can be consulted when elements impacting internal control are adapted and elaborated.

3.4.2.5.2. Audit Committee

Created in 2003, the Audit Committee is composed of at least two Directors (TF1 Directors who are executives or employee representatives are excluded).

In the presence of the statutory auditors and before presentation to the Board of Directors, it examines the quarterly, half-yearly and annual accounts. It takes this opportunity to ensure the appropriateness and the consistency of accounting methods adopted to draw up the accounts and verify the internal procedures for the collection and control of the information used.

In addition, it notes the conclusions of the Internal Audit assignments and validates the Internal Audit annual work plan.

The statutory auditors' role is to ensure the fair presentation of the company's financial and net asset statements according to accounting rules and principles. In so doing, they are made aware of the organisation and operation of the information systems and internal control procedures, which they take into account in their audit activity.

3.4.3 - DESCRIPTION OF INTERNAL CONTROL PROCEDURES

The Group's internal control processes may evolve in function of the nature of risks to TF1 and the degree of its exposure to them. This chapter gives an overview of the main internal control procedures currently in use.

3.4.3.1 Procedures to secure broadcasting and information systems

- Securing broadcasting

The "REAGIR" committee set up in 2003 continues to monitor and prevent potential major risks associated with key processes of the Group. It also updates and regularly tests the plans for rapid resumption of activities that could be discontinued by any exceptional event such as, for example, the interruption of the broadcast signal or non-access to the TF1 building.

An external, protected back-up site is operational for the following processes: programme broadcast, production of the television news programmes (TF1 and LCI), production of publicity spots for the TF1 channel. The company's vital functions are included in the security plan through a process of resumption of activity, for example for the various departments concerned with broadcasting, selling advertising space, accounting, treasury, payroll and IS operation. The procedures are tested from time to time so as to adapt the security mechanism if necessary.

In 2005 and 2006, the external security mechanism was upgraded with the installation of a new back-up production facility at a second external site because of the launch of a digitised final production room. In the course of 2007, all security resources will be brought together at a single site.

The team in charge of this project has also extended the range of risk factors to health risks that could hamper normal operations. They have been quantified and their impact assessed. The associated safety procedures were tested in December 2006.

Furthermore, in November 2006, all employees were informed of the implementation of a website and (no charge) telephone number to obtain real-time information in case of an emergency. These two communications tools enable employees to keep in touch with the company when the situation requires.

During 2006, TF1 also launched a project to formalise an internal Information Security Policy. This is part of the REAGIR plans and will continue during the coming year so as to build a common security benchmark for the Group.

- Programme compliance and respect of obligations

To supervise proper application of TF1's contract conditions, a programme compliance department monitors all programmes prior to broadcast. Programmes targeting children are submitted to psychologists who are charged with viewing the more sensitive cartoons, for example.

A TF1 Publicité team views all advertising spots after the BVP (Office for the Verification of Advertising) has expressed its view.

The other contract obligations (advertising quotas, investment in production, broadcast quotas, for example) are monitored continuously through technical and information systems and a full report on compliance with the contract conditions is produced each year by the Group's General Secretariat and forwarded to the CSA.

- Security of Information Systems

Within the framework of an extensive security policy, the Group has introduced mechanisms that include protective techniques against hostile external activity (for example, the anti-virus emergency plan). In addition, the TF1 Group has, since 2003, organised an awareness programme for the Group's leading technical managers, legal advisers and human resources managers highlighting the issues of the security of information and the systems they are required to use. This awareness-raising process, which will be intensified in the future, is an extension of communications on this subject ('Eticnet' guidelines, internal procedures). Finally, the increasing use of new information technologies makes protection and confidentiality of company data crucial. The Eticnet guidelines take this factor into consideration; they are updated regularly and distributed to emphasise employee responsibility in this area.

3.4.3.2 Procedures for procurement, commitments and payments

Through a process of standardisation of procurement contracts, TF1 secures supply and financial conditions and guarantees and ensures that suppliers subscribe to an insurance policy.

Contracts for the purchase of broadcasting rights are signed by TF1 to secure programme grids for the coming years. They are economically and legally complex and cover substantial amounts. These investment projects are initiated based on the channel's editorial policy and are subject to a procedure of approval and investment authorisation specific to each type of programme. The contracts concerning these investments go through an approval cycle that, depending on the amount of the commitment and the nature of the contract, calls on the purchasing programme unit and/or the channel's management (operational and management), the General Secretariat, the Deputy General Manager, Administration and Finance and in some cases General Management.

Furthermore, framework agreements are signed as early as possible to control the purchasing costs of certain programmes and to secure supply. The Group makes every effort to centralise and share, where possible, multi-channel rights (free-to-air, thematic channels, video and new media) so as to improve its negotiating position with producers.

Also, the TF1 DTMI department has the objective of optimising hardware procurement and the technical services and general services contracts. As a result, the DTMI centralises purchasing of IT hardware and the maintenance service contracts. The major, ad hoc or multi-year technical contracts follow a validation procedure that involves the operational or functional managers concerned.

Furthermore, the management software guarantees control of commitments to outlays and their payment, thanks to:

- the approval cycle for commitments, pre-defined in the software and limited to people authorised to initiate orders,
- the electronic approval cycle for invoices covering these commitments, once sourced and digitised.

A specific software package for financial monitoring of broadcasting rights allows programme stock to be managed, advances paid and the contracts monitored.

All the Group's payment methods are subject to security procedures - practically all are covered by contractual agreements with banks. These security procedures are complemented by a daily bank-accounting reconciliation, formalised monthly.

All means of payment require a double signature, with an annual update of powers for all bank accounts.

3.4.3.3. Procedures established by central departments

3.4.3.3.1 Human Resources

The strategy of hiring, training and compensation at the TF1 Group is based on the three-year plan from General Management, after concertation with the Group's various operational and functional entities. Any request for a full-time employee is subject to a formal approval procedure.

3.4.3.3.2 General Secretariat and Legal Affairs

The General Secretariat and the Legal Affairs department have for the past few years been working on securing the control of commitments, leading to the definition of a Group contract policy and the creation of models for standard contracts for all recurring commitments.

Following the introduction of an IT platform for storing and consulting the main contracts in several Group companies, a structured legal affairs tool is now coming towards the end of its development phase and is expected to be deployed in stages during first half 2007. Other than the database of signed contracts, this legal affairs portal will include models of 'standard' contracts and make them accessible to legal staff. It will help optimise management of litigation. Furthermore, it will include legal documentation from outside the Group or developed in-house on specific subjects.

The Legal Affairs department is also responsible for optimising and assuring consistency of the insurance contracts taken out by TF1 and its subsidiaries to guarantee the Group against potential damage – and this in partnership with brokers acting on behalf of top class companies.

The measures to identify and prevent risk developed for the Group and its subsidiaries by a dedicated team and supported by on-going awareness programmes for legal staff, are aimed at improving the control of the risk of damage as well as optimising contract and relations with insurers concerning premiums and guarantees.

The various entities of the General Secretariat monitor legal risks together with Administration and Finance so that they can be reported in the financial statements.

3.4.3.3.3 Administration and Finance

A – Management control

TF1 and the subsidiaries over which it exercises exclusive control are subject to a similar budget planning and control process. In the case of subsidiaries controlled jointly with a partner, the process is adapted on a case by case basis while respecting the principles of the group.

- Financial planning process

The TF1 Group's planning process constitutes a commitment from the unit managers vis-à-vis Group executive management.

A three-year plan includes areas for development and financial forecasts based on a common framework that includes an income statement and a simplified balance sheet. It is complemented by a cash flow statement, ratios and indicators of profitability and operations.

The annual budget results from the three-year plan and is calculated on a monthly basis to enable monthly budgetary controls to be prepared. It constitutes the budgetary control benchmark for the year ahead.

The three-year planning process is decentralised to each company and/or unit level. It is organised and driven by the group's Management Control Department.

The three-year plan and the annual budget are updated twice a year so as to fine-tune the year-end trends and to re-forecast the three-year projections.

The plans from the different entities are consolidated by the Management Control Department. They are approved by the DGAAF, and the subsequent consolidation is presented for approval to General Management. A summary of these plans is then presented to Bouygues Group executive management.

During the fourth quarter, a document summarising the Group's plan is submitted to the Board of Directors for approval.

- Budgetary control and indicators

Each business unit draws up its monthly indicators and analyses the differences between the actual figures and the targets set at the time of the annual budget to assess their potential future impact.

The indicators of each unit and entity are presented to the Management Control Department at monthly meetings and according to a schedule prepared at the beginning of each year.

After checking and approval, the Management Control Department generates consolidated indicators, which are commented and presented to TF1 General Management around the 15th of the following month.

A summary of the document is then dispatched to Bouygues Group general management.

- Management control tool

TF1 SA has developed, and deployed Group-wide, its own management tool that interfaces with the accounting software.

This tool is based on the principle of a single recording of the operations needed for financial information. The automated processes allow for reports adapted to the needs of management control, accounting and treasury.

The prime functionalities of the tool are:

- sourcing and validation of commitments,
- monitoring and control of the execution of services,
- recording of invoices for the commitment and approval of payment.

Each month an automatically processed statement enables the accounts to be generated; this is compared with the plan put forward so that the budgetary control – the basis of the analysis - can be produced.

Each quarter this automated process enables the accounting department to validate and then automatically generate the closing entry in the accounting software. This guarantees the convergence between the results from management processing and accounting.

This management tool is complemented and/or expanded by several Group software packages – inter-Group processing and invoicing software, procurement and management of broadcasting rights software. In particular the latter ensures the monitoring of rights acquisition contracts. The applications developed in response to business needs generally interface with the group management tool.

B – Accounts closing and consolidation

The tools and processes upstream of the closing of the accounts are in place to guarantee the validity and completeness of accounting for events in the appropriate accounts and that they are reported in the accounts of the fiscal year in which they took place.

- Procedure for quarterly closing of TF1 accounts

As part of the procedure of closing TF1 accounts, the closing entries are analysed and validated jointly by the accounting and management control departments.

Provisions are made following an analysis of risks carried out jointly with Legal Affairs, with Human Resources and when necessary with the operational and/or functional management involved.

All items in the balance sheet and income statement are rigorously analysed by comparing them with the same period of the previous year. Changes are commented on, thus clarifying the activities of the companies.

- Consolidation procedure

The TF1 Group's consolidated accounts are prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

The DCCF consolidates all TF1 Group's companies at each quarterly closing. The accounting options to be considered are validated with the statutory auditors in advance and presented to the Audit Committee. The accounts are submitted to the statutory auditors to obtain their comments and then presented to the Audit Committee before being finally approved by the Board of Directors.

- Accounting and consolidation tools

The whole of the TF1 Group uses a proprietary accounting software package that processes general accounting and analytical accounting. This tool guarantees compliance with financial security principles through the strict definition of who is entitled to authorisation and access rights.

The consolidation tool deployed throughout the TF1 Group companies is a software package used by a large number of listed companies. Using this consolidation tool allows for analysis and rigorous control of the preparation of the accounts, which are thus regulated by standard procedures.

The DCCF also has a monitoring and co-ordination role. It regularly distributes to Group accounting staff the applicable rules and methods in preparing company and consolidated accounts. This occurs through seminars and training in new IT tools, accounting benchmarks or new procedures, which help to steer the development of the Group's accounting and ensure a consistent overall system.

- Statutory audit of the accounts

At December 31 of each year, the accounts of TF1 and all its subsidiaries are audited by the statutory auditors.

Each quarter, the consolidated accounts and the accounts of the main subsidiaries are subject to a review.

- Accounting Standards: IAS / IFRS

Since January 1, 2005, the TF1 Group has been using IFRS as its accounting framework and makes the reclassifications and restatements necessary to prepare company accounts in accordance with local standards, to comply with the demands of the French fiscal regulations.

C – Financial communications

Besides the Chairman, only the persons duly authorised by him may communicate financial information to the market. These are, in particular, the DGAAF and the staff of the Financial Communications and Investor Relations department.

This department generates the activity summaries of TF1 and its subsidiaries for the Board of Directors. It distributes and communicates financial information on the TF1 Group and its strategy through, for example,

- Reports of the Board of Directors,
- Reference documents, quarterly and half-yearly reports,
- Financial press releases,
- Presentations for financial analysts and investors.

These documents are drawn up using financial information coming from the Group's subsidiaries and departments. They are approved by the financial managers of the entities, the Human Resources Department, the Director of Legal Affairs, and then by the DGAAF.

After verification of the information on the financial situation and the accounts by the statutory auditors, the Group's reference document is submitted to the AMF in compliance with general regulations. Comments are written for each topic to be communicated and approved by General Management. They are updated regularly and serve as a vehicle for relations with investors and brokers.

To guarantee investors equal access to information, various communications products are also made available in English and distributed through the following channels:

- Information for an outside audience, once published, is put on line on the www.tf1finance.fr website. Anyone wishing to receive the information by mail can so request. The Financial Communications Department will send it free of charge;
- All financial press releases are published in a national business daily, a national weekly and on a general-public financial website and on the AMF and Euronext websites. Starting in January 2007, TF1 will comply with the so-called European "Transparency" directive covering new obligations on publishing financial information;
- Analyst meetings and general meetings are re-transmitted in full direct on the internet or by telephone, with no access restrictions. A recording of these meetings is put on line on the group's website;
- Two people from the TF1 Group travel abroad where meetings are held to guarantee the correct information is delivered with strictly equal access. The documents presented at these meetings are immediately published on the www.tf1finance.fr website.

D – Control of treasury management

TF1 uses a treasury management software package, which handles the daily management of the accounts at value date, monitors financial transactions (investment of cash, financing overdrafts), and manages financial risks (interest and exchange) and the associated hedging operations.

- Management of cash risk

The Treasury and Finance Department is responsible for ensuring that the Group has sufficient long-term sources of financing:

- Through analysis and monthly updating of the treasury forecasts of all Group companies. These analyses are summarised in indicators presented monthly to group General Management.
- Through the negotiation and permanent maintenance of a comfortable level of outstanding lines of finance with an average maturity of five years.

The Group's net consolidated treasury position, detailed by company, is reported daily to General Management.

- Investment of excess cash

The Group's cash is invested according to solid and safe money management rules. These give security priority over return, with no risk of capital loss. This objective implies rigorous selection of investment instruments, close supervision of counterparty and market risks (regular analysis of the detailed portfolios of mutual funds, maximum diversification of the investment instruments used, requests for capital guarantees from the banks, daily monitoring of the return compared to the market benchmark, etc.).

- Exchange rate and interest rate hedging

The interest rate and currency exchange rate fluctuations have a direct impact on operations of some of the Group's companies, primarily TF1 SA, Eurosport and TF1 International.

The role of the Treasury and Finance Department is to limit this impact, bearing in mind the best reading of the market and the budgetary constraints set by each company.

When the plan is drawn up, the DGAAF sets the 'budget' rates for the coming year. These will be the objectives to achieve in hedging exchange and interest rates.

At least once a month, the Treasury and Finance Department decides on operations in terms of timetable, amount, instruments to be used and levels of intervention, within a hedging strategy approved by the Administration and Finance management.

In real time (with full monthly update), it summarises the currency commitments of the different entities, consolidates them and determines the Group's exposure to exchange rate risk. It then applies the approved strategy to hedge the positions.

Using derivatives is strictly reserved for hedging and never for speculation.

Execution of operations linked to derivatives is secured by the authorisation of a limited number of people to negotiate with banks, by a systematic search for alternatives and rigorous selection of banking counterparties, immediate confirmation of operations carried out (with double signature) and accounting for operations by an independent back office accountant who reports to the Group Accounting Department.

- Controlling client risk

Although examination is generally carried out by the business units, the expertise of the Treasury and Finance Department can be called on when examining the solvency of new clients.

Managing outstanding payments and the reminder process are the responsibility of each company or department.

In case of specific exposure, the Group protects itself from the risk of non-payment by signing an additional insurance policy with credit insurance companies (for example at TF1 Vidéo, TF1 Entreprises, etc.).

3.4.3.4. Specific procedures for TF1 Publicité

TF1 has entrusted TF1 Publicité (SAS) with responsibility for marketing its advertising space. The activity of this subsidiary is thus intrinsically linked with that of the TF1 Channel.

TF1 Publicité applies Group standards but has introduced additional procedures because of the specific nature of its business, primarily covering the following areas:

- Definition of the marketing framework: the rules for marketing advertising space are defined in the general sales terms and conditions submitted to external legal advisers to

ensure they respect prevailing laws and regulations. They are approved by the Chairman of TF1 Publicité. They are revised annually when sales terms and conditions are drawn up;

- Planning and reporting: the advertising revenue targets, set by TF1 Publicité general management in conjunction with Group companies whose advertising space TF1 Publicité is responsible for filling, are presented to the Chairman of TF1;

Daily reporting from the TF1 Publicité general manager to the Chairman of TF1 provides an accurate revenue outlook and analyses the deviation from the targets. Corrective measures necessary to rectify any substantial departure are immediately adopted and implemented.

- Revenue generation chain: the advertising revenue generation chain is managed by an IT tool specifically developed for TF1 advertising. All stages in the sale of advertising space up to invoicing go through this software, which avoids duplication and the risk of error. Access is secured and limited to a list of authorised persons. The advertising revenue generated by this IT tool goes through several controls to ensure strict consistency between total advertising broadcast time and the time invoiced and the correct application of sales terms and agreements.
- Control of client risk: monitoring collection of advertising revenue is crucial and is therefore subject to a strict, systematic procedure. Furthermore, TF1 Publicité undertakes financial examinations and can impose specific payment conditions depending on the solvency criteria of the advertiser.
- Respect of legal obligations: TF1 Publicité assures conformity with the different regulatory and legislative measures concerning the broadcast of advertising messages on multiple vehicles. This control covers:
 - conformity of advertising films with regulations and the editorial policy of the vehicle,
 - the maximum duration of advertising space broadcast per day and per hour,
 - compliance with invoicing rules (the so-called 'Sapin Law' N°93-122 of January 29, 1993).

3.4.4 – CONCLUSION AND OUTLOOK

Continuous improvement of processes, standards and information systems remains one of the Group's priority objectives and responds to the dual preoccupation of control and monitoring of operations and of their effectiveness.

In 2007, the TF1 Group will continue this process of continuous improvement of systems, notably through a number of projects that have already been initiated in its main entity and its main subsidiaries. For example, the Group will complete its study of a new tool aimed at maximising the convergence of reporting formats needed to steer the business and at optimising production of financial information, both for closing and for planning.

In addition, the new internal control reference framework published in January 2007 will be included in TF1's own analysis of the control processes in the accounting and finance areas. This will be done in a spirit of maintaining a dynamic vision of internal control within the TF1 Group, based on the skills, the sense of responsibility and involvement of all employees.

Additional information follows with details on particular risks:

Industrial and environmental risks

Broadcasting of TF1 programmes – Risk of interruption in signal transmission

TF1's programmes are currently broadcast to French homes:

- by radio waves, via the 112 main transmission sites and 3,161 TDF re-transmission sites,
- by satellite, namely Atlantic Bird 3 for unscrambled broadcasts,
- by cable (the cable operators "must-carry analogue" obligation).

TDF ensures the transmission (providing broadcasting sites with the TF1 signal) and broadcasting of programmes for TF1 (and all the national channels) jointly via its terrestrial free-to-air network. Globecast ensures the distribution of satellite broadcasts.

TDF is by far the main national operator broadcasting the television signal and there is no real substitute for the TDF network in the form of alternative offerings.

TF1 is therefore dependent on TDF for the broadcasting of its signal and cannot call on other transmission methods if the TDF network breaks down.

TDF provides secure transmission to its transmitters through a dual transmission system (free-to-air and satellite). Therefore, if a radio wave feeding a transmitter fails, it is possible to switch to the satellite signal (and vice versa).

Broadcasting sites are largely secure as a result of the many broadcasting transmitters. However, incidents do occur with the antenna system (antenna, wave guides and frequency multiplexers), while the electricity supply can escape TDF's notice (responsibility of EDF).

Power cuts have therefore occurred in the broadcasting of our signal for either technical reasons (defective transmitters/electricity supply) or reasons internal to TDF (mainly strikes). The penalties provided for in the contract are in no way commensurate with TF1's potential operating losses during these incidents (loss of audience, impact on TF1's image, advertisers requesting reductions, loss of merchandising rights, etc.).

The loss that TF1 could suffer if a transmitter fails is obviously proportionate to the number of television viewers served by the defective transmitter. A failure in the Paris region (10 million viewers) could have major economic repercussions. This is why TF1 has negotiated a deal to ensure that TDF's services intervene very quickly in the event of a failure and requested reinforced safety measures. To date, apart from one incident at a local distribution site, no transmitter failures have occurred.

Eurosport has an entity in the UK that secures the broadcasting of its programmes.

Regulation-related risks

The legal regulation to which TF1 is subject is described in the section "Legal environment" p.169.

TF1 is an audiovisual communications service subject to authorisation. The company's initial authorisation to use frequencies for a duration of 10 years starting April 4, 1987 (Law of September 30, 1986) expired in 1997. Based on decision No. 96-614 of September 17, 1996, the channel received a first five-year renewal of this authorisation, without a bid for candidatures, effective starting April 16, 1997.

The TF1 channel's authorisation to transmit was automatically renewed for the years 2002 to 2007 by a decision of the CSA of November 20, 2001. Under the provisions of Article 82 of the modified Law of September 30, 1986, this authorisation could be automatically extended to 2012 on the basis of the "simulcast" broadcast of the digital terrestrial free-to-air channel. The CSA, by a decision dated June 10, 2003, modified the TF1 authorisation and its convention to integrate the specifications relative to digital terrestrial television broadcast of the programme.

TF1 Group must also respect a certain number of general obligations relative to broadcasting and production investment. Any extension of these constraints could have a negative impact on the company's profitability.

Law No. 2005-102 of February 11, 2005 concerning equal opportunity, participation and citizenship of disabled persons, established the principle obliging the channel, within a period of five years, to make all its programmes accessible to hearing-impaired people, with the exception of advertising messages. Note that the CSA can accept the fact that some programmes are not subject to this obligation due to their characteristics (a concession included in the convention).

It should be noted that on March 5, 2007 a law was enacted - entitled "Modernising future audiovisual and television broadcasting" - which modifies the Law of September 30, 1986.

This legislation sets out the provisions for introducing free-to-air high-definition television and also the conditions for the discontinuation of free-to-air analogue broadcast in France. In this regard, it provides for a final close down of free-to-air analogue broadcasting on November 30, 2011, with a staged closing down process, starting on March 31, 2008. The law grants two types of compensation to the historic private free-to-air operators – an automatic extension of authorisation for five years (if the channels are members of a Public Interest Grouping) and the granting of an additional DTT channel in 2011 (linked to specific production and broadcasting obligations). Moreover, the historic private free-to-air operators will benefit from a five year extension of their authorisations, in order to compensate them for the obligation imposed on them to provide 95% DTT coverage of the French population.

Customer risk

TF1 Publicité automatically monitors the financial health of advertisers wishing to invest in the TF1 Group's channels served by TF1 Publicité. The risk of non-payment by TF1 Publicité's advertisers is historically less than 0.1% of total annual revenue.

Eurosport has efficient processes in place to recover cable and satellite operator debts. The risk of non-payment by distributors is historically low thanks to the processes implemented to verify the financial health of its clients.

TF1 Vidéo and TF1 Entreprises have taken out credit insurance to protect themselves against customer bad debts.

There are no other significant single customer risks in the group's other subsidiaries which could durably affect the group's profitability.

Market risks

A detailed analysis of market risks (interest rate, exchange rate, liquidity, shares) is provided in the notes to the consolidated accounts.

Insurance cover

As indicated in the report on internal control procedures, the Group has instituted a pro-active policy of risk identification and prevention and a corresponding unit has been established. This unit implements a regularly updated prevention plan. The group's insurance policies are then negotiated through brokers dealing with major companies such as Zurich, Chubb, Gan, Allianz, Generali, etc.

The existence of this prevention plan makes it easier for TF1 Group to obtain insurance contracts with these first-rate insurance companies.

The means of identifying and preventing risks developed for the Group and its subsidiaries by this dedicated unit are aimed at improving control of risks of damage but also at optimising contracts and the relations with insurers with regard to the premiums and the guarantee conditions.

The group has two main types of insurance:

- Non-life insurance (cover: €362.2 M for direct damage, 2006 premium of some €550 K, deductible of around €25 K). This policy provides insurance cover for TF1, its existing or future subsidiaries, in France and worldwide, everywhere that TF1 operates. The policy provides cover against material damage caused to TF1 property and the operating losses resulting from this damage. The cover applies particularly in cases involving terrorist acts.
- Public liability insurance (cover: around €53 M depending on the risks, premium of some €170 K, deductible of €750 to €76 K depending on the nature of the damage). This policy covers the consequences if the public liability of TF1 and its existing or future subsidiaries is called into question.

Cover is established for injury caused to third parties within the framework of Operating, Product and Professional Liability.

Since 1997, TF1 has also subscribed to a liability insurance for directors. The insured are TF1's trade union representatives, its representatives on the Board of Directors of subsidiary companies

or associate companies (companies in which TF1 has at least 50% of the voting rights either directly or indirectly).

In addition, the insurance provides cover for de facto managers and employees who would be liable for any professional error committed in their executive, supervisory or management capacity.

All TF1 Group insurance contracts have been renewed.