

3.4. Chairman's annual report on internal control procedures

This part of the report aims to report, in accordance with the Law on Financial Security, on internal control procedures set up by the company. It focuses, firstly, on TF1 SA' 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 while respecting the specific characteristics of each business to preserve the appropriateness of the analyses and the speed of decisions.

The TF1 Group is particularly aware of the challenges of internal control, particularly in the areas of accounting and finance, where the reliability of information is of special importance.

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.

In the framework of a common benchmark, each subsidiary is supported in its reflection on its internal control system and the possible areas of improvement – which underpins the overall group internal control environment.

This approach is part of a dynamic outlook, which will in time enable TF1 to assess the appropriateness and effectiveness of its internal control.

3.4.1 – Internal control objectives

To analyse its internal controls system, TF1 Group has adopted the "COSO" (Committee of Sponsoring Organisations of the Treadway Commission) methodology, which 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, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operation;
- reliability of financial reporting;
- compliance with applicable laws and regulations".

To achieve these objectives, the Group relies on formal 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

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 the 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 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 short-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 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 seminars organised by the Bouygues Management Institute in which top TF1 managers participate. 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.
- TF1 is active in a sector that is subject to rapid technological change (digital compression, virtual sets, digitised broadcasting, etc.). It therefore ensures a high level of skills among its employees, notably through an ambitious policy of on-going training, which contributes to a positive internal control environment.

Risk evaluation

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 brings together the business managers of the group to discuss these questions.

Furthermore, in 2004, TF1 set up a working group which, in collaboration with external consultants, has identified risks and defined a decision-making system for crisis management.

In particular, any exceptional event that would cause non-accessibility of the TF1 building would have a major impact on its activity. For this reason, the Group has reinforced (and continually upgrades) the procedures aimed at guaranteeing the effectiveness of risk prevention measures, service continuity and the effective management of risk in the case of a major incident.

For example, a back-up site is operational for the three following processes: programme broadcasting, production of the television news (TF1 and LCI) and production of advertising spots for the TF1 channel. The vital functions of the company are included in the security plan through a process of resumption of activity, notably for the different departments linked to broadcasting, sales of advertising space, accounting, treasury, payroll and the operation of Information Systems.

The management report (See additional information at the end of this report) and the present report on the internal control procedures (See sections 2.3.4 'Technologies and Internal Resources Department' and 3. 'Description of Internal control procedures') detail the main risks identified and the measures implemented to control them.

Control activities

ADMINISTRATION AND FINANCE DEPARTMENT

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**

The Central Accounts and Tax Department (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. Furthermore, the DCCF organises specific training sessions on new IT tools, new accounting benchmarks (more recently, IFRS) and when new accounting procedures are introduced. 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.

Finally, a dedicated unit of the DCCF is responsible for optimising procedures and developing the organisation of the accounting function.

- **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 in this process combines similar economic units into relevant categories: subsidiaries, sales departments, technical or functional entities, programme units or divisions as appropriate.

Implementing management control consists of:

- leading the budget process and providing reporting and steering tools suited to different activity types,
- defining economic objectives and leading the plan process,
- measuring achievements against objectives,
- analysing deviations and following up the implementation of the resulting corrective measures,
- controlling the correctness of the basic data and the consistency of the output of the financial information systems,
- co-ordinating the different participants in the group's management control system.

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 assures the application of group procedures and standards in liaison with central functions.

● 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 the whole group, with the exception of some subsidiaries (TPS, TCM etc.). These have their own treasury department which makes sure of 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.

In order to perform their role as advisors and experts, staff of the Treasury and Finance Department regularly participate in the work of the French Association of Company Treasurers so as to be up to date on best practices in financial security.

HUMAN RESOURCES 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 TF1 Group's strategy of hiring, training and compensation flows from the three-year plans drawn up by General Management after co-ordination with the different operational and functional organisations in the group. Any request for hiring a permanent employee follows a formal approval procedure.

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 each employee's exercise of his/her responsibilities.

GENERAL SECRETARIAT AND LEGAL AFFAIRS DEPARTMENT

The Group General Secretariat co-ordinates and drives the 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;
- 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 the all legal matters forward. Lawyers can be assigned centrally or to different subsidiaries.

In terms of procedures, the General Secretariat and Legal Affairs have long undertaken a process to secure and control commitments. This has led to the definition of a new group contract policy and the drawing up of standard model contracts for all recurring commitments.

After the creation of a digitised database for storing and consulting the main contracts within several group companies, a structured legal tool is under development. Other than the signed contracts base, this legal portal will pull together standard model contracts that the legal experts can consult, plus external legal documentation or documentation developed in-house on specific subjects.

Furthermore, Legal Affairs monitors the optimisation and long-term validity of insurance contracts signed by TF1 and its subsidiaries to guarantee them against possible damage, in partnership with brokers working with top insurance companies. The group monitors the appropriateness of the cover and the level of premium and policy deductible in relation to the risk.

Measures to identify and prevent risks developed by a dedicated unit¹ with regular input from the legal experts aim to improve the control of risks of damage but also to optimise contracts and relations with insurers in terms of premiums and guarantee conditions.

Monitoring of legal risks is carried out by the different units of the General Secretariat in liaison with the DCCF to make sure they are duly reported in the financial statements.

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.

¹ See paragraph 2.2 'Risk evaluation'

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.

Furthermore, this department is in charge of TF1's Major Risks Committee, whose objective is ongoing analysis and operational management of risks. Since 2004, this has meant the organisation and steering of the 'Réagir' (Reaction) committees. These bring together several departments (Human Relations, Legal Affairs, etc.) with the aim of building and updating the prime systems for resuming key processes in the case of disruption.

They monitor the maintenance and improvement of different processes, through regular prevention, but also based on the principle of continuous improvement in the safety and security of people, goods, infrastructures, systems and data.

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

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 DCCF, the DTMI provides:

- support and training for users,
- checking 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 addition to an Intranet site.

The latter also offers the possibility to remind people of security rules as well as training and career opportunities.

Also, the organisation of conventions enables staff to share the group's development, challenges and strategy.

STEERING INTERNAL CONTROL

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

INTERNAL AUDIT

Since 2004, the TF1 Group has had its own internal audit service, which has taken over the assignments previously handled by the central audit system of the Bouygues Group.

It 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.

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. Internal Audit reports to the Audit Committee and represents one of the elements of implementation of corporate governance principles.

The Bouygues central audit function carries out assignments covering the reliability, security and operation of the information systems.

AUDIT COMMITTEE

Created in 2003, the audit committee is composed of at least two independent 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 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. Furthermore, when carrying out their assignment, they are made aware of the organisation and operation of the systems and procedures, participating in the optimisation of the overall internal control environment. Their work includes recommendations to General Management and to the Audit Committee.

3.4.3 - Description of internal control procedures

Procedures for the generation, control and communication of financial information

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.

- 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 the growth directions 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, DCCF 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 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 developed 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.

CLOSING ACCOUNTS AND CONSOLIDATION

- 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, 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 and this clarifies the activity 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 Central Accounts and Tax Department 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 quoted 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 Central Accounts and Tax Department also has a role of co-ordination. It regularly distributes to subsidiaries the applicable rules and methods. This occurs through seminars and training in new accounting standards, for example, which helping to ensure a consistent system for preparing the consolidated accounts.

- 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.

- Introduction of IAS/IFRS

Before deployment of the new standards (International Accounting Standards/International Financial Reporting Standards), a study was made to assess the impact of the changes on the accounting policies, management rules and information systems operating in the different group business lines, taking their specific characteristics into consideration.

The accounting policies selected and the means of implementation chosen were reviewed with the Bouygues Group and the statutory auditors.

Since January 1, 2005, the TF1 Group has used 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.

The accounts for 2004 were also prepared according to IFRS so as to have a reference year for the 2005 accounts.

FINANCIAL COMMUNICATION

Besides the Chairman, only the persons duly authorised by him may communicate financial information to the market. These are, in particular, the DCCF 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 DCCF.

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 Financial Markets Authority (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 and any shareholders equal access to information, various communications products are made available in French and in English, and distributed through the following channels:

- Information for an outside audience, once published, is put on line on the website www.tf1finance.fr. Anyone wishing to receive the information by mail can so request. The Financial Communications Department will send it free of charge.
- All 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.
- Analyst meetings and general meetings are re-transmitted in their entirety 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 website www.tf1finance.fr.

Security of assets and optimisation of cash flow

To safeguard the company's assets and optimise cash flows, the company has implemented procedures applicable to various areas – procurement, commitment of outlays, payments, treasury management, client risk and operations risk.

PROCUREMENT PROCESSES

In general, the Group has initiated a process of standardisation of procurement contracts. They focus particularly on ensuring that suppliers subscribe to an insurance policy, that continuity of service is guaranteed and that supplies and financial conditions are secured.

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 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 in some cases General Management. Most of the time, when possible, framework agreements are signed to control the purchasing costs of certain programmes and to secure supply.

Also, the TF1 DTMI 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.

CONTROLLING COMMITMENTS AND PAYMENTS

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 made up of people authorised to initiate orders,
- the electronic approval cycle for invoices covering these commitments, 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.

CONTROL OF TREASURY MANAGEMENT

TF1 uses a treasury management software package, which handles the following functions:

- daily management of the accounts at value date,
 - monitoring of financial transactions (investment of cash, financing overdrafts),
 - management of 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, essentially TF1 SA, Eurosport, TF1 International and TPS.

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 Deputy General Management, Administration and Finance department 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, in accordance with the hedging strategy defined by the Deputy General Management, Administration and Finance department, the financing operations in terms of timetable, amount, instruments to be used and levels of intervention.

In real time (with full monthly update) it collects the currency commitments of the different entities, consolidates them and defines 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.

PROCEDURES FOR 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).

MANAGING OPERATING RISK

- Securing broadcasting

A crisis team has been set up to monitor and prevent potential risks and to enable activity to resume rapidly in case of recognised risk. Regular tests are made to secure the key processes mentioned in section 2.2 'Risk evaluation.'

In addition, the Compliance Department verifies all programmes for broadcast to ensure they respect the regulations in force and the channel's editorial policy.

- Security of information systems

The TF1 Group has, since 2003, organised seminars bringing together the Group's leading technical managers, legal advisers and human resources managers to raise awareness of the security of information and the systems they are required to use. This awareness-raising process, which will be increased in the future, is an extension of communications on this subject ('Eticnet' guidelines) and of different protective techniques instituted to prevent hostile external activity (for example, the anti-virus emergency plan).

- Back-up site

For several years, the TF1 Group has had an external protected site enabling vital functions of the company to be secured, notably broadcasting and information systems. In 2005, TF1 has undergone a marked technology change with the launching of digital final production. As a result a technical upgrade of the back-up site was initiated.

At the end of 2005, this initial step led to the setting up of a new back-up production facility on a second external site. During 2006, all key processes of the channel will be brought together at this new site, which includes a studio and editing facilities for the television news and suitable resources to resume the vital functions of the enterprise.

Procedures introduced by 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 TF1 Publicité Chairman. 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 at the time of preparing the annual budget and three-year plan. 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 daily and per sliding hour,
 - compliance with invoicing rules (the so-called 'Sapin Law' N°93-122 of January 29, 1993).

3.4.4 – Continuous improvement plan

To complement and expand the internal control mechanisms in place, TF1 is carrying out several projects in the parent company and its subsidiaries.

One of them concerns the Group's commitment to a medium-term process whose purpose is to introduce a new economic and financial information tool with the aim of pooling, harmonising and making secure the reporting made by all the group's business lines.

The first stage was to do an inventory of the tools, methods and indicators used by each business line. This will help to identify common elements underpinning the design of the new tool.

In general, 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.

This spirit of continuous improvement contributes to a dynamic vision of internal control within the TF1 Group, based on the skills and involvement of all employees.

As a complement to the above report, please find details on certain risks in the following:

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 and Hotbird for broadcasting on TPS and,
- 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 free-to-air and satellite network.

TDF is the only national operator broadcasting the television signal and there is no 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 ...).

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. To date, no transmitter failures have exceeded four hours.

TPS' primary activity is the provision of a programme offering broadcast by satellite on Eutelsat's Hot Bird 13 position.

TPS' main programmes are broadcast on two of the five satellites in the orbital position and occupy six frequencies, whereas the position has 100.

The risk of a unit disruption is limited to one satellite, since the satellites are located several tens of kilometres from each other and cannot, therefore, be disrupted simultaneously. TPS must therefore be prepared for a failure on half its capacity. The solutions are a better use of satellite output.

In 2001, TPS experienced an incident on the HB5 satellite lasting several hours. HB5 has now been abandoned in favour of HB6. The measures described above were immediately implemented and proved successful. Eutelsat was able to verify TPS' ability to react, particularly as TPS can remotely guide the configuration for the list of channels and frequencies received by its subscribers.

With the TPS offering in France now distributed via **ADSL** over France Telecom phone lines, TPS and France Télécom have set up the infrastructure (main and back-up networks) needed for continuously broadcasting the first 20 channels on a secure basis. France Télécom is contractually liable to pay penalties to TPS for any breaks in transmission. The size of penalty payments depends on the viewing hour during which the incident occurs.

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.158.

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).

No other regulations have been adopted since the beginning of 2006 that could have a significant impact on the TF1 Group.

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 automatically monitors the financial health of satellite or cable operators on which the channel is distributed. The risk of non-payment by distributors is historically low.

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 rates, exchange rates, 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 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 ...

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

The group has two main types of insurance:

- Non-life insurance (cover: €347.8 M, premium of some €900 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 €30.5 M, premium of some €130 K, deductible of €3 K to €80 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.

TF1 has also subscribed to a liability insurance for company officers since 1997. 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.