

# **Chairman's report on internal control procedures**

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## **INTRODUCTION**

### **BACKGROUND**

The purpose of this report is to describe the internal control procedures set up by the company. It covers TF1 SA as producer and broadcaster of the TF1 channel, and also its role in coordinating and participating in the oversight mechanisms of the subsidiaries over which it exercises exclusive or majority control.

TF1 monitors the harmonisation of the main financial procedures of the entire Group while respecting the specific characteristics of each business to preserve appropriate analysis and responsive decision-making. It also implements risk identification procedures across its scope of responsibility in order to establish appropriate procedures and controls for each business-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 compiled from information and analyses performed in cooperation with the various contributors to internal control in TF1 and its subsidiaries, resulting in a factual description of the control environment and the procedures in place.

Coordinated by the Internal Control Department, the report has been subjected to an approval process by the Finance and Legal Affairs Divisions. It was also sent to the Statutory Auditors and subsequently presented by the Chairman to the Audit Committee and to the Board for approval.

### **INTERNAL CONTROL OBJECTIVES**

To analyse its internal control system and prepare its report on internal control procedures, TF1 has used since 2007 the internal control framework published on January 22, 2007 subsequent to the work carried out by the task force set up by the French securities regulator, the AMF.

According to that framework, which is compatible with the benchmark of the committee of Sponsoring Organizations of the Treadway Commission (COSO) used by TF1 in previous years, internal controls are defined as a method to ensure:

- compliance with laws and regulations;
- enforcement of the instructions and policies of governance bodies;
- the proper functioning of the company's internal processes, particularly those concerned with safeguarding assets;
- the reliability of financial reporting (details of key controls can be found in the "Application Guide on Control of Accounting and Financial Information Published by Issuers").

This system should also contribute to monitoring the activity, effectiveness of operations and efficient use of the company's resources. However, no such system can provide an absolute guarantee of achieving targets and overall control of the risks to which the Group might be exposed.

The TF1 group is committed to a process of continuously and dynamically adapting its internal control system to its activities, with the ultimate aim of assessing the system's appropriateness and efficiency.

## **INTERNAL CONTROL: GENERAL PRINCIPLES**

### **ORGANISATION AND OPERATING PROCEDURES**

The basis for the general internal audit environment consists of the Group's corporate governance principles, its organisational structure, notably as regards operating procedures, and widespread dissemination of its values and rules.

#### **Organisation**

The organisation, composition and functioning of the Board of Directors and specialised committees which assist it (the Audit Committee, Compensation Committee and Selection Committee), as described in the section of the report on the preparation and organisation of the work of the Board of Directors, comply with corporate governance rules and are conducive to effective internal controls.

The Board, under the authority of its Chairman, determines the company's policies and, with the help of the Audit Committee, ensures that appropriate internal control systems are set up within the Group. Key decisions, such as the acquisition of programmes (sport events rights, contracts with major film studios, etc.) are subject to clear approval processes, with decisions being taken by senior management based on recommendations of the different *ad-hoc* committees. The Board is kept regularly informed.

As Chairman and CEO of the TF1 group, Nonce Paolini has line and staff responsibility for implementing the strategy established by the Board of Directors for Group activities. Specifically, he arranges for internal control systems to be implemented in the Group. For this he is supported by the Executive Committee, which comprises the Directors of each Group division and functional Directors and meets twice a month. The Executive Committee enables the CEO to pass along the key internal control policies and to make each member accountable for implementing and monitoring the internal control systems in their area of responsibility.

Powers are delegated on the basis of guidelines set by the Group to achieve the twin objective of making operational staff accountable and controlling commitments at the appropriate level. On the latter point the company is organised in such a way as to allow for independent control by separating operational functions from those involving the protection of assets and accounting recognition of operations.

### **Objectives**

The three-year plan reflects the mid-term strategic policies and determines the budget for the coming year. It represents the commitments made by the managers of the various 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 achieve those objectives.

The process of developing the three-year plan also implies a structured approach aimed at ensuring the quality of the objectives. The approach is organised by the TF1 SA Financial Control and Strategic Planning Division, in consultation with the Strategy, Organisation and Marketing. The plans from the various TF1 group entities and companies are subject to a validation process chaired by the Finance Division (DGAF).

A summary of these plans is presented to the Chairman and CEO and to the TF1 Board. During the third quarter of the year, a document summarising the whole of the TF1 group three-year plan process is presented to the Board of Directors, which approves the budget.

### **Rules and principles**

The TF1 group focuses on compliance with the rules and values disseminated through rules of procedure (those of TF1 SA and of its subsidiaries), operating guidelines (the Eticnet guidelines, etc.) as well as through the Code of Conduct used by the Bouygues group. In 2009 TF1 appointed the General Counsel as the Group Ethics Officer charged with reporting regularly to the Chairman on any problems encountered in business practices, in collaboration with the Board of Directors, and developing solutions appropriate the Group's business lines. The Ethics Officer is also responsible for responding to employees' queries on these issues.

TF1 also adheres to the Code of Ethics of the Bouygues group, the aim of which is to encourage managers and staff to adopt a common set of values, including respect and a sense of responsibility for all. The Code commits the Group to stringent standards of business conduct. It also includes a whistleblowing mechanism to enable employees to point out irregularities in certain pre-defined areas, of which they have become aware in the course of their duties.

Similarly, in 2006, TF1 joined the United Nations' Global Compact, demonstrating its determination to adopt and promote respect for the principles and values of human rights, environmental protection, working standards and the fight against corruption. In 2010 TF1 became the first media Group to be awarded the *Label Diversité*, an accreditation given to companies that take affirmative action to promote diversity and prevent discrimination. The award, which is based on stringent criteria and regularly monitored, constitutes formal recognition by an independent body that our equality-promotion and anti-discrimination procedures are compliant and effective in the fields of hiring, career management, training, communication and relations with customers and service providers. TF1 published its first Diversity Annual Report in 2011, addressing trade unions, staff representatives and employees and assessing the effectiveness of Group efforts with indicators on four key priorities: disability, seniors, gender equality and ethnic diversity.

The industry in which TF1 operates is constantly changing, primarily as a result of technological advances. TF1 therefore seeks to maintain a high level of workforce skills through an ambitious programme of recruiting and ongoing training that helps employees keep abreast of operational requirements.

Furthermore the Bouygues Management Institute regularly organises seminars in which TF1 executives participate. The objective is to encourage managers to reflect on their role, responsibilities and the respect of ethical principles in their daily work, and also to unite Group senior management around common values.

Aside from the various control processes in place, the Group makes a constant effort to continuously improve its internal control system.

Since 2007 the TF1 group has followed an approach initiated by Bouygues for its main business lines, including TF1. The purpose is to build an internal control system based on the AMF reference framework and incorporating the best practices which, for the past several years, the Group has committed itself to follow in each of its businesses.

This approach involved establishing a structured organisation made up of two working groups with representatives from each business line. These groups cover:

- “internal financial and accounting reporting”, specialised in processes linked to the organisation and preparation of financial and accounting information, and
- “general principles of internal control”, specialised in the five key elements of internal control specified in the AMF reference framework.

A project team from the Bouygues group coordinates these working groups, with the help of a Statutory Auditor in the area of internal control and financial and accounting reporting. A Coordination Committee and a Steering Committee also contribute to this procedure.

This effort culminated in identifying and determining simple, measurable control principles covering the company’s key businesses. The working groups continue to meet regularly to organise the monitoring of the system and to adapt it in response to regulatory requirements or when significant complementary principles emerge from assessment campaigns.

The introduction of this common system was a first step, which was supplemented at end-2008 by internal control principles specific to TF1’s business and environment. This initiative is closely linked to work on risk mapping, with the two processes reinforcing each other.

Following a trial campaign in 2008, the internal control system is now assessed every year across a broad spectrum that fully represents the TF1 group in terms of revenue and the issues and risks inherent to its activities. The assessment campaigns are based on rigorous and uniform self-evaluation methodology. In each entity, the person normally in charge of the process established and produced supporting arguments for the assessment, and then submitted it for approval by a person in a position to provide a critical perspective on the outcome. The assessment had several components, including a numerical four-tier scale, a description of the operating procedures, a commentary on any discrepancies between operating procedures and best practices, and action plans for addressing these differences. The initial results of this campaign were presented to TF1’s Audit Committee, which informed the Board of Directors.

In 2011 the assessment campaign focused in particular on the internal control principles specific to TF1’s business lines, through a scope of more specifically concerned entities.

The campaign for assessing TF1’s internal control systems has been well received, and the Group plans to continue and develop it. The Group’s internal control principles have been made available to the staff of the Finance Division on a collaborative portal containing procedural guides and other materials containing information for business lines.

In 2011, working with the other businesses of the Bouygues group, TF1 developed a tool for managing internal control campaigns that will enable it to historicise, secure and systematise the policy.

## **INTERNAL DISSEMINATION OF INFORMATION**

To ensure that staff receive information on the Group and its development, the Human Resources and Internal Communications Division distributes a magazine, *Regards*, issued three times each year, and a monthly newsletter called *Coups d’Œil*.

In addition, an intranet portal, *Décllic*, helps employees understand the environment in which they and the Group operate. It enables them to obtain information on the Group (organisation, programmes, etc.) and material about the audiovisual sector published in the press, and also find out about opportunities for promotion and training, common operating procedures, and the intranet sites of the other companies in the Group or the parent company. It also features collaborative portals for each function (Legal, Human Resources, Finance, etc.) in order to improve networking and the dissemination of information. The tool also enables managers to gather the information necessary for managing their teams, notably on skills training or for preparing annual performance appraisals.

Other ways of passing on and sharing information on trends, topical issues and Group strategy are the employee conventions organised from time to time, the introduction in 2007 of an annual conference, and the monthly and quarterly committee Meetings of the TF1 group’s top managers.

The IT Department of TF1 SA’s Technical and IT Division, together with the Line and Staff Divisions, determines the information systems needed to generate information and manage operations securely and efficiently.

TF1 uses both proprietary and off-the-peg software. Applications are analysed, monitored and operated rigorously to ensure their availability, integrity, security and compliance with legal obligations.

Work on applications for financial and accounting data is carried out in close cooperation with the Accounting and Tax Division, the Financial Control and Strategic Planning Division and the Treasury and Financing Division.

## RISK MANAGEMENT

TF1's risk management system has two major components:

- control of operational risk:
  - **a general approach to risk management** focused on quality, security, environmental factors and sustainable development. Part of the framework established by the Bouygues group, TF1's approach involves two committees composed of representatives of the Group's business lines, which meet regularly to discuss these issues,
  - **a business continuity approach** initiated in 2004 specifically targets the identification of major risks that could affect day-to-day business. The goal is to develop a decision-making system for crisis management, along with a process for its implementation. The initial work on this programme led to the creation of the *Réagir* programme, which seeks to devise and regularly update plans for restoring business-critical processes after an incident. In 2009-2010, in addition to conducting regular tests of processes and backup tools, the *Réagir* plan was updated to include an H1N1 flu scenario. In 2010 a business continuity audit identified measures for improving the system, which were implemented during the year. Particular attention was paid to extending the processes covered by the backup site and broadening the scope of risk analysis to cover the activities of TMC/NT1 and TMC Broadcasting,
  - **an information systems security approach.** For the past several years, the IT Division has been formalising a data security policy to set down common security standards for the Group. This effort continues on a daily basis as the constant technology advances are factored into security principles and rules;
- a system for mapping risks systematically:

Since 2007 a working group composed of representatives of TF1's principal businesses has been developing proposals to improve the organisation and systems for the management of risk monitoring across all the businesses of the TF1 group. In 2008 the first stage – identifying and characterising the major risks based on a methodology defined in collaboration with the Bouygues group – was conducted through a series of interviews with some 100 Group managers.

In 2009 and 2010 this initiative led to the development of a risk ranking system and an operational overview of the principal risks to which the TF1 group is exposed. These risks are monitored regularly by committees whose task – in addition to identifying emerging risks – is to manage the resources allocated to risk management.

The main risks and the systems designed to control them are described below in section 2.4 of this report, "Risk factors", which also describes the Group's policies concerning insurance. Financial market risks (interest rate and foreign exchange risk, etc.) are also covered in paragraph 31 of the notes to the consolidated financial statements.

The main business risks that TF1 has identified and seeks to cover on a constant basis are those linked to major processes, *i.e.* acquisition and compliance control of audiovisual content, and control of broadcasting and activities.

### Procurement processes

Standardised procurement contracts allow TF1 to build a secure framework for the supply of tangible and intangible products and the related financial terms and conditions, guarantee service continuity and ensure that suppliers subscribe to an insurance policy.

The development of framework contracts and supplier listing agreements at TF1 group level has generated economies of scale and improved management of the procurement and supplier-relation processes.

TF1 signs contracts for the purchase of broadcasting rights to secure programming for future years. These contracts are legally and economically complex and involve substantial sums. Investment projects are initiated based on the channels' editorial policies and the requirements arising from an analysis of programme inventory; they are subject to an investment authorisation procedure for each type of programme.

Furthermore, and where possible, framework agreements are signed ahead of the procurement process in order to control the costs of certain programmes and to ensure supply. The Group centralises and shares its multi-channel rights (freeview, DTT, cable and satellite, video and new media including VoD and replay) as much as possible.

It was in this spirit that TF1 decided at the end of 2007 to create an economic interest grouping, TF1 Acquisition de Droits, in order to acquire rights for the Group's broadcasting companies. This was followed by the creation of the Rights Acquisition and Trading Division (DGAAN) tasked with optimising the circulation of rights within the Group. TF1 Acquisition de Droits and the DGAAN buy rights to feature films and series to meet the needs of the Group's channels and sell rights to programmes that have not been used by the Group to third parties in order to optimise inventory management.

### Control of programme compliance

The programmes broadcast by the channel are subject to control by the CSA under an agreement signed by the channel. Consequently TF1 has set up a Programme Compliance Department which controls programmes before they are aired. This effort, which in some cases relies on advice from the General Counsel's office, also helps to minimise the legal risks inherent in broadcasting television programmes.

Furthermore, programmes targeting children are submitted to psychologists who are responsible for previewing the most sensitive ones.

A TF1 Publicité team previews all advertising spots after receiving the position from the advertising watchdog, ARPP. It ensures compliance with the regulatory provisions concerning advertising messages on multiple media. These controls focus among other things on:

- whether commercials comply with regulations and with the editorial policy of the medium;
- the maximum duration of advertising slots, both daily and per hour;
- compliance with invoicing rules (in accordance with the Sapin Act 93-122 of January 29, 1993).

### **Control of broadcasting and activities**

TF1's Technical and IT Division is responsible for making the programmes assigned to it as well as for programme broadcasting and the broadcast network. It is also in charge of designing, implementing and maintaining technical and information systems, and for managing real estate, logistics and corporate services.

The IT Division guarantees broadcasting continuity by assuring that the necessary human and technical resources are available and deployed as needed.

For several years, the IT Division has also been responsible for managing the identification, control and prevention of major risks that could impact service continuity, in terms of signal broadcasting as well as the company's activity, premises and IT systems. As such, it analyses and manages risks on an operational basis, for example through the *Réagir* committee.

The *Réagir* committee monitors and prevents major risks associated with the Group's key processes. It maintains and upgrades procedures based on the principle of continuous improvement covering the security of people, assets, infrastructure, systems and data. It also updates and regularly tests plans for rapid resumption of activities that may be discontinued as the result of an exceptional event such as a signal outage or the inaccessibility of the TF1 building.

An external, secure back-up site has been operational since 2001 for programme broadcasting, production of TV newscasts (TF1 & LCI) and organising advertising slots for the TF1 channel.

In 2006 this back-up facility was improved when a digital process similar to that used at the main broadcasting facility was installed at a new external site. This installation and the associated procedures make it possible, if necessary, to switch over from the main site with no noticeable interruption of programmes. In 2008 all back-up resources were amalgamated at this single new external site. In 2011 an internal audit was made of emergency procedures and new Group activities joined the Emergency site (including Eurosport, Eurosport 2 and EurosportNews).

The company's vital functions are included in the security plan through a business resumption process, in particular for the departments concerned with broadcasting, space selling, accounting, treasury, payroll and IT operations. Procedures are tested from time to time so as to upgrade the system if necessary.

The team in charge of this project also extended the range of risk factors to include health risks that could hamper normal operations. These risks have been quantified, their impact assessed, and the associated safety procedures tested. In 2009 the skills, procedures and preventive measures needed to address the threat of H1N1 flu were marshalled under the "Réagir" programme.

Furthermore, a website and a toll-free telephone number enable employees to be informed in real time in case of an emergency and to keep in touch with the company where necessary.

### **CONTROL ACTIVITIES**

In addition to the risk management mechanism, the TF1 group deploys a number of processes and systems that contribute to implementing senior management policies and enable goals to be achieved.

The Group pays particular attention to financial, legal and human resources processes by focusing on the assignments carried out by TF1 SA's functional divisions. Each division supervises and assists TF1 entities in its fields of expertise. The divisions also disseminate cross-functional procedures and ensure compliance with them, while helping to approve specific procedures for the Group's business lines.

### **Procurement and Finance Division (DGAAF)**

The DGAAF brings together the Group's Financial Departments and plays a supervisory role through the cross-functional procedures, methods and principles it disseminates Group-wide.

## **Accounts and Tax Division (DCF)**

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The Central Accounts and Tax Division is responsible for applying the Group's accounting principles. It guarantees the reliability of the processes used to collate and process financial information, as well as the relevance and stability of accounting methods.

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

The DCF includes the TF1 SA Accounting Department and the Consolidation Department. It also gives functional guidance to the subsidiaries' Accounting Departments.

It helps to coordinate and constantly update the teams by setting and disseminating rules, procedures and methods applicable throughout the Group. The DCF applies the principle that the tasks of ordering and payment should be separate.

## **Treasury and Finance Division**

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The Treasury and Finance Division is responsible for managing operations related to finance, investment, hedging of foreign exchange and interest rate risk, and secure payment methods for all companies in the Group, with the exception of some subsidiaries in which TF1 does not have exclusive or majority control. This centralised organisation delivers:

- effective management of the Group's cash pool in euros and foreign currencies;
- payment security;
- consolidation and global management of interest rate and exchange rate risks;
- maintaining a level of skills equal to the complexity of the issues and;
- the delegation of powers to a limited number of employees who alone are authorised by senior management to handle a limited number of financial operations for all Group companies, based on authorisation thresholds and procedures.

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

- through monthly analysis and update of cash forecasts and reporting to senior management;
- by negotiating and maintaining sufficient lines of back-up financing with an average of two to three years' maturity.

## **Project Management Finance and Procurement Division and Data Management Unit**

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To support the implementation of the SAP software, the DGAAF introduced cross-functional structures in 2011 to coordinate its Financial IT System:

- a Project Management Finance and Procurement Division, to operate and maintain all the applications making up the Finance-Procurement IT System and monitor the implementation of the Finance-Procurement IT master plan;
- an SAP Data Management Unit, in charge of managing the Guidelines databases of the Financial IT System, approving SAP access rights, and strengthening the internal control of the accounting and finance activities in the use of these applications.

## **Financial Control and Strategic Planning Division**

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TF1 and the Group's subsidiaries are covered by a financial and strategic planning process and by uniform budget controls which comply with regulatory requirements.

The first year of the strategic plan represents a firm commitment to senior Group management on the part of the heads of the various entities.

This process is decentralised at the level of each company or entity. The process is organised and coordinated by the Group's Financial Control and Strategic Planning Division.

The annual budget is updated twice annually to adjust estimates of year-end results and to re-orient action plans in the light of the achievement of objectives. These updates also provide an opportunity to review three-year forecasts.

In 2009 the Group established a system of continuous forecasting in order to make monthly updates of the impact that events and ongoing projects will have on end-of-year financial statements.

Each structure and each business generates a monthly dashboard which includes a monthly financial statement, an end-of-year forecast, and key performance indicators in the form of a 'cockpit'. Each entity presents its dashboard to the Financial Control Department in Meetings scheduled on a calendar established at the beginning of each year.

After controlling, validating and analysing the presentations, the Financial Control and Strategic Planning Division generates a consolidated Group dashboard which it presents to senior management.

Since 2008, about one hundred operational indicators reflecting the company's strategic objectives have been annotated and presented to the Executive Committee of the TF1 group in graphical form on a monthly basis. This set of indicators, constitutes the Group's management 'cockpit'. It serves as an instrument for measuring performance and as the basis for action plans. This approach promotes common shared understanding of the companies' stakes and circumstances and the development of cross-cutting solutions.

This approach has since 2010 been introduced at most subsidiaries, where the cockpits are to be used to capture all existing performance vectors at all levels of operational responsibility.

### **Investor Relations Division**

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The Investor Relations Division ensures, through press releases, press conferences, information items published on the Group website ([www.groupe-tf1.fr](http://www.groupe-tf1.fr)) and regularly organised Meetings with financial analysts, that the market and the financial community are kept continuously and comprehensively abreast of the company's latest news and economic situation.

### **Group Purchasing Division**

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The TF1 Purchasing Division is tasked with optimising the performance of purchasing processes cross-functionally, in line with the Purchasing Charter drawn up by the Bouygues group and through a TF1 group purchasing policy based on six key components:

- a clear and objective purchasing process: purchasing decisions are documented and clearly justified, and supplier offers are reviewed on the basis of objective criteria established ahead of the tender;
- the global management of supplier relations: the Purchasing Department is the unique entry point for suppliers, excluding audiovisual rights, at the TF1 group;
- a Responsible Purchasing policy that fosters diversity: TF1 encourages extensive use of the sheltered sector and has its strategic suppliers assessed on CSR by an independent body (Ecovadis). TF1 also factors *Label Diversité* criteria into its purchases and includes clauses on sustainable development and diversity in most of its procurement contracts;
- ethics: the Purchasing policy is secure and TF1 is mindful of any conflicts of interest that may arise during calls for tender. Particular attention is paid to the reciprocal respect of contractual commitments with our suppliers;
- the implementation of framework contracts at TF1 group level, notably through the formation of technical partnerships with strategic suppliers;
- securing supply, assessing economic dependency risks and social risks, and validating the respect of prevailing regulations, insurance policies, etc.

### **Human Resources and Internal Communication Division**

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

It monitors compliance with the French Labour Code and changes in labour policy in conjunction with the various employee representative bodies. It also coordinates 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. TF1 cares about developing the skills of its staff and encourages job mobility between companies in the Group. In 2011 nearly one out of every two positions was filled through internal transfers.

Within the framework of the management cycle, the Human Resources Division, together with operational and functional departments, plans human resources needs. These needs are formalised and are an integral part of the three-year financial and strategic planning process fixed by senior management. Any request for hiring a permanent employee is subject to a formal approval procedure.

To disseminate best practices in the field of diversity to all TF1 group companies and employees, a dual training programme was launched in 2010 and continued in 2011. One part of the programme is aimed at the 400 top managers, the other at 400 journalists, technicians and programmes advisers who contribute to ensuring that diversity is well represented on-screen. The programme was three-quarters completed in 2011 and will continue in 2012.

### **General Secretariat and Legal Affairs Division**

The Group General Secretariat coordinates the following two functions:

- the General Secretariat, directly responsible for:
  - monitoring relations with external bodies and authorities (such as the CSA, the French competition authorities, government and parliament, and the European Commission) with the Institutional Relations and Regulatory Affairs Department;

- monitoring laws, rules and decrees concerning the audiovisual sector, and in 2011 and 2012 in particular, the law on compensatory channels and the consequences of its repeal;
- monitoring the respect of regulatory requirements (production obligations, CSA report, etc.) and competition requirements (representatives following the acquisition of TMC and NT1);
- monitoring relations with inter-professional organisations in the audiovisual sector (including SACD and USPA) and major inter-professional agreements (broadcasting, production);
- the major concentration transactions having structured the Group, with the competent authorities (especially CanalSat's purchase of TPS and the buy-out of TMC and NT1);
- coordinating all Group pay-to-view channels in their negotiations with the main pay-to-view distributors and ISPs, and in particular administrative procedures with CSA and the competition authorities;
- the Legal Affairs Division (DAJ), responsible for:
  - determining and supervising the application of policy on contracts in the Group;
  - monitoring the various aspects of company law (including the secretariat of Board Meetings and General Meetings) and development within the Group;
  - court proceedings and litigation. Legal risks and litigation are closely coordinated with the Finance Division to ensure that they are properly reflected in the financial statements;
  - the management of intellectual property rights (brands and domain names);
  - risk management, insurance and property matters: the DAJ ensures that coverage is adequate and that premium and deductible levels correspond to the risks in question.

For several years, the General Secretariat and Legal Affairs Division have been involved in a process to secure and control commitments. This is manifested, for example, by the definition of a Group contract policy and standard contract models for all recurring commitments. Furthermore, Legal Affairs pays particular attention to optimising and conserving the insurance policies signed by TF1 and its subsidiaries so as to be covered against the consequences of potential risks in partnership with brokers acting for leading companies.

The Legal Affairs Division also monitors and participates in implementing a consistent policy of delegation of powers. In particular, the subsidiaries over which TF1 exercises exclusive control are granted delegations based on guidelines established 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.

## **MONITORING SYSTEMS**

Internal control systems must themselves be monitored continuously by corporate 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.

### **Audit Committee**

Formed in 2003 the Audit Committee is composed of at least three Directors. TF1 Executive Directors and employee representatives are barred from sitting on the committee in order to ensure its independence.

Before making presentations to the Board of Directors, the committee examines the quarterly, half-yearly and annual accounts and receives a presentation of the conclusions of the Statutory Auditors. It takes this opportunity to ensure the appropriateness and the consistency of the accounting methods adopted to draw up the accounts and verify the rules of procedure 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.

Interest rate and foreign exchange hedging policies are also presented to the Audit Committee, along with the medium-term financing strategy of the TF1 group (available credit lines, funding sources in financial markets, etc.)

The Audit Committee is kept updated on the deployment of the internal control process and the system of risk monitoring.

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

### **Internal Audit**

The TF1 group's Internal Audit Department carries out assignments in the different Group entities and in various areas (finance, operations, organisation), except for assignments relating to the reliability, security and use of information systems, which are the responsibility of the central audit unit of the Bouygues group.



All these assignments follow an annual audit plan validated by the senior management and the Audit Committee of the TF1 group. A progress report on the plan, along with its main findings and recommendations, is presented to the quarterly Audit Committee Meetings.

Assignments are carried out according to a rigorous methodology. They result in a report containing recommendations, which systematically give rise to action plans that are implemented by the audited entities. The Internal Audit Department monitors this process.

Internal Audit therefore acts as an analysis, control and information tool for senior management, executives and the Audit Committee, making it possible to identify risks and to manage and control them more effectively.

As part of its duties, Internal Audit verifies the application of internal control principles and rules, in collaboration with the Financial Control and Strategic Planning Division (DCFPS) and in addition to the latter's assessments. It thereby contributes to raising employees' awareness of internal control issues.

In addition, Internal Audit actively monitors best practices in control and helps make employees aware of internal control principles.

## **PUBLISHED ACCOUNTING AND FINANCIAL INFORMATION CONTROL PROCESSES**

TF1 is particularly sensitive to internal control issues, particularly in the areas of accounting and finance, where the reliability of information is critically important.

This chapter summarises the principal control processes contributing to the preparation of accounting and financial disclosures.

### **FINANCIAL INFORMATION SYSTEMS**

The Central IT Division (DCSI) works closely with the Finance Division (DGAAF) to deploy and supervise the TF1 group's major financial information systems, notably the accounting, management, treasury and consolidation tools. It also deploys business applications in certain entities.

In the areas of finance and accounting, TF1 operates specific internally developed systems as well as packaged software. The latter are subject to rigorous analysis, monitoring and operation to ensure their availability, integrity, security and compliance with legal obligations.

In the broad framework of its Data Security Policy, the Group has set up systems integrating technical firewalls against attacks from outside (notably an anti-virus emergency plan and regular anti-hacking tests).

Since 2003 the TF1 group has embarked on a process to make the top technical, legal and human resources managers aware of data security and the systems they will need to use.

Finally, the increasing use of advanced information technologies makes corporate data protection and confidentiality crucial. The Eticnet guidelines take this factor into consideration; its dissemination and regular updating tend to strengthen the process of making employees accountable.

At the end of 2008, TF1 launched an important project called SIGMA aimed at facilitating and streamlining the preparation of information while optimising processes in the areas of human resources, finance, and purchasing. The project includes the replacement by SAP of all or part of the applications formerly dedicated to these three functions and the new Finance/Purchasing solution has been successfully deployed at a number of entities (deployment to be completed in 2012). The Human Resources module for all TF1 group companies went in to production in January 2010.

The SAP tool (ERP) is based on the principle of a unique record of operations necessary for financial information and guarantees the control of commitments and payments through:

- the approval cycle for commitments, pre-defined in the IT application and limited to authorised persons;
- the sourcing of invoices reflecting the commitments duly approved by the system.

This management tool is complemented and/or fed by several applications that respond to different business needs of the Group, such as the system dedicated to the processes for monitoring contracts on the acquisition and management of broadcasting rights.

All the Group's means of payment are subject to security procedures, which are complemented by a banking interface, accounted for daily and formalised monthly.

All payment instruments require two signatures, with an annual update of proxies on all bank accounts.

With this approach, the aim of process optimisation is to enhance cross-functional capabilities, harmonise the preparation of information, and facilitate the analysis of the data for all the TF1 businesses.

## **PROCESS OF PREPARING AND CONSOLIDATING ACCOUNTS**

The Accounting and Tax Department has a mission of monitoring and co-ordination, regularly disseminating information to the Group's accounting staff on developments in the rules and methods for generating the solo and consolidated financial statements of the TF1 group.

The tools and processes up-stream of the closing of the accounts guarantee that events are accounted for correctly and according to principles of reality, comprehensiveness, and correct accounting representation.

The accounting choices made are validated by the Statutory Auditors prior to quarterly closings and are presented to the Audit Committee.

### **Process for quarterly closing of TF1's accounts**

Each quarter, all of the companies in the Group prepare intermediate accounts under IFRS using a structured process and a predetermined timetable.

SAP software has a fully integrated flow management system that enables using entities to observe details on results over time. For other entities, using the Group's management applications, quarterly processing enables the accounting teams to validate and then automatically generate book entries in the accounting software, thus ensuring consistency between the results obtained from management and accounting processes.

As part of the procedure for closing the TF1 accounts, book entries are jointly analysed and validated by the accounting and Financial Control Departments. Periodically, the management data used for reporting are compared with accounting system data.

The Accounts and Tax Division ensures compliance with the process for handling different types of assets in Group accounts. For goodwill and securities recorded on the balance sheet, it impairment indicators for intangible assets and, where necessary, writes down the assets concerned. This is done whenever necessary and at least once a year, based on information provided by the Financial Control and Strategic Planning Division and various operational entities, using the impairment test procedure described in the Appendix to the Group's financial statements. The value of other assets, such as audiovisual rights, is assessed using criteria which are also described in the Appendix to the Group's financial statements. This process and its results are validated together with the Statutory Auditors and presented to the Audit Committee.

Provisions for litigation and other risks are established based on a risk analysis conducted in consultation with the Finance Division (DGAAF), the General Secretariat, the Legal Affairs Division, the Human Resources Department and the operational and functional departments concerned.

All items in the balance sheet and income statement are rigorously analysed by comparing them with the year-earlier period. Changes are commented upon, and those comments provide insights into the companies' businesses.

### **Consolidation process**

The Consolidation Department consolidates all TF1 group companies at each quarterly closing on the basis of a pre-defined scope, schedule and instructions communicated to the Group's organisations and units and the Statutory Auditors.

Since January 1, 2005 the TF1 group accounts have been prepared in compliance with IFRS, which have been adopted by the European Union. Depending on local standards and tax regulations, a parallel treatment of certain transactions is provided in the solo accounts of certain Group subsidiaries.

The consolidation tool used throughout the TF1 group is Magnitude, an application used by a large number of listed companies. Magnitude allows for rigorous analysis and control of the account preparation process, which is governed by standard procedures.

## **PROCESS FOR VALIDATING THE ACCOUNTS**

The quarterly consolidated financial statements are presented to the Chairman and CEO by the Finance Division (DGAAF).

At December 31 of each year, the accounts of TF1 and all its subsidiaries are audited by the Statutory Auditors. Each quarter, the consolidated financial statements and the accounts of the main subsidiaries reviewed.

Before presentations to the Board of Directors, the Audit Committee reviews the consolidated financial statements and receives a presentation of the conclusions of the Statutory Auditors. Subsequently, the Group accounts are presented and closed by the Board of Directors.

In addition, the Audit Committee reviews the proposed announcement of the quarterly results prior to validation by the Board of Directors and release.

## **PROCESS FOR MANAGING FINANCIAL DISCLOSURES**

Besides the Chairman and CEO, only duly authorised persons may communicate financial information to the market. These include the Executive Vice President for Finance 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:

- management reports of the Board of Directors;
- registration documents, quarterly and half-yearly reports;
- financial press releases;
- presentations for financial analysts and investors.

These documents are drawn up according to a structured process which satisfies the requirements concerning financial information, using financial information from the Group's subsidiaries and departments. Before being distributed, the documents are monitored and approved by the Legal Affairs, Human Resources, Communication, Sustainable Development and Finance Divisions, and in some cases by the Board of Directors.

Before being submitted to the AMF in compliance with ITS General Regulation, the registration document is monitored by the Statutory Auditors, who check that the information on the accounts and financial position is consistent with historical data, and who review the entire document.

Each subject to be communicated is accompanied by an explanation approved by senior management, updated regularly and acting as a support to relations with the various stakeholders in the market.

To guarantee investors equal access to information, the 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.groupe-tf1.fr](http://www.groupe-tf1.fr) website. Anyone desiring this information can also request it from the Financial Communication service and obtain it free of charge;
- financial press releases are published in a national business daily, on a mainstream financial website and on the AMF website. As of January 2007 TF1 complies with the European Union's Transparency Directive covering new reporting obligations;
- analysts Meetings and General Meetings are broadcast live and in full on the Internet or by telephone, with no access restrictions. A recording of these Meetings is posted on the Group's website;
- two people from the TF1 group attend Meetings held abroad to ensure that accurate information is delivered with strictly equal access. The documents presented at these Meetings are published promptly on the [www.groupe-tf1.fr](http://www.groupe-tf1.fr) website.

## **CONCLUSION AND OUTLOOK**

Throughout 2011 TF1 continued to reorganise its key business processes, including rights acquisition and purchasing, to make them more efficient and flexible and achieve greater cross-functionality among the Group's entities. These efforts culminated in a major project to install a shared IT tool for the human resources, finance and purchasing functions.

Dubbed SIGMA, the project involves teams from the business areas and from the IT and technical functions. The aim is to facilitate and streamline the preparation of information while optimising processes in the areas of human resources, finance, and purchasing. In 2011 the Finance and Purchasing project went live for a new wave of Group entities including TF1 SA, TF1 Publicité and LCI, after the rollout of the Human Resources module across the Group in 2010. The new tool was deployed at Eurosport, Téléshopping and TF1 Entreprises on January 1, 2012.

Also in 2011, the Group conducted a new campaign to assess the application of internal control procedures addressing the risks inherent in its business areas (broadcasting, acquisitions, programming, inventories, rights purchases, programme grid management, royalties, etc.).

TF1 also pursued its risk mapping activities in 2011 by updating, reassessing and prioritising the risks identified in previous years. New risks that could potentially affect the Group's ability to reach its medium-term objectives were taken on board, while the processes of administering action plans were incorporated into the company's management cycle.

The Audit Committee was regularly informed of these activities.

All these objectives will be pursued with a view to maintaining a dynamic vision of internal control, based above all on the skills, sense of responsibility and involvement of all Group employees.

One of the additional works in 2012 will review and enhance the internal control policy to specific issues and risks of the TF1 group, on a thematic and organizational perimeter targeted.