DISTRIBUTION OF SHARES OF GROUPE FNAC TO THE SHAREHOLDERS OF KERING

This information document is intended to provide U.S. shareholders of PPR S.A., to be renamed Kering S.A. (such entity referred to herein as "**Kering**") on June 18, 2013, subject to prior approval at its shareholders' combined general meeting, with information relating to the proposed distribution of shares of Groupe Fnac ("**Groupe Fnac**") by Kering to its shareholders (the "**Distribution in Kind**"). You will be asked to vote on this Distribution in Kind at Kering's combined general shareholders' meeting to be held on June 18, 2013.

On April 17, 2013, the Board of Directors of Kering approved the Distribution in Kind.

Kering shareholders will be asked to vote on an amendment of articles 8 and 22 of the bylaws of Kering and the Distribution in Kind at a combined general shareholders' meeting scheduled for June 18, 2013. If the resolutions are approved, Kering shareholders will receive one share of Groupe Fnac for every eight Kering shares that they hold. Kering will not deliver any fractional Groupe Fnac shares. Instead, an allotment right representing a fractional entitlement to a Groupe Fnac share will be detached from each Kering share. Every eight allotment rights will give right to, and automatically be converted into, one Groupe Fnac share. Shareholders that do not hold an even multiple of eight Kering shares will receive a number of Groupe Fnac shares equal to the immediately lower even number of shares corresponding to 1/8 of their number of Kering shares and will retain allotment rights that represent fractional entitlements to Groupe Fnac shares (i.e., one allotment right for each Kering share held that is not an even multiple of eight, for a maximum of seven allotment rights). They may sell such allotment rights, or may purchase additional allotment rights on the market in order to hold an even multiple of eight rights, which will entitle them to one Groupe Fnac share.

Subject to shareholders' approval, the Distribution in Kind will occur on June 20, 2013.

The Distribution in Kind will be taxable to shareholders of Kering under French law and will be subject to French withholding tax, which may be deducted in whole or in part from a simultaneous cash dividend being paid. U.S. shareholders may be eligible for a reduced French withholding tax rate of 15% under the U.S.-France tax treaty. The Distribution in Kind will also be a taxable dividend distribution for U.S. federal income tax purposes. See "Taxation" for further details.

The shares of Groupe Fnac have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "Securities Act"). This information document does not constitute an offer for value of any shares of Groupe Fnac.

Kering's combined general shareholders' meeting relating to the Distribution in Kind will take place on June 18, 2013, at 3:00 p.m. Paris time, at 99 rue de Rivoli, Delorme Room, Carrousel du Louvre, 75001 Paris, France. If you are unable to attend the meeting, you may vote on the amendment of the bylaws and the Distribution in Kind by proxy in accordance with the procedures set forth herein.

In reviewing this information document, you should carefully consider the matters described under the caption "Risk Factors" beginning on page 11, as well as the risk factors incorporated by reference herein.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the shares of Groupe Fnac nor determined whether this information document is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this information document is April 25, 2013

DOCUMENT INCORPORATED BY REFERENCE

Kering is incorporating by reference certain information into this document, meaning that Kering is disclosing important information by referring you to other documents. The information incorporated by reference is deemed to be part of this information document, except for any information superseded by this information document.

This information document incorporates by reference the following document (the "**Document Incorporated by Reference**"):

- The English translation of the Prospectus (*prospectus*), which describes the proposed Distribution in Kind and Groupe Fnac more generally (including certain risk factors), the French version of which was granted visa number 13-179 by the French *Autorité des marchés financiers* (the "**AMF**") on April 25, 2013 (the "**Prospectus**").

Notwithstanding the foregoing,

(A) the following statements shall not be deemed incorporated herein:

- the section on the cover page of the English translation of the Prospectus relating to the visa of the AMF;
- the statements by Mr. Jean-François Palus, *Directeur Général Délégué* of Kering in section 1.2 of the English translation of the Prospectus, referring to the *lettre de fin de travaux* of the statutory auditors; and
- the statements by Mr. Alexandre Bompard, *Président-Directeur Général* of Groupe Fnac in section 1.2 of the English translation of the Prospectus, referring to the *lettre de fin de travaux* of the statutory auditors.

You should not make any decision on the basis of the information contained in the foregoing excluded sections or paragraphs.

(B) any statement contained in the Document Incorporated by Reference shall be deemed to be modified or superseded for the purpose of this information document to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this information statement.

We urge you to review the document incorporated by reference, together with this information document, carefully. Copies of the Document Incorporated by Reference are available without charge on the Kering website at www.kering.com. No other documents or information found on (or linked through) either website is incorporated by reference in this information document.

FORWARD-LOOKING STATEMENTS

Many statements made or incorporated by reference in this information document are forward-looking statements that are not based on historical facts and are not assurances of future results. Many of the forward-looking statements contained in this information document may be identified by the use of forward-looking words, such as "believe," "expect," "anticipate," "should," "planned," "estimate" and "potential," among others.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results of Groupe Fnac to differ materially from those expressed or implied by these forward-looking statements. These factors include:

- risks relating to the economic environment in which Groupe Fnac operates, including levels of consumer spending;

- risks arising from competition in the markets in which Groupe Fnac does business;

- risks relating to Groupe Fnac's business strategies and its ability to anticipate and react to business trends and evolving consumer preferences;

- risks relating to the maintenance of relationships with suppliers, manufacturers and other key third party providers;

- risks relating to Groupe Fnac's new financing arrangements; and

- other factors described under "Risk Factors".

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, Groupe Fnac's actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of factors, including those in "Risk Factors" set forth in this information document. You should carefully consider the section "Risk Factors" beginning on page 10 of this information document, as well as the risk factors incorporated by reference herein, for a discussion of risks that should be considered in evaluating the Distribution in Kind.

All forward-looking statements attributed to Kering, Groupe Fnac or a person acting on either of their behalves are expressly qualified in their entirety by this cautionary statement. Neither Kering nor Groupe Fnac undertakes any obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

AVAILABLE INFORMATION

The shares of Groupe Fnac will not be listed on any U.S. national securities exchange or interdealer quotation system. Groupe Fnac will not be required to file periodic reports with the SEC under the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**"). It will be exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act. Pursuant to that rule, an English translation of certain financial and business information filed publicly or made available to shareholders in France will be published by Groupe Fnac on its website (www.groupe-fnac.com).

This information document speaks only as of its date, and the delivery of this information document, at any time and under any circumstances, does not create any implication that there has been no change in the affairs of Kering or Groupe Fnac since the date hereof. No person has been authorized by Kering or Groupe Fnac to provide any information or to make any representations other than those contained in this information document or incorporated by reference. You should carefully evaluate the information provided by Kering and Groupe Fnac in light of the total mix of information available to you, recognizing that Kering and Groupe Fnac can provide no assurance as to the reliability of any information not contained in this information document or incorporated by reference. This information document does not constitute an offer to sell or a solicitation of an offer to buy any shares to any person in any circumstance.

This document has been prepared exclusively for distribution in the United States. The distribution of this information document in certain jurisdictions may be restricted by law.

PRESENTATION OF FINANCIAL INFORMATION

Financial information included in this information document (including the Document Incorporated by Reference) has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted by the European Union (EU). Certain differences exist between IFRS and generally accepted accounting principles in the United States (U.S. GAAP), which may be material to the financial information incorporated by reference herein.

You must rely upon your own examination of the financial information, and you should consult your own professional advisors for an understanding of the differences between IFRS and U.S. GAAP, and the presentation differences referred to above, and how those differences might affect the financial information incorporated by reference herein.

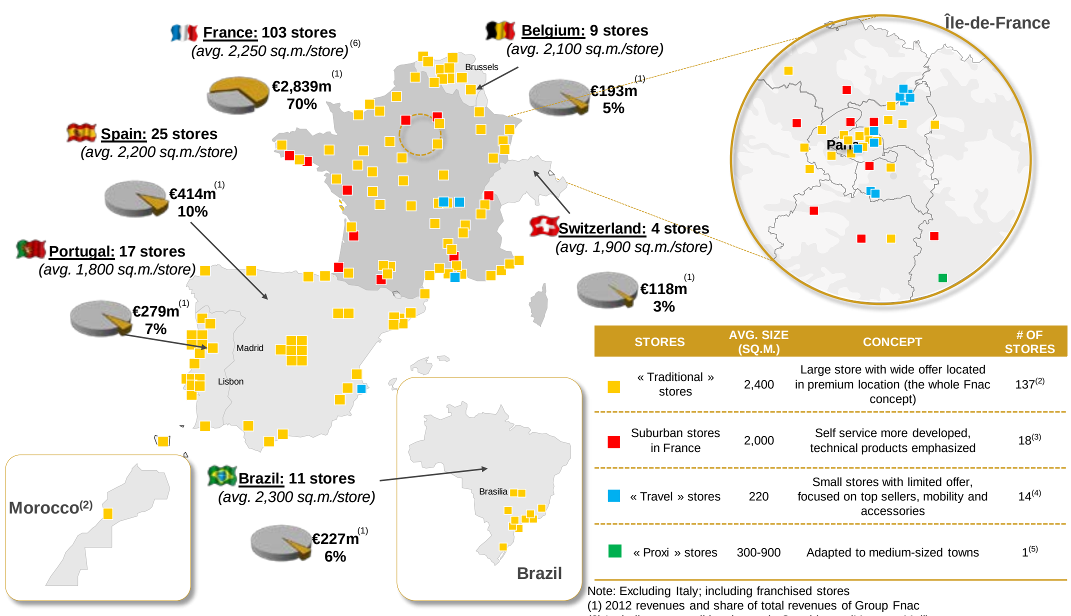
SUMMARY DESCRIPTION OF GROUPE FNAC

The Group believes it is the leading French retail distributor of entertainment and leisure products (including consumer electronics), and a major market player in the other countries in which it operates (i.e., Spain, Portugal, Brazil, Belgium and Switzerland). The Group also has a store in Morocco operated as a franchise.

Fnac was established in 1954. The Fnac brand benefits from a strong and long-standing level of consumer awareness, particularly in France, that has allowed the Group to position itself as a "premium yet accessible" distributor of entertainment and leisure products, which include both editorial products (music, video, books and gaming) and consumer electronics (photography, TV-video, audio and computers). The Group also offers a full range of other services that complement its core product offering (including extended warranties and product return programs), as well as ticketing and box office services. As part of its growth strategy, Fnac has recently expanded its product offerings to include new product categories, such as toys and games, and home and design.

At year-end 2012, the Group's multi-format network included a total of 170 stores (103 of which were in France). The Group's network includes stores that are directly owned and, since 2011, also includes stores operated as franchises. The Group's network also includes e-commerce websites, allowing it to benefit from synergies between its retail store network and its internet presence, thereby implementing its omni-channel strategy.

The map below illustrates the geographic breakdown of the Group's stores at the end of 2012:



STORES	AVG. SIZE (SQ.M.)	CONCEPT	# OF STORES
« Traditional » stores	2,400	Large store with wide offer located in premium location (the whole Fnac concept)	137(2)
Suburban stores in France	2,000	Self service more developed, technical products emphasized	18(3)
« Travel » stores	220	Small stores with limited offer, focused on top sellers, mobility and accessories	14(4)
« Proxi » stores	300-900	Adapted to medium-sized towns	1(5)

Note: Excluding Italy; including franchised stores
(1) 2012 revenues and share of total revenues of Group Fnac
(2) Including one traditional store in Casablanca (Morocco Mall)
(3) Including one franchised store (La Roche-sur-Yon)
(4) Including one store in Spain (Valencia train station) and 13 franchised stores in France
(5) Franchised store (Melun)
(6) Including travel stores

The strength of the Fnac brand and concept allow the Group to generate significant traffic in both its retail stores and on its websites as well as a high ratio of revenues to store surface area. In 2012, the Group made sales to approximately 20 million customers,[1] generated 130 million visits to its stores in France, and had the third largest French e-commerce website, based on average unique visitors per month [2]. Fnac

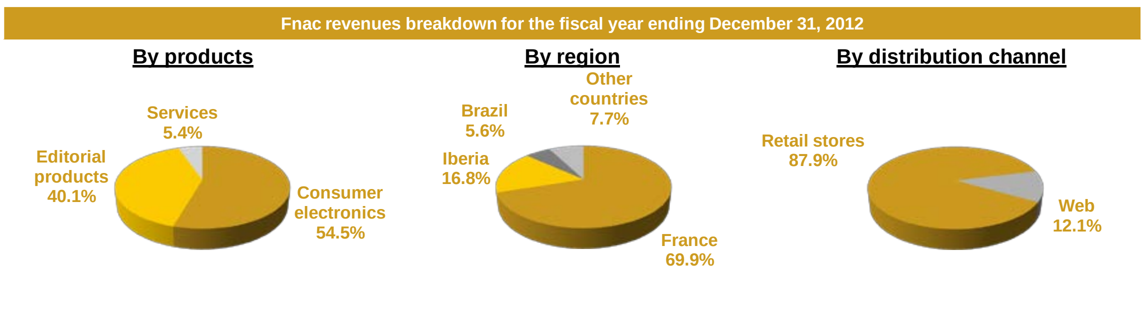
1 Source: BVA Survey, February 2013.

2 Source: Médiamétrie/Netratings, December 2012 (excluding travel websites)

also boasts a strong customer loyalty program, with a total of 5.0 million members, 3.2 million of which were in France, as of year-end 2012.

For the year ending December 31, 2012, the Group's consolidated revenues were €4,061.1 million, of which €492.5 million (12.1% of revenues) were generated from internet sales. The Group's 2012 revenues are divided between four geographical zones: €2,838.8 million in France, €683.3 million in the Iberian Peninsula, €227.5 million in Brazil, and €311.5 million in other countries.

The following charts provide a breakdown of 2012 consolidated revenues by category of products and services, by geographic segment and by distribution channel.



With nearly sixty years of market experience, Fnac has a strong base from which it can draw as it moves towards being an independent group and develops its own growth strategy. The planned separation from the Kering Group and the admission to trading of its shares will increase the Group's visibility, build on its strengths and reinforce its competitive position, both in France and abroad.

SUMMARY FINANCIAL INFORMATION OF GROUPE FNAC

The following tables set forth summary financial information of Groupe Fnac as of and for the years ended December 31, 2010, 2011 and 2012, derived from Groupe Fnac's audited financial statements as of those dates and for those years, included in the Prospectus and incorporated by reference herein.

Summary Income Statement Data for Groupe Fnac

	For the year ended December 31,		
(in millions of euros)	**2010**	**2011**	**2012**
Income from ordinary activities	**4 305,1**	**4 162,5**	**4 061,1**
Gross margin	**1 316,9**	**1 271,0**	**1 219,3**
Personnel expenses	(599,1)	(607,3)	(591,4)
Other current operating income and expense	(529,4)	(572,1)	(554,6)
Current operating income (before Kering management fee)	**188,4**	**91,6**	**73,3**
Kering management fee	(11,1)	(10,8)	(10,0)
Other current operating income (after Kering management fee)	**177,3**	**80,8**	**63,3**
Other non-current operating income and expense	8,0	(38,5)	(130,2)
Operating income	**185,3**	**42,3**	**(66,9)**
Net financial expense	(15,1)	(18,0)	(15,0)
Income tax	(61,8)	(43,7)	(33,7)
Net income from continuing operations	**108,4**	**(19,4)**	**(115,6)**
Net income from discontinued operations	(33,7)	(8,8)	(26,1)
Consolidated net income	**74,7**	**(28,2)**	**(141,7)**

Summary Balance Sheet Data for Groupe Fnac

	As at December 31,		
(in millions of euros)	**2010**	**2011**	**2012**
Assets			
Goodwill	**403.8**	**403.3**	**323.5**
Intangible assets	**63.6**	**73.9**	**73.3**
Property, Plant & Equipment	**228.6**	**209.3**	**197.3**
Non-current financial assets	6.6	28.4	5.8
Deferred tax assets	27.3	26.2	33.9
Other non-current assets	0.8	0.5	0.1
Non-current assets	**730.7**	**741.6**	**633.9**
Inventory	566.2	530.7	495.2
Trade receivables	88.9	121.6	118.2
Tax receivables due	11.8	10.6	9.2
Other current financial assets	-	0.1	0.0
Other current assets	250.6	170.5	162.6
Cash and cash equivalents	251.5	80.8	3.5.5
Current assets	**1,169.0**	**914.3**	**1,091.3**
Assets held for sale	-	51.5	-
Total assets	**1,899.7**	**1,707.4**	**1,725.2**

(in millions of euros)	As at December 31, 2010	2011	2012
Share capital	6.1	6.1	545.7
Equity-related reserves	48.4	48.4	48.4
Translation reserves	9.3	6.0	2.6
Other reserves	325.0	(30.0)	(199.7)
Equity—Group Share	**388.8**	**30.5**	**397.0**
Equity—Minority Interests	**-**	**-**	**0.0**
Equity	**388.8**	**30.5**	**397.0**
Long-term borrowing and financial debt	0.8	0.4	0.7
Provisions for pensions and other equivalent benefits	47.6	49.9	63.2
Deferred tax liabilities	-	-	0.0
Non-current liabilities	**48.4**	**50.3**	**63.9**
Short-term borrowing and financial debt	61.3	232.8	12.8
Other current financial liabilities	-	-	0.0
Trade payables	844.1	730.5	717.1
Provisions	46.3	54.2	52.3
Tax liabilities payable	17.6	8.4	10.6
Other current liabilities	493.2	551.8	471.5
Current liabilities	**1,462.5**	**1,577.7**	**1,264.3**
Liabilities relating to assets held for sale	**-**	**48.9**	**-**
Total liabilities and equity	**1,899.7**	**1,707.4**	**1,725.4**

RISK FACTORS

You should consider the risks described below, as well as the other information in this information document and the Document Incorporated by Reference herein, before voting on the Distribution in Kind. These risks are not the only ones of relevance to voting on the Distribution in Kind or the businesses of Kering and/or Groupe Fnac. Additional risks and uncertainties not known at present or that are deemed immaterial may also impair the business, operating results, financial condition, liquidity and prospects of Kering and/or Groupe Fnac.

Risk Factors Relating to Groupe Fnac and the Distribution in Kind

For a description of certain risk factors relating to Groupe Fnac's business, operating results, financial condition, liquidity and prospects, as well as the consequences of the Distribution in Kind, see the risk factors included in the English translation of the Prospectus incorporated by reference herein.

Risk Factors for U.S. Investors

U.S. investors may have difficulty enforcing civil liabilities against Groupe Fnac and their directors and senior management.

Kering and Groupe Fnac are each a a *société anonyme*, or limited liability corporation, organized under the laws of France. Most of the members of Kering's management and that of Groupe Fnac's reside outside the United States, and a substantial portion of Kering's assets, the ssets of Groupe Fnac's and the assets of such persons are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or us judgments of the U.S. courts predicated upon the civil liability provisions of the U.S. securities laws. We have been advised by our counsel that if an original action is brought in France predicated solely upon U.S. federal securities laws, French courts may not have the requisite jurisdiction to grant the remedies sought. Counsel has also advised us that actions for enforcement of judgments of U.S. courts rendered against French persons referred to above would require such French persons to waive their rights under Article 15 of the French Civil Code to be sued in France only. We believe that none of these persons has waived this right with respect to actions predicated solely upon U.S. federal securities laws. In addition, actions in the United States under the U.S. federal securities laws could be affected under certain circumstances by the French law of July 16, 1980, which may preclude or restrict the obtaining of evidence in France or from French persons in connection with such actions.

Because preemptive rights may not be available for U.S. persons, the ownership percentages of U.S. shareholders may be diluted in the event of a capital increase of Groupe Fnac.

Under French law, shareholders have preemptive rights (*droits préférentiels de souscription*) to subscribe, on a pro rata basis, for cash issuances of new shares or other securities giving rights to acquire additional shares. U.S. holders of shares of Groupe Fnac may not be able to exercise preemptive rights unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Groupe Fnac will not be required to file registration statements in connection with issues of new shares or other securities giving rights to acquire shares to its shareholders, and does not expect to do so. As a result, it may from time to time issue new shares or other securities giving rights to acquire additional shares at a time when no registration statement is in effect. If Groupe Fnac were to undertake future unregistered capital increases, U.S. holders of its shares may be subject to dilution, which may not be fully compensated by the proceeds from the sale of rights.

QUESTIONS AND ANSWERS ABOUT THE MEETING AND THE DISTRIBUTION IN KIND

The following discussion addresses certain key questions regarding the meeting and the Distribution in Kind. Further details are included in the Prospectus, which is incorporated by reference in this information document. You are encouraged to read the English translation of the Prospectus carefully.

Q: When and where is the combined general shareholders' meeting relating to the Distribution in Kind?

A: Kering's combined general shareholders' meeting to vote on the Distribution in Kind will take place on June 18, 2013, at 3:00 p.m. Paris time, at 99 rue de Rivoli, Delorme Room, Carrousel du Louvre, 75001 Paris, France.

Q: What will be proposed at the combined general shareholders' meeting?

A: At the combined general shareholders' meeting, Kering will propose the Distribution in Kind, in the form of an in-kind dividend, as well as a supplementary cash dividend of €2.25. The cash dividend and the in-kind dividend shall constitute the balance of the dividend due for the year 2012 and supplement the interim dividend of €1.50 paid on January 24, 2013.

Q: How do I vote?

A: If you hold ordinary shares in registered form, after carefully reading and considering the information contained and incorporated by reference in this document, please follow the voting instruction card you should have received in the mail. You should also have received the notice of meeting that was published in France, including the agenda for the meeting and a copy of the resolutions that will be submitted to shareholders.

If you hold ordinary shares in bearer form, please follow the directions sent to you by your financial intermediary with respect to voting procedures.

Under French law, in order to attend the meeting, you must provide evidence of your entitlement to attend by midnight (Paris time) three business days before the date of the meeting, including a certification that your shares are registered in the shareholders register of the Company (if you hold in registered form) or in a bearer share account maintained by an authorized intermediary (if you hold in bearer form). If you hold your shares in a securities account in the United States, you may need to leave additional time for your U.S. broker or bank to complete the requisite voting formalities with its French custodian or intermediary.

In addition, you can give a proxy to your spouse or to another shareholder (but to no one else). If you are not domiciled in France, you may also be represented by an intermediary that is registered in accordance with applicable laws. You can also sign and return a blank proxy. If you sign and return a blank proxy, your votes will be cast in favor of the Distribution in Kind.

Q: What vote is required in order for the Distribution in Kind to be approved by the Kering shareholders' meeting?

A: The Distribution in Kind will be approved if :

- the resolutions amending articles 8 and 22 of Kering's bylaws are approved by a vote of Kering shareholders representing at least two-thirds of the shares present or represented at the meeting and;

- the resolution relating to the Distribution in-Kind is approved by a vote of Kering shareholders representing a simple majority of the shares present or represented at the meeting.

Q: Is the Distribution in Kind subject to any conditions?

A: Yes. The completion of the Distribution in Kind is subject to the prior approval of the resolutions amending articles 8 and 22 of Kering's bylaws.

Q: If the Distribution in Kind is approved, what will I receive?

A: If the Distribution in Kind is approved, you will receive one Groupe Fnac share for every eight Kering shares you hold.

Kering will not deliver any fractional Groupe Fnac shares. Instead, an allotment right for Groupe Fnac shares, corresponding to one-eighth of a Groupe Fnac share will be detached from each Kering share. Holding eight allotment rights will automatically be converted into one Groupe Fnac share.

If you do not hold an even multiple of eight Kering shares, you will receive a number of Groupe Fnac shares equal to the immediately lower even number of shares corresponding to 1/8 of your number of Kering shares and you will retain allotment rights that represent fractional entitlements to Groupe Fnac shares (one allotment right for each Kering share you hold that is not an even multiple of eight, or a maximum of seven allotment rights). You may sell your allotment rights, or you may purchase additional allotment rights on the market in order to hold an even multiple of eight allotment rights, which will entitle you to one Groupe Fnac share.

Q: How can I purchase or sell allotment rights?

A: The allotment rights will be listed on NYSE Euronext Paris from and including June 20, 2013, to and including September 30, 2013. You should contact your broker if you wish to purchase or sell allotment rights. The allotment rights will not be listed on any national securities exchange or interdealer quotation system in the United States.

Q: What will happen to the allotment rights after September 30, 2013?

A: After September 30, 2013, allotment rights will be recorded in Euronext Paris' segment of delisted securities, but may still be traded for a period of approximately 21 months, until May 15, 2015.

Following May 15, 2015, pursuant to article L.228-6 of the French Commercial Code, Groupe Fnac shares that were not claimed by holders of allotment rights giving rise to fractional rights to Groupe Fnac shares will be sold. The sale may take place only after (i) a period of two years and (ii) the publication by Kering of a notice required by applicable regulations after the detachment of the allotment rights for Groupe Fnac shares.

Allotment rights will only be cancelled when the unclaimed Groupe Fnac shares, which should have been claimed by holders of allotment rights giving rise to fractional rights to Groupe Fnac shares, have been sold. Former holders of allotment rights affected by such sale will be entitled to receive the proceeds from the sale of these shares (without interest) pro rata relative to the ownership of their cancelled allotment rights as well as any pro rata dividends, interim dividends, reserve distributions or similar distributions made by Groupe Fnac during the approximately two year period between the date of detachment and the sale of the unclaimed Groupe Fnac shares. Capital gains or losses for such securities holders will be calculated using a basis equal to one-eighth of the opening market price of the Groupe Fnac shares on the first day of trading.

Q: When do you expect the Distribution in Kind to occur?

A: If the Distribution in Kind is approved, the Ex-Date will occur on June 20, 2013.

Q: When do I need to be a Kering shareholder in order to receive shares of Groupe Fnac?

A: All persons who have Kering shares recorded in their name for bookkeeping purposes (*enregistrement comptable)* at the close of business on June 19, 2013 (even if such shares have not yet been delivered and settled to such parties) will be entitled to receive shares of Groupe Fnac. In the case of a trade entered into before but settled after the ex-distribution date, allotment rights and shares of Groupe Fnac will be credited to the purchaser.

Q: What will be the tax treatment of the Distribution in Kind?

A: Kering's distribution of Groupe Fnac shares pursuant to the Distribution in Kind will be taxable to shareholders of Kering under French law, and will be subject to French withholding tax. The distribution will be made simultaneously with the payment of Kering's annual cash dividend. The French withholding tax on both the dividend in kind and the cash dividend may be deducted, in whole or in part, from the cash dividend. U.S. holders may be entitled to a reduced French dividend withholding tax rate of 15% under the French-U.S. tax treaty.

The Distribution in Kind will also be a taxable dividend distribution for U.S. federal income tax purposes. U.S. holders may be entitled to credit some or all of the French withholding tax against their U.S. federal income taxes, subject to generally applicable limitations.

Please see the section entitled "Taxation", below, for further details.

Q: What should I do if I hold Kering ADRs?

A: You will have to contact the depositary. Kering is aware that a U.S. bank has established an unsponsored American Depositary Receipt program in respect of its shares, but Kering has no relationship with this bank, which established the program without any participation by Kering. There will be no special provisions made for shares that are part of the ADR program, whether with respect to the combined general meeting, or with respect to the Distribution in Kind.

Q: Whom can I contact if I have further questions?

A:

Investor Relations
Kering S.A.
France
Telephone: +33 (0)1 45 64 65 64

TAXATION

The following is a summary of certain French and U.S. federal income tax considerations regarding Kering's distribution of its annual cash dividend, its distribution of Groupe Fnac common shares , and its distribution of allotment rights corresponding to fractional interests in Groupe Fnac shares (the "**Allotment Rights**"), that may be relevant to a holder of Kering shares that is a citizen or resident of the United States, a U.S. domestic corporation, or otherwise subject to U.S. federal income taxation on a net income basis in respect of the Kering shares, Groupe Fnac shares, and Allotment Rights and is eligible for the benefits of the Convention Between the Government of the United States of America and the Government of the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital of August 31, 1994, as amended by protocols in effect as of the date hereof, including the protocol of January 13, 2009, (the "**Treaty**") as a U.S. resident in respect of such shares and Allotment Rights (a "**U.S. holder**").

The discussion does not purport to be a comprehensive description of all tax considerations that may be relevant to any particular shareholder, including tax considerations that arise from rules of general application or that generally are assumed to be known by shareholders. In particular, the discussion deals only with persons who hold Kering shares as capital assets, and it does not address the tax treatment of persons who are subject to special rules, including, without limitation, a dealer in securities or currencies, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a bank, a life-insurance company, a tax-exempt organization, a partnership (or other entity treated as a partnership for tax purposes), a person that holds Kering shares as part of a hedge, straddle or conversion transactions for tax purposes, a person whose functional currency for tax purposes is not the U.S. dollar, or a person that owns or is deemed to own 10% or more of any class of Kering shares. This discussion also does not address the tax treatment of shareholders who hold Kering shares in connection with a permanent establishment or fixed base through which the shareholder carries on business or performs personal services in France. In certain cases, the discussion addresses issues on which there is no official interpretation. As a result, there can be no assurance that competent tax authorities will agree with the Company's estimations and calculations with respect to matters such as withholding taxes, or its expectations regarding the treatment of certain aspects of the Distribution in Kind described below. The Company has not sought and does not intend to seek a ruling from French, U.S. or other tax authorities with respect to the Distribution in Kind.

In addition, this discussion does not address any tax consequences to holders of ADRs in respect of Kering shares. Holders of such ADRs should consult their own tax advisors regarding the U.S. federal income tax and French tax consequences of holding the ADRs.

Moreover, it should be noted that French law has enacted new rules relating to trusts, in particular a specific new tax and filing requirements as well as modifications to wealth, estate and gift taxes as they apply to trusts. Given the complex nature of these new rules and the fact that their application varies depending on the status of the trust, the grantor, the beneficiary and the assets held in the trust, the following summary does not address the tax treatment of ADRs or shares held in a trust. If our ADRs or shares are held in trust, the grantor, trustee and beneficiary are urged to consult their own tax adviser regarding the specific tax consequences of acquiring, owning and disposing of ADRs or shares.

This discussion is based on the laws (including, for U.S. federal income tax purposes, the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), final, temporary and proposed U.S. Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof) in effect as of the date hereof, the Treaty, and the tax regulations issued by the French tax authorities (the "**Regulations**") in effect as of the date hereof. All of the foregoing is subject to change. Such changes could apply retroactively and could affect the consequences described below. Kering shareholders should consult their own advisors concerning the tax consequences of the cash dividend and the Distribution in Kind in light of their particular circumstances, including the effect of any state, local or other national laws.

French Taxation

French Taxation of Dividends (including the cash dividend and the Distribution in Kind)

For French tax purposes, the Distribution in Kind will be treated as a taxable dividend distribution. In this respect, for French tax purposes, U.S. holders will be deemed to receive, for each Kering share, dividend income equal to one eighth of the opening value of the Groupe Fnac share on the ex-date. The distribution of Allotment Rights will not be taxed other than through the taxation of such dividend.

The cash dividend to be paid by Kering will also be taxable.

Subject to certain exceptions set forth by French domestic rules (which may provide for more or less favorable rules) and to the more favorable provisions of applicable double tax treaties, dividend distributions to non-residents of France, whether in cash or in kind, are subject to French withholding tax at a 30% rate.

However, by exception:

- the rate of such withholding tax may be increased up to 75% if the dividend payments are made outside of France in a non-cooperative State or territory, within the meaning of Article 238-0 A of the French General Tax Code. Still, the application of such increased rate remains subject to the provisions of applicable tax treaties. In that respect, U.S. holders who comply with the procedures for claiming Treaty benefits, as discussed below, generally will be entitled to a reduced dividend withholding tax rate of 15% with regard to the cash dividend and the Distribution in Kind. The withholding tax on both the in-kind and cash dividends may be deducted, in whole or in part, from the cash dividend;

- undertakings for collective investment in tradable securities (UCITs) constituted in accordance with a foreign law and located in a EU member state or in another jurisdiction that has entered with France into a treaty aimed at defeating fraud and tax evasion, provided that they satisfy the following two conditions:

    - raise capital from a certain number of investors with a view to investing such funds in accordance with a determined investment policy, in the interest of such investors; and

    - present features similar to those of the French UCITs set up in accordance with paragraph 1, 5 or 6 of section I of article L.214-1 of the French Financial and Monetary Code.

UCITs are urged to consult with their own tax adviser to determine whether and under which conditions they are eligible to this French withholding tax exemption.

<u>Procedures for Claiming Treaty Benefits</u>

The French tax authorities issued guidelines under reference BOI-INT-DG-20-20-20-20-20120912, that describe the formalities to be complied with by non-resident shareholders, including U.S. holders, in order to benefit from the treaty reduced withholding tax rate on dividend distributions.

Pursuant to these guidelines, U.S. holders can either claim Treaty benefits under a simplified procedure or under the normal procedure. The procedure to be followed depends on whether the application for Treaty benefits is filed before or after the dividend payment.

Under the simplified procedure, in order to benefit on the payment date of the dividend from the lower rate of withholding tax applicable under the Treaty, U.S. Kering shareholders must complete and deliver to the paying agent (through their respective account holder) a Treaty form (Form 5000) to certify that:

- the recipient of the dividend is beneficially entitled to the income for which the Treaty benefits are being claimed;
- the U.S. Kering shareholder is a U.S. resident within the meaning of the Treaty;
- the dividend is not derived from a permanent establishment or a fixed base that it owns in France; and
- the dividend received is subject to tax in the United States.

For partnerships or trusts, claims for Treaty benefits and related attestations are made by the partners, beneficiaries or grantors who also have to supply certain additional documentation.

In order to be eligible for Treaty benefits, pension funds and certain other tax-exempt U.S. holders must comply with the simplified procedure described above, though they may be required to supply additional documentation evidencing their entitlement to those benefits.

If Form 5000 is not filed prior to the dividend payment, a U.S. holder generally will be subject to withholding tax at the 30% rate (or 75% rate in case dividend payments are made outside of France in a non-cooperative State or territory, as mentioned above). The U.S. holder would need to claim a refund for the excess under the normal procedure by filing Form 5000 and Form 5001 no later than December 31 of the second year following the year in which the dividend is paid.

Copies of Form 5000 and Form 5001 are available on the website of the French authorities (www.impots.gouv.fr) under the form search (*recherche de formulaire*) section.

Sales or Other Taxable Dispositions of Groupe Fnac Shares and the Allotment Rights

U.S. holders will not be taxed in France on their disposals of Groupe Fnac Shares and the Allotment Rights, provided they do not hold such securities in connection with a permanent establishment or fixed based in France.

U.S. Taxation

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS INFORMATION DOCUMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Cash Dividend and Distribution in Kind

U.S. holders of Kering shares generally must include the gross amount of the annual cash dividend, and the U.S. dollar value of the Groupe Fnac shares and Allotment Rights received in the Distribution in Kind, including the amount of any French taxes withheld, in ordinary income on the date that they are treated as having received the respective amounts (the "**dividend**"). To determine the amount of income included, U.S. holders should translate the cash they receive from euros to U.S. dollars at the exchange rate in effect on the date it is received. The dividend will not be eligible for the dividends received deduction generally allowed to U.S. corporations.

A U.S. holder's initial tax basis in the Groupe Fnac shares and Allotment Rights will generally equal their U.S. dollar value on the date of the Distribution in Kind, and its holding period for the shares and Allotment Rights will generally begin the day after the date of the Distribution in Kind.

Subject to certain exceptions for short-term and hedged positions, the dividend received with respect to Kering shares by certain non-corporate U.S. holders will be subject to taxation at a maximum rate of 20% if the dividend is a "qualified dividend." The dividend will be a qualified dividend if Kering (i) is eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service (the "**IRS**") has approved for purposes of the qualified dividend rules and (ii) was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (a "**PFIC**"). The Treaty has been approved for purposes of the qualified dividend rules. Based on Kering's audited consolidated financial statements and relevant market data, Kering believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2012 taxable year. In addition, based on its audited consolidated financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market data, Kering does not anticipate becoming a PFIC for its 2013 taxable year. Accordingly, the dividend is expected to be treated as a qualified dividend in the hands of non-corporate U.S. holders, subject to certain exceptions for short-term and hedged positions.

The dividend generally will be treated as foreign-source income and generally will constitute passive category income to a U.S. holder for U.S. foreign tax credit purposes. Any French tax deducted or withheld from the cash dividend will be treated, up to any applicable reduced rates provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against the U.S. federal income tax liability of U.S. holders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in Kering shares. U.S. holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Dividends on Groupe Fnac Shares

U.S. holders of Groupe Fnac shares generally must include the gross amount of the cash dividend paid by Groupe Fnac, including the amount of any French taxes withheld, in ordinary income on the date that they are treated as having received the dividend, translating the dividend from euros to U.S. dollars at the exchange rate in effect on that date. Such dividends generally will be subject to the same U.S. federal income tax consequences discussed above under "U.S. Taxation—Cash Dividend and Distribution in Kind."

Sales or Other Taxable Dispositions of Groupe Fnac Shares and the Allotment Rights

Sales or other taxable dispositions of Groupe Fnac' shares and the Allotment Rights by U.S. holders generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized in respect of the disposition and the U.S. holder's tax basis in such Groupe Fnac shares or Allotment Rights. Any such capital gain or loss will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the shares or Allotment Rights were held for more than one year, and will generally be treated as U.S. source gain or loss for U.S. foreign tax credit limitation purposes. The deductibility of capital losses is subject to limitations.

The exchange of Allotment Rights into the Groupe Fnac shares they represent generally will not be taxable for U.S. federal income tax purposes. A U.S. holder's tax basis in the Group Fnac shares received in respect of such Allotment Rights will generally equal to such holder's combined tax basis in the Allotment Rights exchanged.

Information Reporting and Backup Withholding

Dividend payments made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding unless the holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is timely furnished to the Internal Revenue Service. A holder that is not a U.S. person generally will not be subject to information reporting or backup withholding but may be required to comply with certification and identification procedures in order to establish an exemption from information reporting and backup withholding.

Groupe Fnac
9 rue des Bateaux-Lavoirs,
ZAC Port d'Ivry, 94200 Ivry-sur-Seine
RCS 055 800 296

PROSPECTUS IN VIEW OF THE ADMISSION TO TRADING ON THE REGULATED MARKET OF NYSE EURONEXT IN PARIS OF GROUPE FNAC SHARES (AS WELL AS ALLOTMENT RIGHTS TO GROUPE FNAC SHARES) IN THE CONTEXT OF THE DISTRIBUTION OF GROUPE FNAC SHARES TO KERING SHAREHOLDERS

AUTORITÉ DES MARCHÉS FINANCIERS

Pursuant to Articles L. 412-1 and L.621-8 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 211-1 to 214-3 of its General Regulations (*Règlement Général*), the *Autorité des marchés financiers* (the "AMF") has granted visa number 13-179 dated April 25, 2013 in respect of this prospectus. Groupe Fnac and PPR prepared this prospectus and the signatories are responsible for its contents in accordance with Chapter 1 of this prospectus.

The *visa*, in accordance with Article L.621-8-1-l of the French Monetary and Financial Code, was granted after verification by the AMF of "*the relevance and consistency of the information provided herein*". It implies neither approval of the suitability of the transaction nor validation of the accounting and financial information presented herein.

The distribution of Groupe Fnac shares will be submitted for approval by PPR's annual general shareholders' meeting which is scheduled to take place on June 18, 2013. This meeting will also pass on PPR's proposed name change to Kering.

Copies of this prospectus may be obtained free of charge at the registered offices of Groupe Fnac, 9, rue des Bateaux-Lavoirs, 94868 Ivry-sur-Seine, France, and Kering, 10, avenue Hoche, 75008 Paris, as well as on the websites of Groupe Fnac (www.groupe-Fnac.com), of Kering (www.kering.com), and of the AMF (www.amf-france.org).

DISCLAIMER

This document is a free translation of Groupe Fnac's prospectus dated April 25, 2013 (the "Prospectus"). The Prospectus, in its original French version, is publicly available at www.amf-france.org. This translation (the "Translation") is provided for your convenience only and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part for any purpose. In the event of a conflict between the Prospectus and the Translation, the Prospectus shall control.

GENERAL INFORMATION

Definitions

In this prospectus, unless otherwise indicated:

- The terms “Groupe Fnac” or the “Company” mean Groupe FNAC S.A.;
- The terms “Group” or “Fnac” mean the Company and its subsidiaries;
- The terms “Kering” and “PPR” mean PPR S.A., it being specified that PPR S.A.’s annual general shareholders’ meeting will deliberate on June 18, 2013 and decide on the proposed name change of the company to Kering S.A.;
- The terms “Kering Group” and “PPR Group” mean PPR and its subsidiaries;
- The term “CAGR” means the “compound annual growth rate”.

Forward-looking statements

This Prospectus contains statements regarding the prospects and growth strategies of the Group. These statements are sometimes identified by the use of the future or conditional tense, or by the use of forward-looking statements such as “believes”, “envisages”, “considers”, “aims”, “expects”, “intends”, “should”, “anticipates”, “estimates”, “wishes” and “might”, or, if applicable, the negative form of such terms and similar expressions or similar terminology. Such information is not historical in nature and should not be interpreted as a guarantee of future performance. Such information is based on data, assumptions, and estimates that the Group considers reasonable. Such information is subject to change or modification based on uncertainties in the economic, financial, competitive or regulatory environments. This information is contained in several sections of this prospectus and includes statements relating to the Group’s intentions, estimates and targets with respect to its markets, strategies, growth, results of operations, financial situation and liquidity. The Group’s forward looking statements speak only as of the date of the visa on this prospectus. Absent any applicable legal or regulatory requirements, the Group expressly disclaims any obligation or undertaking to release any updates or revisions to any forward looking statements contained in this prospectus to reflect any change in its expectations or any change in events, conditions or circumstances, on which any forward looking statement contained in this prospectus is based. The Group operates in a competitive and rapidly evolving environment. It is therefore unable to anticipate all risks, uncertainties or other factors that may affect its activities, their potential impact on its activities or the extent to which the occurrence of a risk or combination of risks could have significantly different results from those set out in any forward-looking statements, it being noted that such forward-looking statements do not constitute a guarantee of actual results.

Information on the market and competition

This prospectus contains information relating to the Group’s markets and to its competitive position, in particular in Chapter 6 “Business”. Some of this information comes from research conducted by outside sources. This publicly available information, which the Company believes to be reliable, has not been verified by an independent expert, and the Company cannot guarantee that a third party using different methods to collect, analyze or compute market data would arrive at the same results. None of the Company nor its direct or indirect shareholders nor any provider of investment services makes any representation or warranty regarding the accuracy of this information.

Risk factors

Investors should carefully consider the risk factors in Chapter 4 “Risk Factors”. The occurrence of all or any of these risks could have a negative effect on the business, image, results of operation or financial position or prospects of the Group. Furthermore, additional risks that have not yet been identified or that are not considered material by the Group at the date of the visa on this prospectus could produce adverse effects.

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SUMMARY OF THE PROSPECTUS

Visa No. 13-179 dated April 25, 2013

This summary is comprised of a collection of key information, referred to as "Elements", which are presented in five sections labeled A to E and numbered A.1 to E.7.

This summary contains all of the Elements that must be included in the summary of a prospectus relating to this class of securities and this type of issuer. Because not all of the Elements are applicable, the numbering of the Elements in this summary is not continuously sequential.

It may be the case that no pertinent information can be provided with respect to a given Element that should be included in this summary owing to the class of securities or type of issuer concerned. In such cases, a brief description of the relevant Element is included in the summary, with the note "not applicable".

Section A – Introduction and Disclaimer		
A.1	**Disclaimer**	This summary should be read as an introduction to the prospectus. Any decision to invest in the securities which are the subject of an application for the admission to trading on a regulated market should be based on the investor's thorough evaluation of the prospectus as a whole. An investor who brings a claim before a court concerning the information contained in this prospectus may, depending upon the national legislation of the member states of the European Union or parties to the European Economic Area Agreement, have to bear the cost of translating the prospectus before the legal proceedings are initiated. Civil liability applies to those persons responsible for preparing this summary, including any translation thereof, if applicable, and who have requested notification thereof for purposes of Article 212-41 of the AMF's General Regulations, only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus, or if such persons fail to provide, when read in conjunction with the other sections of this prospectus, key information allowing investors to evaluate whether to invest in the securities described herein.
A.2	**Resale or final placement of the securities**	Not applicable.
Section B – Issuer		
B.1	**Company name**	Groupe FNAC S.A. (the "Company" or "Groupe Fnac" and, together with its subsidiaries, the "Group" or "Fnac").

B.2	**Registered Office**	9, rue des Bateaux-Lavoirs, ZAC Port d'Ivry, 94868 Ivry-sur-Seine.
	Legal form	A French limited liability company (*société anonyme*) with a Board of Directors.
	Governing law	French law.
	Country of origin	France.
B.3	**Description of business**	The Group believes it is the leading French retail distributor of entertainment and leisure products (including consumer electronics), and a major market player in the other countries in which it operates (i.e., Spain, Portugal, Brazil, Belgium and Switzerland). The Group also has a store in Morocco operated as a franchise. Fnac was established in 1954. The Fnac brand benefits from a strong and long-standing level of consumer awareness, particularly in France, that has allowed the Group to position itself as a "premium yet accessible" distributor of entertainment and leisure products, which include both editorial products (music, video, books and gaming) and consumer electronics (photography, TV-video, audio and computers). The Group also offers a full range of other services that complement its core product offering (including extended warranties and product return programs), as well as ticketing and box office services. As part of its growth strategy, Fnac has recently expanded its product offerings to include new product categories, such as toys and games, and home and design. At year-end 2012, the Group's multi-format network included a total of 170 stores (103 of which were in France). The Group's network includes stores that are directly owned and, since 2011, also includes stores operated as franchises. The Group's network also includes e-commerce websites, allowing it to benefit from synergies between its retail store network and its internet presence, thereby implementing its omni-channel strategy. For the fiscal year ending December 31, 2012, the Group's consolidated revenues were €4,061.1 million, of which €492.5 million (12.1% of revenues) were generated from internet sales. The Group's 2012 revenues are divided between four geographical zones: €2,838.8 million in France, €683.3 million in the Iberian Peninsula, €227.5 million in Brazil, and €311.5 million in other countries. Fnac offers its customers a fee based customer loyalty program. At year-end 2012, Fnac boasted a strong membership base, with a total of 5.0 million members, 3.2 million of which were in France.

B.4a	**Recent trends and outlook affecting the issuer and its industry**	**Revenues for the First Quarter of 2013:**

Consolidated revenues (unaudited) *(in € million)*	**1Q2012**	**1Q2013**	**Variation (current exchange rates)**	**Variation (constant exchange rates)**
France	616.9	593.7	(3.8) %	(3.8) %
Iberian peninsula	167.8	151.9	(9.5) %	(9.5) %
Brazil	58.7	46.6	(20.6) %	(9.8) %
Other countries	72.4	68.0	(6.1) %	(5.5) %
Group	**915.8**	**860.1**	**(6.1) %**	**(5.3) %**

Evolution of the Group's Financial Structure since January 1, 2013

For purposes of the admission to trading of the Company's shares on Euronext Paris, the Company has secured new sources of independent financing in the form of a revolving credit facility for a maximum principal amount of €250 million executed by the Company and Fnac S.A. on April 19, 2013 (the "Loan Agreement") and a nominal amount of €60 million perpetual deeply subordinated notes (TSSDI). In addition, on April 17, 2013, the Company's general shareholders' meeting approved a capital increase in the amount of €70,023,682.82 (without issue premium), which was carried out on such date.

The Group's Objectives

The Group's objective is to stabilize its revenues by 2016, prior to pursuing further revenue growth. This objective of stabilizing revenues is supported by:

- Continued efforts to gain market share (see Section 6.4.1 "Fnac's Markets in France"); and
- Ramping up recently introduced sub-categories of products (in particular games & toys and home & design products) and introducing further new sub-categories of products, with the objective that all new sub-categories taken together will make an overall contribution to the Group's consolidated revenues on the order of 5%.

By 2016, the Group's objective is to stabilize its gross profit margin, primarily through the favorable impact of the above-mentioned new sub-categories of products on the gross profit margin mix and, more generally, through the pursuit of strategies to improve the terms the Group obtains from its suppliers.

		The Group intends to pursue its policy of seeking cost savings and streamlining its organizational structure, which is a key feature of the "Fnac 2015" strategic plan, as more fully described in Section 6.3.6 "Optimizing Operational Efficiency and Profitability". In 2012, this policy has already generated estimated savings of approximately €60 million, i.e. approximately €80 million on an annual basis. The Group intends to continue to pursue this policy on the same order of magnitude in 2013-2014. Over the next few years, the Group also expects to continue to make targeted investments and capital expenditures of approximately €60 to €70 million per year and to continue its strategy of optimizing its inventory management, with an objective of reducing its inventory levels by an average of approximately 3% per year. In the longer term, when the renewal of the Group's business model is complete and assuming stable market and economic conditions, the Group's objective is to achieve a current operating income margin of more than 3%. The above objectives do not constitute projections or estimates of future Group profits, but represent strategic targets under its action plan. These objectives are based on data, assumptions and estimates that the Group considers to be reasonable. These data, assumptions and estimates may change over time as a result of uncertainties relating to the financial, economic, competitive and regulatory environment in which the Group operates. Moreover, one or more of the risks described in Element D.1 could have an impact on the Group's business, results of operations or financial situation and therefore jeopardize the achievement of the objectives described above. The Group cannot guarantee and give no assurance that the objectives described in this Section will be achieved.
B.5	**Description of the Group and of the issuer's position within the Group**	The Company is the parent company of a group of companies that includes, as of March 31, 2013, 25 consolidated subsidiaries (20 in France and 5 abroad). The Company is also the parent of a tax consolidation group that included 15 French subsidiaries as of January 1, 2013.

<table>
<tr>
<td>B.6</td>
<td>Majority shareholders and ownership structure of the issuer</td>
<td>
As of the date of the visa on this prospectus, the Company’s share capital and voting rights are held almost exclusively, directly or indirectly, by PPR S.A. (“Kering”).
Based on the distribution of Kering’s share capital as of April 15, 2013, on the date the Company's shares are admitted for trading on Euronext Paris (scheduled to occur on June 20, 2013), the Company's ownership structure would be as follows:
<table>
<tr><th>Shareholders</th><th>% of share capital and voting rights</th></tr>
<tr><td>Groupe Artémis ....</td><td>38.88%</td></tr>
<tr><td>Baillie Gifford ....</td><td>4.79%</td></tr>
<tr><td>Kering Group....................</td><td>nm[1]</td></tr>
<tr><td>Public................................</td><td>56.33%</td></tr>
<tr><td>Total.................................</td><td>100.00%</td></tr>
</table>
[1] Not meaningful (and after taking into account the transaction to be completed by KERNIC MET B.V. described below)
The following should be noted with respect to this theoretical ownership structure:

Assumptions – This ownership structure takes into account the distribution by Kering to its shareholders of a hypothetical maximum amount of shares in the Company eligible for distribution by Kering of 15,764,588 shares (representing slightly less than 95% of the share capital of the Company on the Ex-Date). A residual number of Groupe Fnac shares will be retained by Kering as a result of the outstanding allotment rights corresponding to fractional Groupe Fnac shares that remain unconverted on the Ex-Date, or if, on the Ex-Date the actual number of Kering shares eligible for allotment is less than the theoretical maximum number of shares that could be entitled to the dividend.
KERNIC MET B.V. – On the date of the visa on this prospectus, KERNIC MET B.V. (a Dutch company that is 100% owned indirectly by Kering) held 830,907 Company shares, representing slightly more than 5% of the Company’s share capital. These shares will not be distributed to shareholders of Kering because they are not held by Kering. In accordance with Kering’s announced strategy to dispose of its interest in Groupe Fnac, prior to admission of the Company’s shares to trading on Euronext Paris, KERNIC MET B.V. will transfer its 830,907 shares (representing its entire interest in the Company, including associated voting rights) to a financial institution in the context of a forward financial contract. The table above takes into account this transaction, the current shareholding of KERNIC MET B.V. being accounted for in the public’s holdings. Pursuant to such agreement, KERNIC MET B.V. will receive an amount equal to at least 85% of the

</td>
</tr>
</table>

		dividends received by the financial institution and, after three years (or at the date on which the totality of the shares have been disposed of by the financial institution), an amount equal to the sale price received by the financial institution following the sale of such shares *plus* accrued interest between the date of sale and date of payment. The financial institution has undertaken not to make any direct or indirect sale (including through derivative instruments) of the shares for a period of six months following the Ex-Date, and thereafter to sell such shares using the degree of care of a financial market professional. Kering will give no instruction to the financial institution regarding the sale of such shares, which shall be made in the sole discretion of the financial institution. • *Groupe Artémis Agreement* – The Loan Agreement requires the early prepayment of amounts lent by the lenders under the facility and the cancellation of the unused commitments available thereunder in the event that Artemis directly or indirectly (via one or several of its subsidiaries, within the meaning of article L.233-3 of the French Commercial Code), ceases to hold at least (i) 38.8% of the Company's share capital or voting rights before the second anniversary of entry into the Revolving Credit Facility (i.e. on April 18, 2015), or (ii) a 25% interest in the Company's share capital and voting rights at any time after that date until the maturity of the Loan Agreement (the "Triggering Event"). It is specified that, by separate agreement, Artémis has agreed (for itself and on behalf of its subsidiaries) not to trigger such early prepayment and cancellation of unused commitments available under the Loan Agreement by sole reason of the Triggering Event until after the initial maturity date thereof (i.e. April 18, 2016). Nevertheless, it is specified that such agreement does not require Artémis, directly or indirectly (through one or more subsidiaries) to subscribe, underwrite or purchase any additional number of shares or other securities in the Company or to utilize the voting rights attached to its shares or other securities of the Company. • *Categories of Shareholders* – For illustrative purposes, as of December 31, 2012, Kering's ownership structure was divided as follows by category of shareholders.[1] It should be noted, however, that this distribution of Kering's shareholding as of December 31, 2012 is without prejudice to the allocation of the shareholders of Kering who will receive shares and Groupe Fnac share allocation rights.

1 Source : Kering 2012 Annual Report

		Category of shareholders — **% of share capital** Groupe Artémis — 40.9 % International institutions [1] — 41.7 % French institutions — 11.1 % Individual shareholders — 5.9 % Kering Employee Shareholders — 0.4 % [1] Including Baillie Gifford in respect of an interest of 5.1 % of the share capital
B.7	**Historical financial information and material changes since the most recent historical financial information**	**Key figures:** (see table below)

Key figures:

	For the fiscal year ended December 31		
(in € million)	**2010**	**2011**	**2012**
Revenues	4,305.1	4,162.5	4,061.1
Gross margin	1,316.9	1,271.0	1,219.3
Current operating income (before Kering management fee) [1]	188.4	91.6	73.3
Current operating income (after Kering management fee) [1]	177.3	80.8	63.3
Operating income	185.3	42.3	(66.9)
Net income from continuing operations	108.4	(19.4)	(115.6)
Group share of net income	74.7	(28.2)	(141.7)
(in % of income from ordinary activities)			
Gross profit margin	30,6 %	30,5 %	30,0 %
Current operating income margin (before Kering management fee)[1]	4,4 %	2,2 %	1,8 %
Current operating income margin (after Kering management fee) [1]	4,1 %	1,9 %	1,6 %
Other financial data not derived from the audited financial statements *(in € million)*			
EBITDA before Kering management fee[1] [2]	254.3	167.0	143.6
EBITDA after Kering management fee[1] [2]	243.2	156.2	133.6
EBITDAR before Kering management fee[1] [3]	380.2	300.0	281.8
EBITDAR after Kering management fee[1] [3]	369.1	289.2	271.8

[1] Upon admission to trading on Euronext Paris of the shares of the Company, the Group will no longer be required to pay a management fee to Kering. However, the Group will be subject to an increase in its external costs of an amount which may be equal to or greater than the Kering management fee. (See Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".)

[2] EBITDA is defined as current operating income plus net expenses for depreciation, amortization and provisions on non-

		current operating assets recognized in current operating income. (3) EBITDAR is defined as EBITDA plus rental payments excluding any ancillary costs and expenses incurred in connection with operating leases.

	For the fiscal year ended December 31		
(in € million)	**2010**	**2011**	**2012**
Non-current assets	730.7	741.6	633.9
Current assets	1,169.0	914.3	1,109.0
Shareholders' equity	388.8	30.5	397.0
Non-current liabilities	48.4	50.3	63.9
Current liabilities	1,462.5	1,577.7	1,264.3
Net financial debt	(189.4)	152.4	(292.0)

		Except as described in Element B.4, to the Company's knowledge, there has been no material change in the Group's financial or commercial condition since March 31, 2013.
B.8	**Pro forma financial information**	Not applicable. This prospectus does not include pro forma financial information.
B.9	**Profit forecasts or estimates**	Not applicable. This prospectus does not include profit forecasts or estimates.
B.10	**Reservations concerning historical financial information**	Not applicable. The audit report does not contain any reservations regarding historical financial information.
B.11	**Insufficient net working capital**	Not applicable. The Company has sufficient net working capital to meet its current obligations and the estimated amount of its obligations for the next 12 months.

Section C – Securities

C.1	**Nature, class and identification number**	**<u>Shares</u>** A request has been made for the admission to trading on Euronext Paris (Compartment B) as from June 20, 2013 of 16,595,610 shares of the Company, representing all of the shares that will comprise the Company's share capital as of that date. The shares representing the share capital of the Company will be ordinary shares of the same class and will entitle their holders to the payment of all dividends, interim dividends or reserves or similar amounts decided after their distribution. The Company's shares will be traded on Euronext Paris under ISIN Code FR0011476928. The ticker for the Company's shares will be "FNAC" (Euronext Paris).

		Allotment rights to the Company's shares In the context of the distribution by Kering to its shareholders of its shares of the Company, one allotment right to Groupe Fnac shares, equal to one-eighth of one Groupe Fnac share, will be detached from each Kering share that is entitled to the payment of a supplementary in-kind dividend. The allotment rights to the Company's shares granted within the framework of the payment of the supplementary in-kind dividend will all be of the same class. The allotment rights to the Company's shares will be traded under ISIN Code FR0011474998. The ticker for the allotment rights to the Company's shares will be "FNADA" (Euronext Paris).
C.2	**Currency**	Euro.
C.3	**Company shares issued and par value of the shares**	Taking into account the transactions related to the Company's share capital approved at the general shareholders' meeting of April 17, 2013, once such transactions have been consummated, on the date the Company's shares are distributed to Kering's shareholders, the Company's share capital will be comprised of 16,595,610 shares with a par value of €1 each, all fully paid.
C.4	**Rights attaching to the shares**	**Shares** As of their distribution, the Company's shares will be subject to all of the provisions of the Company's bylaws adopted by the general shareholders' meeting held on April 17, 2013. Under current French law and the Company's bylaws, such provisions include: • rights to dividends (the shares that are subject to the distribution described in this prospectus will carry immediate dividend rights); • voting rights; • preferred subscription rights for securities of the same class; • the right to share in the Company's profits; and • the right to share in any surplus in the event of liquidation. **Allotment rights to the Company's shares** One (1) allotment right to shares in the Company will be detached from each Kering share held by a party entitled to the distribution, with the holding of eight (8) allotment rights automatically giving the holder right, without any intervention of the holder, to one Groupe Fnac share as from June 20, 2013.

		Fractional Groupe Fnac shares will not be delivered. In accordance with Article 8 of Kering's bylaws, Kering shareholders holding allotment rights to fractional Groupe Fnac shares may, in their own discretion, sell such allotment rights, or purchase additional allotment rights on the market in order to hold an even multiple of eight (8) allotment rights, which would entitle a holder to a whole number of Groupe Fnac share.
C.5	**Transfer restrictions**	Not applicable. The Company's shares and the allotment rights to the Company's shares are freely transferable.
C.6	**Request for admission for trading**	A request has been made for the admission to trading of the Company's shares on Euronext Paris. The listing is scheduled to occur on June 20, 2013. A request has been made for the admission to trading of the allotment rights on Euronext Paris from June 20 to September 30, 2013. Such allotment rights will then be registered in the delisted shares section of Euronext Paris until May 15, 2015, it being specified that during such time such allotment rights remain freely transferable.
C.7	**Dividend policy**	Groupe Fnac's dividend policy and future dividend distributions will be dependent on the Group's financial results, applicable restrictions related to the Group's financing, the implementation of the "Fnac 2015" strategic plan, the financial situation of the Group, business conditions, and all other factors determined to be pertinent by the board of directors. Notwithstanding these factors, the Group's objective is to follow a dividend policy similar to those adopted by comparable companies in the market. Such objective is not a binding obligation of the Group. It should be noted that pursuant to the Loan Agreement, the Company has agreed to refrain from distributing dividends or any other type of distribution related to its share capital and from making any payments under its nominal amount of €60 million perpetual deeply subordinated notes (TSSDI) unless (A) such a distribution and/or payment does not collectively represent more than 50% of distributable earnings from the previous fiscal year and (B) no event of default has occurred and is continuing or is likely to occur upon such distribution under the Loan Agreement. In addition, the distribution of dividends, premiums, or reserves by the Company will trigger interest payments (and, in certain cases, principal amortization payments) under the nominal amount of €60 million perpetual deeply subordinated notes (TSSDI) the Company will issue. The table below shows the amount of net dividends per share distributed by the Company during the past three fiscal years: **Year of distribution** — **2010** / **2011** / **2012** Net dividend per share (in euros)(1) ...... — - / 19.63 / 1.24 (1) Adjusted to take into account changes in the number of outstanding shares and on the basis of 16,595,610 shares.

<table>
<tr><th colspan="3">Section D – Risks</th></tr>
<tr><td>D.1</td><td>Main risk factors relating to the Group and its industries</td><td>The main risk factors applicable to the Company, the Group and its industries are described below. These include:
(i) risks relating to the Group’s industries and markets, in particular those relating to:
• the rapidly evolving and more recently, declining, markets in which the Group operates; the Group may encounter difficulties in adapting to the changes affecting its markets,
• the high level of competition within the Group's markets, which may intensify in the coming years,
• the impact on the Group’s markets of unfavorable macro-economic or political environments, including the euro zone economic crisis,
• the evolution of the legal and regulatory environment applicable to the Group's markets or to its products and services, which could be unfavorable and/or lead to penalties;
(ii) risks relating to the Group's business, including those relating to:
• the highly seasonal nature of the Group's business,
• a deterioration of the Group’s brand perception and recognition, including in respect of its customer loyalty program,
• the Group's ability to meet customer expectations, manage inventory and to complete sales, which depend on the proper functioning of its distribution infrastructure and the timely performance of services by third parties,
• a lack of new and innovative products available for sale or the Group’s inability to timely adapt to or meet customer expectations,
• a deterioration of labor relations within the Group,
• interruptions or slowdowns on the Group’s websites,
• system failures or shortcomings, viruses or hacking resulting in interruptions of the Group’s information systems,
• a deterioration of relations with certain suppliers or supply problems,
• a deterioration of the Group’s relationships with its landlords,
• the Group’s dependence on sub-contractors and significant partners,
• the inadequacy of insurance coverage,
• changes in the assumptions used to determine the carrying amount of certain assets, which could result in an impairment of such assets, including goodwill,
• tax risks, including costs and liabilities in connection with current or future tax audits, and with the international activities of the Group,</td></tr>
</table>

		• challenges to the Group's intellectual or industrial property rights; (iii) risks relating to the Group, including those involving: • the Company's status as a holding company that is dependent on the ability of its operating subsidiaries to generate profits and pay dividends, • the loss of certain benefits provided by the Kering Group and difficulties in making the changes required to conduct business in an independent manner, • risks related to the significant holdings of the Company's main shareholder; (iv) market risks, primarily: • currency risk, • interest rate risk, • liquidity risk, • credit and/or counterparty risk, • risks relating to shares and other financial instruments; and (v) risks relating to the Group's new financing, in particular those relating to: • a reduction in the Artemis Group's interest in the Company, which could impact the Group's financing conditions, • a reduction by Kering of its interest in the perpetual deeply subordinated notes, which could impact the Group's financing conditions, • inability to comply with the restrictive covenants under the Loan Agreement, • reduced flexibility in conducting business as a result of the Loan Agreement's covenants, and • the availability of credit under the Loan Agreement.
D.3	**Principal risks relating to the Company's shares**	The principal risk factors relating to the Company's shares are described below: • the sale of a large number of the Company's shares could have an adverse impact on the market price of the Company's shares, including by Kering shareholders who may follow an investment policy that includes luxury, sports and life-style segments, but does not necessarily include a retail business such as that of the Group, or investors prioritizing international securities, • the Company's shares have never been listed before and are subject to market fluctuations, • volatility in the market price of the Company's shares, • the amount of dividends received by investors could be inferior to that indicated in the Company's dividend policy.

Section E – Offering		
E.1	**Net proceeds of the offering**	Not applicable. Admission is not taking place in the context of an offering.
	Total expenses related to the offering	The Group estimates that total expenses in connection with the admission of the shares to trading on Euronext Paris will be around €10.5 million euros. None of these expenses will be billed to shareholders by the Company.
E.2a	**Purpose of the offering**	Not applicable. Admission is not taking place in the context of an offering. The admission to trading of the Company's shares on Euronext Paris is being made within the context of the separation from the Kering Group of the Company and its subsidiaries.
E.3	**Terms and conditions of the offering**	Admission is not taking place in the context of an offering. The distribution by Kering to its shareholders of the Company's shares (other than to Kering itself and to the holders of shares issued as a result of the exercise of Kering stock options since January 1, 2013) will be in the form of a supplementary in-kind dividend consisting of one (1) Groupe Fnac share per eight (8) PPR shares. In the context of the distribution of Groupe Fnac shares to Kering shareholders, one (1) allotment right to the Company's shares will be detached from each Kering share held by a holder entitled to the distribution, such that eight (8) allotment rights to the Company's shares entitle the holder to receive one (1) share of the Company. Furthermore, in order to facilitate the collection of withholding of income tax and social charges, including French income tax withholding, the distribution of the Company's shares will be coupled with the distribution of a supplemental cash dividend of €2.25 per Kering share. Such cash dividend and the in-kind dividend are in addition to the interim dividend of €1.50 per Kering share paid on January 24, 2013. The distribution of the Company's shares will be submitted for approval by Kering's annual combined shareholders' meeting scheduled to take place on June 18, 2013. Such meeting (which will be considered extraordinary on this point) will approve not only the distribution, but also the modifications to Kering's bylaws to permit in-kind capital distributions or reductions and remove the principle of tax equalization (*principe d'égalisation de l'imposition*) contained therein.

Indicative timetable for the distribution

AMF Visa for the prospectus	April 25, 2013
Publication by Euronext Paris of a notice relating to admission to trading of Groupe Fnac shares and allotment rights.	April 26, 2013
Publication in the Gazette of Obligatory Legal Announcements (BALO) of the notice convening Kering's combined general shareholders' meeting	May 3, 2013
Kering's combined general shareholders' meeting	June 18, 2013
Euronext Paris announcement of the technical reference price of Groupe Fnac shares	June 19, 2013
Detachment of allotment rights and of additional Kering cash dividend (the "Ex-Date") Delivery of Groupe Fnac share allotment rights to Kering shareholders entitled to such rights Delivery of Groupe Fnac shares in the form of an in-kind dividend to the centralizing agent Payment of Kering supplemental cash dividend Admission to trading on Euronext Paris of Groupe Fnac shares and allotment rights to Groupe Fnac shares	June 20, 2013
Delivery by the financial intermediaries of Groupe Fnac allotment rights to the clearing agent, in units of eight (8), in exchange for the corresponding Groupe Fnac shares	Beginning on June 20, 2013
End of the listing of the allotment rights to Groupe Fnac shares on Euronext Paris Transfer of the allotment rights to Groupe Fnac shares to the delisted shares section of Euronext Paris	September 30, 2013
End of the recording of the allotment rights to Groupe Fnac shares on the delisted shares section of Euronext Paris	May 15, 2015

Distribution of Groupe Fnac shares to Kering shareholders

Kering will distribute up to 15,764,588 shares, representing slightly less than 95% of the Company's share capital, to its shareholders (other than to Kering itself and to the holders of shares issued upon the exercise of options to purchase Kering shares after January 1, 2013) on the Ex-Date, to be distributed in proportion to a shareholder's interest in Kering's share capital, on the basis of one (1) Groupe Fnac share for eight (8) Kering shares.

		The 830,907 shares in the Company held by KERNIC-MET BV, a Dutch company which is indirectly wholly-owned by Kering as of the date of the visa on this prospectus, will not be distributed (but will be subject to the term financing arrangement described in Element B.6 above), and a residual number of Groupe Fnac shares will be retained by Kering in order to manage fractional amounts as well as in the event that the number of Kering shares entitled to a distribution on the Ex-Date is lower than the maximum number of shares having a right to dividends. **Beneficiaries of allotment rights** All outstanding Kering shares on the Ex-Date will be entitled to the distribution, with the exception of: (i) treasury shares held by Kering itself and (ii) shares issued as a result of the exercise of Kering stock options since January 1, 2013 which provide that the shares received upon the exercise of such rights are entitled to a dividend as of the first day of the fiscal year in which they were subscribed. The beneficiaries of the distribution of Groupe Fnac shares (and of Groupe Fnac allotment rights) will be Kering shareholders (other than Kering itself and shareholders holding shares issued upon the exercise of Kering subscription rights after January 1, 2013) whose shares are registered in their name (*enregistrement comptable*) at the close of business on the date preceding the Ex-Date, i.e. on the evening of June 19, 2013 (i.e. after taking into account the orders executed during the day on June 19, 2013, even if the settlement and delivery of such orders takes place after the Ex-Date). The same rules apply to the supplemental cash dividend.
E.4	**Interests that could have a material effect on the issue**	Not applicable. The Company is not aware of any interests that could materially influence the admission to trading. The Artémis group, which is the majority shareholder of Kering and holds 56.5% of Kering's voting rights as of December 31, 2012, has informed Kering of its intention to vote in favor of the proposed resolution of Kering's general shareholders' meeting on the distribution of shares of the Company.
E.5	**Person or entity offering to sell the securities**	Not applicable. The admission is not taking place within the framework of an issuance of shares.
	Lock-up commitment	See the information contained in Element B.6.
E.6	**Amount and percentage of dilution**	Not applicable. The admission is not taking place within the framework of an issuance of shares.
E.7	**Estimate of expenses billed to investors**	Not applicable. None of the expenses relating to the admission to trading will be billed to investors.

		Kering will pay, for the period from and including June 20, 2013 to close of market on September 30, 2013, the brokerage fees and VAT borne by each Kering shareholder as a result of (i) the sale of allotment rights for fractional Group Fnac shares credited to such shareholder's securities account as a result of the distribution described in this prospectus and, if applicable, (ii) the purchase of allotment rights for fractional Group Fnac shares for purposes of rounding up such shareholder's holdings to an additional Groupe Fnac share. Such payment will be limited per shareholder account to a maximum of €7.50 including VAT and for the purchase or sale of a maximum of seven (7) allotment rights.

1. PERSONS RESPONSIBLE

1.1 PERSONS RESPONSIBLE FOR THE PROSPECTUS

For Groupe Fnac: Mr. Alexandre Bompard, President and Chief Executive Officer of Groupe Fnac

For Kering: Mr. Jean-François Palus, Deputy Chief Executive Officer (*Directeur Général délégué*) of Kering

1.2 STATEMENT OF RESPONSIBILITY

<u>For Groupe Fnac</u>

"I hereby certify, having taken all reasonable steps to this end, that the information contained in this prospectus (with the exception of Sections 5.1.3.1, 5.1.4.3, 26.1, 26.5 and 26.6 of this prospectus and the corresponding Elements of the summary) is, to the best of my knowledge, true and correct and there has been no omission which would lead to misrepresentation.

*I have obtained from each statutory auditor a letter of completion of their work (*lettre de fin de travaux*) in which they state that they have verified the information relating to the financial situation and accounts presented in this prospectus, and have read the prospectus in its entirety."*

Alexandre Bompard
President and Chief Executive Officer

<u>For Kering</u>

"I hereby certify, having taken all reasonable steps to this end, that the information contained in Sections 5.1.3.1, 5.1.4.3, 26.1, 26.5 and 26.6 of this prospectus and the corresponding Elements of the summary are, to the best of my knowledge, true and correct and there has been no omission which would lead to misrepresentation.

*I have obtained from each statutory auditor a letter of completion of their work (*lettre de fin de travaux*) in which they state that they have verified the information relating to the financial situation and accounts presented in this prospectus, and have read the prospectus in its entirety."*

Jean-François Palus
(Directeur Général délégué)

1.3 PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Matthieu Malige
Group Chief Financial Officer
Immeuble Le Flavia
9, rue des Bateaux-Lavoirs
94768 Ivry-sur-Seine Cedex
Tel: +33 1 55 21 57 93

2. STATUTORY AUDITORS

2.1 APPOINTED STATUTORY AUDITORS

Deloitte & Associés

Represented by Antoine de Riedmatten
185, avenue Charles de Gaulle
92200 Neuilly-sur-Seine

Deloitte & Associés is a member of the *Compagnie Régionale des Commissaires aux Comptes de Versailles* (the Regional Association of Auditors of Versailles).

KPMG Audit, a Department of KPMG SA

Represented by Hervé Chopin
1, cours Valmy
92923 Paris La Défense Cedex

KPMG SA is a member of the *Compagnie Régionale des Commissaires aux Comptes* of Versailles.

2.2 ALTERNATE STATUTORY AUDITORS

BEAS

Represented by Dominique Jumaucourt
185, avenue Charles de Gaulle
92200 Neuilly-sur-Seine

BEAS is a member of the *Compagnie Régionale des Commissaires aux Comptes de Versailles* (the Regional Association of Auditors of Versailles).

KPMG AUDIT IS

Represented by Jay Nirsimloo
Immeuble Le Palatin
3 cours du Triangle
92939 Paris La Défense Cedex

KPMG AUDIT IS is a member of the *Compagnie Régionale des Commissaires aux Comptes de Versailles* (the Regional Association of Auditors of Versailles).

3. SELECTED FINANCIAL INFORMATION

3.1 KEY FINANCIAL INFORMATION

The financial information below is derived from the consolidated financial statements for the years ended December 31, 2010, 2011 and 2012, prepared in accordance with IFRS as adopted by the European Union, as set forth in Section 20.1 “Group Consolidated Financial Statements”.

The financial data shown below should be read in conjunction with (i) the consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 in Section 20.1 “Group Consolidated Financial Statements”; (ii) the analysis of the Group’s financial position and results presented in Chapter 9 “Review of the Group’s Financial Position and Results”; (iii) the analysis of the Group’s cash and equity capital shown in Chapter 10 “Cash and Capital Resources”; and (iv) the information on trends and forecasts presented in Chapter 12 “Information on Trends and Forecasts.”

Key Income Statement Data for Groupe Fnac

	For the fiscal year ended December 31		
(in € million)	**2010**	**2011**	**2012**
Income from ordinary activities	4,305.1	4,162.5	4,061.1
Gross margin	1,316.9	1,271.0	1,219.3
Current operating income before Kering management fee[(1)]	188.4	91.6	73.3
Current operating income after Kering management fee[(1)]	177.3	80.8	63.3
Operating income	185.3	42.3	(66.9)
Net income from continuing operations	108.4	(19.4)	(115.6)
Net income, Group share	74.7	(28.2)	(141.7)
(en % of income from ordinary activities)			
Gross profit margin	30,6 %	30,5 %	30,0 %
Current operating income margin before Kering management fee[(1)]	4,4 %	2,2 %	1,8 %
Current operating income margin after Kering management fee[(1)]	4,1 %	1,9 %	1,6 %
Other financial data not derived from the audited financial statements *(in € million)*			
EBITDA before Kering management fee[(1) (2)]	254.3	167.0	143.6
EBITDA after Kering management fee[(1) (2)]	243.2	156.2	133.6
EBITDAR before Kering management fee[(1) (3)]	380.2	300.0	281.8
EBITDAR after Kering management fee[(1) 32)]	369.1	289.2	271.8

(1) Upon admission to trading on Euronext Paris of the shares of the Company, the Group will no longer be required to pay a management fee to Kering. However, the Group will be subject to an increase in its external costs of an amount which may be equal to or greater than the Kering management fee. (See Section 19.3 “Consequences of Admission to Trading of the Company’s Shares on Euronext Paris”.)
(2) EBITDA is defined as current operating income plus net expenses for depreciation, amortization and provisions on non-current operating assets recognized in current operating income.
(3) EBITDAR is defined as EBITDA plus rental payments excluding any ancillary costs and expenses incurred in connection with such operating leases.

Selected Segment Information for Groupe Fnac

	For the fiscal year ended December 31					
	2010		**2011**		**2012**	
	(in € million)	*(% of total)*	*(in € million)*	*(% of total)*	*(in € million)*	*(% of total)*
Revenues						
France	3,015.5	70.0%	2,884.9	69.3%	2,838.8	69.9%
Iberian Peninsula	732.3	17.0%	707.3	17.0%	683.3	16.8%
Brazil	232.1	5.4%	240.7	5.8%	227.5	5.6%
Other countries	325.2	7.6%	329.6	7.9%	311.5	7.7%
Total	**4,305.1**	**100.0%**	**4,162.5**	**100.0%**	**4,061.1**	**100.0%**
Current operating income						
France	144.2	76.5%	62.1	67.8%	55.6	75.9%
Iberian Peninsula	39.2	20.8%	27.9	30.5%	17.7	24.1%
Brazil	0.9	0.5%	(5.8)	(6.3)%	(5.7)	(7.8)%
Other countries	4.1	2.2%	7.4	8.0%	5.7	7.8%
Current operating income before Kering management fee	**188.4**	**100.0%**	**91.6**	**100.0%**	**73.3**	**100.0%**
Kering management fee	(11.1)	(0.26)%	(10.8)	(0.26)%	(10.0)	(0.25)%
Current operating income after Kering management fee	**177.3**		**80.8**		**63.3**	

Summary Balance Sheet Data for Groupe Fnac

	For the fiscal year ended December 31		
(in € million)	**2010**	**2011**	**2012**
Non-current assets	730.7	741.6	633.9
Current assets	1,169.0	914.3	1,109.0
Shareholders' equity	388.8	30.5	397.0
Non-current liabilities	48.4	50.3	63.9
Current liabilities	1,462.5	1,577.7	1,264.3
Net financial debt at end of period	(189.4)	152.4	(292.0)

Summary Cash Flow Statement for Groupe Fnac

	For the fiscal year ended December 31		
(in € million)	**2010**	**2011**	**2012**
Cash flow before tax, dividends and interest	208.3	121.6	97.4
Change in working capital requirements	71.3	(41.6)	(25.1)
Net cash flows from operating activities	216.3	29.0	37.8
Purchase of property, plant and equipment and intangible assets	(63.5)	(81.1)	(95.1)
Net cash flows from investing activities	(14.6)	(17.2)	(77.6)
Net cash flows from financing activities	(24.7)	(114.6)	290.0
Net change in cash	145.8	(119.3)	221.9

3.2 OTHER INFORMATION

3.2.1 Statement on Net Working Capital

The Company certifies that, in its opinion, the Group's consolidated net working capital is adequate (i.e. that Group has access to adequate sources of cash and liquidity) to meet its obligations for the twelve months following the date of the AMF's visa on this prospectus, including disbursements related to the implementation of the Group's strategy as described in this prospectus (in particular, Section 6.3 "Strategy").

3.2.2 Shareholders' Equity and Debt

In accordance with the recommendations of the European Securities and Markets Authority (ESMA/2011/81, paragraph 127), the table below shows the status of the Group's consolidated debt and shareholders' equity at February 28, 2013 prepared in accordance with IFRS:

In € million, unaudited data	**February 28, 2013**
Shareholders' Equity and Debt	
Total current liabilities	**25,6**
Backed by guarantees	*0,3*
Backed by pledges	–
Without guarantees or pledges	*25,3*
Total non-current liabilities (excluding the current portion of long term debt)	**0,7**
Backed by guarantees	*0,7*
Backed by pledges	–
Without guarantees or pledges	–
Shareholders' equity, Group share, excluding earnings	**397,9**
Share capital	*545,7*
Legal reserve	*0,7*
Other reserves	*(148,5)*
Breakdown of net financial debt	
A. Cash	*52,6*
B. Cash equivalents (1)	*5,6*
C. Investment securities	*0,4*
D. Cash (A) + (B) + (C)	**58,6**
E. Short-term financial receivables	**0,1**
F. Short-term bank debt	*25,1*
G. Portion of medium- and long-term debt due within one year	*0,3*
H. Other short-term financial liabilities	*0,2*
I. Current short-term financial liabilities (F) + (G) + (H)	**25,6**
J. Net short-term financial debt (I) - (E) - (D)	**(33,1)**
K. Bank borrowings with a maturity of over one year	*0,0*
L. Bonds	*0,0*
M. Other borrowings with a maturity of over one year	*0,7*
N. Net medium- to long-term financial debt (K) + (L) + (M)	**0,7**
O. Net financial debt (J) + (N)	**(32,4)**

(1) Includes the amounts placed on a current account with PPR Finance and resulting from the Company's recapitalization in December 2012.

In addition, on February 28, 2013, the commitments of the Group amounted to 502.7 million euros, which consisted primarily of operating leases for 467.9 million euros, irrevocable purchase obligations, and firm investment commitments.

Subsequent to February 28, 2013, for purposes of the admission of the Company’s shares to trading on Euronext Paris, the Company has secured independent financing in the form of a revolving credit facility in a maximum principal amount of €250 million and perpetual deeply subordinated notes (TSSDI) with a nominal amount of €60 million. The terms and conditions of these new sources of financing are described in Section 10.2.2.2 “Financing of the Group After Admission to Trading of the Company’s Shares on Euronext Paris”.

In addition, on April 17, 2013, the Annual General Shareholders’ meeting approved a capital increase in the amount of €70,023,682.82 (without issue premium) which took place on such day, and a share capital reorganization partially completed as of the date of the visa on this prospectus. These transactions are described in more detail in Section 21.1.7 “History of the Share Capital over the Past Three Fiscal Years”.

With the exception of the Loan Agreement (As described in Section 10.2.2.2 “Financing of the Group after Admission of the Company’s Shares to Trading on Euronext Paris”, which will be drawn on after admission of the Company’s shares to trading on Euronext Paris, the Group has no other direct or indirect indebtedness as of the date of the visa on this prospectus.

4. RISK FACTORS

Investors should consider all of the information set forth in this prospectus, including the following risk factors. The discussion below identifies those risks which, in the Group's opinion, should they materialize, could have a material adverse effect on the Group's business, image, results of operations, financial condition and prospects. However, the risks below are not the only risks facing the Group. Additional risks that are not known at the date hereof, or that the Group currently considers immaterial based on the information available to it, may have a material adverse effect on the Group, its business, image, financial position, results of operations or growth prospects.

4.1 RISKS RELATING TO THE GROUP'S INDUSTRY AND MARKETS

The Group operates in markets that are rapidly evolving, and more recently, declining. It may encounter difficulties in adapting to the changes affecting its markets.

The Group operates in markets that are rapidly evolving, primarily due to the expansion of the internet and the resulting changes in consumer purchasing patterns. The expansion of the internet has generated dramatic growth in e-commerce, which has dramatically altered market dynamics in each of the markets and countries in which the Group does business. The growth of e-commerce has fundamentally altered purchasing patterns, consumer behavior (and the tools required to attract and retain consumers) and the overall retail landscape. In particular, the growth of e-commerce has resulted in the emergence of new market players that specialize in online retailing (pure players) and offer a wide range of products at low prices which makes them serious competitors for traditional retailers. The expansion of e-commerce has led especially, and is continuing to lead, to lower prices and margins in the Group's markets.

In the market for consumer electronics, the growth of the Internet has coincided with the low end of the innovation cycle, which limits the renewal of the products that are sold, as well as deflation and adverse economic conditions that affect the share of disposable household income available for the purchase of the Group's products. In France, the size of the market for consumer electronics decreased by an average of 4.0% per year between 2008 and 2012.[2] In the market for editorial products, the expansion of the internet has driven a phenomenon of dematerialization which has resulted in a reduction in sales of physical media, lower prices, and an increase in piracy. The editorial products market is also affected by the unfavorable economic environment. In France, the size of the market for editorial products decreased by an average of 5.7% per year between 2008 and 2012.[3]

This combination of factors requires a significant change in approach and has considerably altered the traditional competitive landscape in the Group's markets. In recent years, several well-known traditional players have experienced serious financial difficulties or gone out of business (e.g. Surcouf and Virgin Megastore in France, or HMV and Comet in the United Kingdom). Other players have made strategic withdrawals (e.g. Darty) or have decided to reduce their exposure to the Group's markets (e.g., certain supermarket retailers in France). Despite strong growth in its online sales, the Group, which has historically been a traditional store-based retailer, saw a continual decline in its total consolidated revenues between 2010 and 2012. The Group recorded consolidated losses for the 2011 and 2012 fiscal years (see Chapter 9 "Review of the Group's Financial Position and Results").

Against this backdrop, and in order to maintain its position in its markets, to adapt to a new competitive landscape and to modernize, the Group has been implementing a new strategy

2 Source: Accuracy – See Section 6.4.5
3 Source: Accuracy – See Section 6.4.5

since July 2011 ("Fnac 2015") designed to broaden the Group's product and service range to include new products and services, strengthen the Group's omni-channel services, and expand its territorial coverage by promoting the opening of new store formats operated either directly or under franchise arrangements. (See Section 9.1.3.2 "Implementation of the "Fnac 2015" Plan, and Cost-Cutting Efforts".)

No assurance can be given that the Group will succeed in repositioning itself or maintaining its position in its markets, in successfully renewing its business model to adapt to the changes in its markets, in halting the decline in its revenues and margins, or in returning to profitability. If the Group is unsuccessful in implementing its strategic plan, or does not evolve to meet new developments in its markets, the Group may face significant financial difficulties.

The Group operates in a highly competitive market and the competition may intensify even further in coming years.

The retail markets for consumer electronics and editorial products are highly competitive. The Group competes with traditional, international, and local retailers, including some that are developing internet sales platforms. The Group also competes with pure players in the e-commerce market. These pure players, some of which, like Amazon, operate on a global scale, exert intense competitive pressure on prices and are increasing their revenues and market share due not only to their attractive prices (resulting from their lower cost structure and the absence of store-related expenses), but also their increasingly wide array of products. Over the past few years, new competitors such as manufacturers, internet service providers ("ISPs") and digital platforms also have emerged, producing a phenomenon of disintermediation in the industry and calling into question the role of retailers such as the Group in the marketing and supply chain. Finally, piracy is undermining the attractiveness of the legitimate editorial products offered by the Group, and constitutes a source of unfair competition. (See Section 6.4 "Market Overview".)

The decline in the Group's markets exacerbates competition by reducing the total revenue available for the different players. Increased concentration amongst e-commerce players also could further increase competition and lead to the emergence of stronger pure players. More generally, if the Group's market moves towards stronger consolidation, the Group could find itself marginalized in certain of the countries where it operates, and experience a decrease in its popularity, purchasing power, and market share.

No assurance can be given that the Group will succeed in withstanding current or future competition. Increased competition could result in price reductions, a reduction of the Group's margins or losses of market share, any of which could have a material adverse effect on the Group's image, businesses, results of operations, financial position, market shares, and prospects.

Difficulties within the Group's markets have been and may continue to be exacerbated by an unfavorable macro-economic or political environment, including the current economic downturn in the euro zone.

The performance of the Group's markets is closely linked to levels of disposable household income. The Group's revenues are affected by the economic conditions in the countries in which it operates, which are primarily euro zone countries. The economic downturn in the euro zone has had, and continues to have, an adverse effect on the economies representing the Group's primary markets (France, Spain, Portugal and Belgium accounted for nearly 91.5% of the Group's consolidated revenues in 2012). The economic downturn has been and remains particularly severe in Spain and Portugal. The most significant effects of this economic downturn include: increased unemployment, budgetary austerity measures, tax hikes and a resulting decrease in the share of household income available for secondary consumption, including the consumption of consumer electronics and editorial products such as those sold by the Group. The economic downturn in Europe has intensified the decline in the Group's markets. Although the economic situation within the euro zone appeared to stabilize in 2012, most of the countries where the Group operates remain in recession or are experiencing little to no growth. Furthermore, the Brazilian economy's slower growth in 2012 adversely affected the Group's markets in Brazil.

While the potential economic recovery within the euro zone represents an opportunity for the Group, such recovery may not occur, or may occur slowly, and economic growth could return at slower rates than those observed in the past, assuming it returns at all. If the adverse economic conditions within the euro zone persist or further deteriorate, the Group's business, financial position, results of operations, and prospects could be materially adversely affected.

The Group's results of operations are also exposed to the effects of political measures that can have a significant impact on purchasing power in France (where the Group generated approximately 70% of its revenues in 2012) and abroad. A further increase in income taxes or VAT in France could lead to a decline in households' secondary consumption, and a corresponding reduction of their consumption of the products the Group sells in France. More generally, changes that adversely affect the business environment could reduce consumer spending. These developments could have a material adverse effect on the Group's business, financial position, results of operations, and prospects.

The legal and regulatory environment applicable to the Group's markets or to its products and services in the countries where it operates may evolve in ways that are unfavorable to the Group and/or lead to penalties.

Because of its in-store and online retail activities, the Group is exposed to changes in the legal and regulatory environment in the countries in which it operates. In particular, the Group's activities are subject to regulations and requirements relating to consumer protection, e-commerce, information technology, book prices (digital and physical), the contractual warranties it provides to customers, and to the safety and accessibility of its stores. The Group has been sanctioned in the past for non-compliance with applicable rules (for example, the Group was fined €7.85 million by the French Competition Authority in 2012), and despite the Group's internal procedures, audits and training programs, no assurance can be given that penalties will not be imposed on the Group for further violations of applicable law in the future.

The Group's business is also affected by environmental regulations that may have an adverse impact on the Group or increase the restrictions that apply to the products it sells (e.g., obligations to dispose of or recycle consumer electronics and household appliances) or to the methods and cost of transporting its products, or increase the cost that it incurs for the rental of retail space.

Although the Group continuously monitors the regulations that apply to it, changes to these regulations or the manner in which they are applied, or significant changes to the laws or jurisprudence in the countries where the Group operates, could result in increased costs for the Group, reduce its margins and, more generally, have a material adverse effect on the Group's business, financial position, results of operations and prospects. See Section 6.7 "Regulations" for further details on certain applicable regulations.

4.2 RISKS RELATING TO THE GROUP'S BUSINESS

The Group's business is highly seasonal in nature and may experience sudden spikes.

The Group's revenues and current operating income are significantly higher during the last quarter of the year, in particular as the holiday season approaches (primarily in November and December). In the past three fiscal years, the Group generated, on average, nearly 35% of its annual consolidated revenues during the fourth quarter. In the final quarter of each year, the Group experiences a period of intense activity characterized by tight inventory management and large shifts in its liquidity, and the Group is required to increase its use of external service providers, particularly for logistics. The Group's working capital requirements are equally seasonal in nature. Working capital requirements tend to increase during the first quarter, remain stable during the second and third quarter, and decrease during the fourth quarter. The Group's revenues and current operating income are also periodically affected by the launch of products that are in high demand. Any unexpected events or failures that occur at the end of the year or when these products are launched, such as natural disasters, weather events, supply delays, strikes, acts of terrorism, work stoppages or unfavorable economic developments, the blocking or destruction of the Group's warehouses or the failure, overload or disruption of its websites, may have a significant adverse effect on the Group's image, businesses, results of operations, and financial position.

The Group may not be able to maintain positive brand perception and recognition, including in respect of its customer loyalty program.

The Group's past success is partly due to positive customer perceptions and recognition of the Fnac brand. In a market characterized by increasing competition, the Group's ability to maintain positive consumer awareness of its brand and the distinctive features it represents is an important element in ensuring the Group's future success, including on social media sites, which encourage customers to share their opinions, comments and experience. The sharp increase in the number of players in the Group's industry and the implementation of the Group's new strategic plan (including its updated business model, expansion of its catalogue of products, and the growth of its store network) could cause the Group to lose its distinctive features or lose customers. Furthermore, the growth of the Group's franchise network or the potential deterioration of labor relations within the Group, including strikes, may expose the Group to reputational risk and could cause a deterioration of its image or the service level within the Group's store network. Finally, the image of the Group could be tarnished by the occurrence of extraordinary events, such as a finding of liability with respect to the sale of a given product, the violation of applicable law, or the deterioration of labor relations within the Group.

The Group has developed a customer loyalty program through which it strengthens the loyalty of the customers who generate a substantial share of its revenues, and that significantly contributes to the distinctiveness of the Group's brand and image. This program may be imitated by the Group's competitors which would weaken its distinctiveness, or it could be perceived as less attractive than competing programs, and consequently be abandoned by certain Fnac customers.

The Group continuously monitors the image and the presence of its brand (including on social media), carries out upstream and downstream tests of new product offerings and its external communication, and carefully monitors the quality of its customer service. Nevertheless, a deterioration or loss of the distinctive features of the Group's image, in particular in relation to its customer loyalty program, could reduce customers or employees' loyalty to the Group and result in less traffic and a lower transformation rate, weaker sales or decreased productivity. All of these factors could have a material adverse effect on the Group's business, financial position, results of operations, and prospects.

The Group's ability to meet customer expectations, manage inventory and complete sales depends on the proper functioning of its distribution infrastructure and on the timely performance of services by third parties.

The Group’s ability to meet its customers’ expectations, manage inventory, make sales and deliver its products depends on the proper functioning of its distribution infrastructure and on the timely performance of third-party providers (including those involved in the transportation of goods to and from the Group’s distribution platform). The Group relies on its information technology systems for forecasts, orders, transportation, sales and distribution. The Group’s ability to effectively manage and maintain its inventory and to ship its products to its stores and customers within the required timeframe depends on the reliability of its supply chain, which is particularly centralized in France.

The proper functioning of the Group’s distribution infrastructure may be disrupted by electrical failures, power outages, security failures, malfunctions, and problems relating to the Group’s information systems, or by external events that affect the Group or its service providers (natural disasters, weather events, fire, strikes and labor unrest, accidents, property damage, acts of terrorism, its partners going out of business, etc.). The Group maintains business interruption insurance, but may not be adequately protected against all of the adverse effects that may result from major disruptions to its distribution platform. (See Section 6.6 “Insurance”.) In addition, the Group’s inventory could face destruction, theft, misappropriation or deterioration, all of which could jeopardize the Group’s ability to sell or deliver its products to its stores or to its customers.

Any significant failure within the Group’s distribution platform, especially during the holiday season, could have a material adverse effect on the Group’s business, financial position, results of operations, and prospects.

The Group’s business could be affected by a lack of new and innovative products available for sale or by the Group's inability to promptly adapt to and meet consumer expectations.

A significant portion of the Group’s business is devoted to the sale of consumer electronic products, which accounted for 54.5% of the Group’s consolidated revenues in 2012 (53.8% in 2011 and 52.9% in 2010). Sales of products in this category depend partly on the regular introduction of new and updated versions of products that respond to technological innovations. A lack of innovation on the part of manufacturers of consumer electronics could have a material adverse effect on the Group’s image, business, financial position and results of operations.

Furthermore, even though the Group has been able to anticipate market trends and consumer preferences in the past, in particular by continuously monitoring customer expectations and the development of new products, no assurance can be given that this will be the case in the future or that the Group will be able to position itself and adapt its product offering to respond to changing consumer preferences with new and innovative products and services. The Group’s results of operations depend heavily on its ability to offer new products and services that meet customer expectations, on the frequency of product updates, on the manner in which consumers receive these new products and services, and on the corresponding impact on demand for the products and services offered by the Group. Despite the Group’s position as a retailer or partner of choice for manufacturers of innovative products (as a result of the Group’s positioning and customer base), consumers continue to have a wide choice of retailers from whom to purchase the same products and services offered by the Group. Furthermore, consumer electronics have increasingly short useful lives, resulting in a higher renewal rate. The Group’s ability to sell new products requires the execution of purchase agreements with strategic suppliers. The Group’s inability to adapt its catalogue of products and services in order to meet its customers’ demands or to execute necessary supply agreements could have a material adverse effect on the Group’s image, business, financial position, results of operations, and prospects.

The Group's business may be affected by a deterioration in its labor relations, including with its unions.

As of December 31, 2012, the Group had approximately 16,648 employees across six countries. As with the steps announced in January 2012 (see Section 9.1.3.2 “Implementation of the “Fnac 2015” Plan, and Cost-Cutting Efforts”), to the extent that the Group continuously optimizes its organizational structure and human resources, its ability to maintain good relationships with its employees, unions and employee representative bodies is crucial to the successful implantation of restructurings. Any deterioration of the Group’s relationship with its employees, unions and employee representative bodies, or a worsening of labor relations due to the implementation of a new organizational structure or a new strategy, could have a material adverse effect on the Group’s image, activities, results of operations, financial position and prospects.

The Group is also required to consult with its works councils and other employee representative bodies on a wide range of subjects, which could prevent or hinder the implementation of certain transactions.

The Group’s success is also largely dependent on its ability to motivate, attract, and retain qualified sales and management personnel and any difficulty in motivating, attracting and retaining such employees may have a material adverse effect on its business, results of operations, financial position and prospects. A deterioration of labor relations within the Group or a decline in morale could also result in decreased productivity, increased leaves of absence, or damage the Group’s image and reputation with the public and the media.

Conciliation or mediation proceedings with institutions representing employees, strikes, disputes and other actions by Group employees, or any deterioration of employee relations within the Group, could lead to disruptions in the Group’s business, including during the year-end holiday season, or to a decline in productivity and, more generally, could have a material adverse effect on the Group’s image, results of operations, prospects and financial position.

Unforeseen events could lead to service interruptions or slowdowns on the Group's websites.

Online sales account for a significant and growing share of Group sales (12.1% of consolidated revenues in 2012). The performance and reliability of the Group’s websites are therefore critical in order to attract and retain customers. The Group may be affected by events that are beyond its control which could cause service interruptions or extended slowdowns on most (or all) of its websites or the servers that host them. Service interruptions or slowdowns affecting the Group’s websites may reduce site traffic and therefore the level of Group sales. Although the Group employs a team of internal and external service providers with significant expertise to oversee the proper functioning of its websites, a partial or total failure of its internet network or of its technical platform may still occur, which may have a material adverse effect on the Group’s business, financial position and results of operations.

System failures or shortcomings, viruses or hacking could result in service interruptions on the Group’s information systems.

The Group’s information systems may experience failures (for example, critical systems failures or power outages) due in particular to natural disasters, fires or acts of terrorism. Should they occur, the Group’s back-up or emergency plans may prove to be inadequate, which could disrupt or interrupt the Group's business. The Group's information systems and the manner in which they are managed could also prove to be insufficient or inadequate to handle peaks in sales or Group structures, resulting in a slowdown or unavailability of information systems, and requiring further investments to be made.

Although the Group has developed an information technology policy to secure its infrastructure and carries out security tests (including anti-hacking tests) on a regular basis, viruses or hacking may still occur and may cause slowdowns or service interruptions on the Group's information systems. Hacking refers specifically to attempts to gain unauthorized access to information or systems, to cause intentional malfunctions and/or the loss or corruption of data, software, hardware or other IT equipment. The Group or its payment service providers could be the victims of hacking efforts by third parties aimed at gaining access to the credit card numbers of or personal data of the Group's customers.

System failures or shortcomings, viruses and computer hacking could expose the Group to a slowdown or interruption of its operations, a reduction in sales levels, and to civil liability, and cause significant damage to its brand and to its customers' confidence. The Group could then be forced to allocate additional human and financial resources to repair the resulting damage or to develop solutions to resolve these failures, mitigate shortcomings, eradicate viruses or strengthen its security systems. The occurrence of any of these events could have a material adverse effect on the Group's business, financial position, results of operations, and prospects.

The Group could be affected by a deterioration of its relationships with certain suppliers or by supply problems.

The Group offers a wide range of products and is supplied by a large number of suppliers. Purchases from the Group's top ten suppliers represented approximately 32% of total purchases in 2012. A significant share of the Group's success depends on its ability to negotiate favorable terms and conditions and to maintain agreements and business relationships with its suppliers, especially those who supply products for which its customers will not accept substitutes. Although the Group has long-standing relationships with most of its suppliers, the Group's agreements with them are generally entered into for fixed periods and are therefore subject to renewal and periodic renegotiation. Furthermore, certain agreements contain change of control clauses, and it cannot be guaranteed that certain business partners will not invoke such clauses as a result of the admission to trading of the Company's shares on Euronext Paris. Any deterioration in the Group's relationships with its main suppliers, the imposition of stricter conditions by suppliers (especially with respect to payment terms), or the non-renewal or early termination of its main supply agreements may have a material adverse effect on the Group's business, image, financial position, results of operations, and prospects.

Furthermore, the retail markets for consumer electronics and editorial products in which the Group operates may be influenced by trends that favor certain key products and create temporary dependencies on products for which there are no substitutes. If for whatever reason the supplier of a given key product fails to supply the Group, the Group would be unable to satisfy customers' demand. This inability could have a material adverse effect on the Group's image and on its business, financial position and results of operations. In addition, the strengthening of commercial relationships between suppliers of certain key products and the Group's competitors, or the decision by some suppliers to develop their own retail operations, could affect the product range the Group is able to offer as well as its sales levels. The Group believes that supply problems, shortages of certain products or the lack of certain products would as a general matter most likely be limited in time and affect its competitors in the same manner. Nevertheless, if such problems occur, it may have a material adverse effect on the Group's image and on its business, financial position and results of operations.

The Group could be affected by a deterioration of its relationships with its landlords.

The Group's success is due in particular to its ability to develop and manage a store network that meets its requirements as well as its customers' expectations. The Group may be exposed to the risk of non-renewal of its leases or face conflicts with its landlords at the time of a lease renewal.

In order to improve its operating profitability, the Group has decided to renegotiate its rents, to optimize the management of its retail space, and to optimize the terms under which its rents are indexed. No assurance can be given regarding the Group's ability to successfully optimize, use and allocate its retail space (including for the introduction of new product categories), to control its rents or to maintain or open stores in prime locations on acceptable terms and conditions. Failure to successfully take these steps could have a material adverse effect on the Group's business, financial position, results of operations, and prospects.

The Group relies on sub-contractors and partners who play an important role in its business.

The Group works with sub-contractors and service providers who play an important role in its business, primarily with respect to IT resources, transportation, delivery, and payroll management. The Group's business also depends on its relationships with its partners in the consumer credit field and for the development of its range of products (SFR, Apple, Microsoft, and Disney, etc.). Furthermore, as it develops a network of franchises, the Group will become dependent on franchisees' ability to expand their business, fulfill their contractual obligations, and deliver a quality of service that complies with Fnac's requirements. Although the Group generally conducts a risk analysis before selecting a provider, a partner, or a franchisee, follows a contractual policy intended to frame its relations with such parties and monitors the quality of their services, any deterioration in or shortcomings of the services offered by such parties, or any sudden termination of its contractual relationships with such parties, partners and franchisees could have a material adverse effect on the Group's business, image, financial position, results of operations, and prospects.

The Group could be exposed to significant financial risks if its insurance coverage proves to be inadequate.

The Group is exposed to risks that are inherent to its business. Although the Group has a third-party liability insurance policy, legal proceedings for civil liability may sometimes result in payment of substantial amounts, portions of which are not covered by insurance. The Group cannot guarantee that the coverage limits under its insurance programs will be adequate to cover future claims or against operating losses incurred as a result of accidents that on its premises, or that it will be able to maintain this insurance on acceptable terms in the future. The Group's business activities, results of operations, financial position, and prospects could be materially adversely affected if the Group's insurance coverage proves to be inadequate or unavailable in the future. (See Section 6.6 "Insurance".)

Changes in the assumptions used to determine the carrying amount of certain assets, especially assumptions resulting from an unfavorable market environment, could result in the impairment of these assets, including certain intangible assets such as goodwill.

If events or circumstances exist suggesting that the book value of a tangible or intangible asset is not recoverable, the Group is required to reassess the recoverable value of that asset (or cash-generating unit), if applicable in order to determine the amount of impairment to be recorded. The recoverable value of an asset is the higher of its net selling price (fair value reduced by selling costs) and its value-in-use. To determine the value-in-use, estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money as well as the risks specific to the asset (or cash-generating unit). If the recoverable amount of an asset (or cash-generating unit) is estimated to be lower than its carrying amount, an impairment loss is recorded. This impairment is immediately recorded in the line item “Other non-current operating income and expenses”. (See Note 2 “Accounting Principles and Policies” to the Group’s financial statements in Section 20.1.1 “Annual Consolidated Financial Statements”.)

Goodwill represents the amount paid by the Group in a business combination that exceeds the fair value of the identifiable net assets on the date of acquisition. Goodwill is allocated to each cash-generating unit in each country. Goodwill is tested for impairment annually at the level of the groups of cash-generating units that correspond to operating segments, during the second half of the year or whenever events or circumstances indicate that the carrying amount of those units may not be recoverable. The recoverable value of groups of cash-generating units is determined on the basis of their value-in-use, which is in turn determined on the basis of certain assumptions. These assumptions primarily include the discount rate, growth rate and change in sales prices and direct costs during the period in question. Management determines discount rates using pre-tax discount rates that reflect the rate of return expected by the market for investments with a similar risk level. Growth rates are based on the Group’s growth forecasts, which are in line with industry trends. Changes in selling prices and direct costs are based on historical data regarding these changes and on estimates of future changes in the market.

If realizations and forecasts change, the estimated recoverable value of goodwill or of the assets themselves may decline significantly and require impairment. The Group recorded an impairment of €75.4 million of Fnac S.A.’s goodwill and an impairment of €16.7 million of Fnac Brazil’s goodwill and non-current assets in 2012. After these impairments, a substantial amount of goodwill and other intangible assets are still recorded on the Group’s consolidated balance sheet (goodwill amounted to €323.5 million on December 31, 2012). (See Note 18 “Impairment Tests on Non-Financial Assets” to the financial statements included in Section 20.1 “Group Consolidated Financial Statements”.)

Given the amount by which the value-in-use currently exceeds the carrying value, the Group believes, based on reasonably predictable current events, that future changes affecting its assumptions should not lead to an additional impairment charge in Brazil or Belgium. In particular, a 5% reduction in the assumed cash flows used to calculate the terminal value would not have led to an additional impairment charge in such countries. With respect to France, a 5% reduction in the assumed cash flows used to calculate the terminal value would lead to an additional impairment charge of €11.9 million. (See Note 18 “Impairment Tests on Non-Financial Assets” to the financial statements included in Section 20.1 “Group Consolidated Financial Statements”.)

No assurance can be given as to the absence of significant impairment charges in the future, especially if market conditions continue to deteriorate.

The Group is exposed to tax risks by virtue of the international nature of its activities and may be subject to costs and liabilities in connection with current or future tax audits.

As a multinational group, the Group is subject to tax legislation in a number of countries and it structures and conducts its business in light of diverse regulatory requirements. Given that tax laws and regulations in the various jurisdictions in which the Group operates sometimes do not provide clear-cut and definitive guidance, the Group’s structure, conduct of its business and tax regime is based on its own interpretation of local and French tax laws and regulations. The Group cannot guarantee that such interpretations will not be questioned by the relevant French and local tax authorities or that the French and local tax laws and regulations in some of these countries will not be subject to change and varying interpretations, which could adversely affect the Group's effective tax rate, cash flow, results, financial position and prospects.

Should the Group become the subject of an audit, as is currently the case in Belgium and Brazil, or tax reassessments in the future, it may be unable to provide the necessary evidence or defend its position or interpretation of the relevant law or regulation before the tax authorities. The Group's financial statements include a global provision covering risks associated with possible tax disputes, in accordance with the accounting rules and principles that apply to these financial statements. However, no assurance can be given that future tax audits will not result in reassessments where amounts due to the tax authorities in question exceed current provisions. Any such reassessments could have a material adverse effect on the Group's effective tax rate, cash flow, results of operations, financial position and prospects.

The Group's intellectual and industrial property rights may be challenged.

The Group owns or uses intellectual and industrial property rights, including the trademarks, logos and domain names that it uses in its business. Over the past few years, the Group has set up a monitoring system for its portfolio of brands and domain names in order to defend its rights. However, the Group cannot be certain that the measures undertaken to protect its intellectual and industrial property rights will be effective or that third parties will not infringe, misappropriate or terminate its intellectual or industrial property rights. Given the importance of the recognition of the Group's brands, particularly the Fnac brand, any infringement or misappropriation could have a material adverse effect on the Group's image, business, financial position and results of operations.

4.3 RISKS RELATING TO THE GROUP

As a holding company, the Group depends on the ability of its operating subsidiaries to generate profits and pay dividends. Any decline in their profits or in their ability to pay cash dividends may have a material adverse effect on the Group's financial flexibility.

The Company is a holding company that conducts the majority of its operations directly or indirectly through its operating subsidiaries. Most of the Group's assets are held by, and substantially all of its earnings and cash flows are attributable to, the Group's operating subsidiaries. If earnings from these operating subsidiaries were to decline, the Group's earnings and cash flow would be affected, and it might be unable to meet its obligations or pay dividends. The Group's cash flows are derived mainly from the receipt of dividends, management fees, license royalties, and interest and repayment of inter-company loans from its operating subsidiaries. The ability of the Group's operating subsidiaries to make these payments depends on business considerations and applicable regulatory limits. No assurance can be given that the Group's operating subsidiaries will be able to provide the Group with sufficient cash flows. Any decrease in earnings or failure or inability of Group operating subsidiaries to make payments to the Group's other subsidiaries could have a material adverse effect on the Group's ability to pay dividends, service Group debt and satisfy its other obligations, which could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

The Group will lose certain benefits provided by the Kering Group and may experience difficulties in making the changes required to conduct its business independently and also have to bear higher costs.

Upon the listing of the company's shares on Euronext Paris, a number of contracts entered into between Group companies and Kering Group companies, pursuant to which the Kering

Group provides various services to the Group, will be terminated. In particular, Kering Group will no longer be the primary funding source for the Group's operations and acquisitions. Accordingly, Fnac S.A. has negotiated a syndicated revolving credit facility with a group of financial institutions with a maximum principal amount of €250 million to replace financing historically provided by Kering Group (which credit facility will be supplemented by the future issuance of a nominal amount of €60 million perpetual deeply subordinated notes (TSSDI), underwritten by a Kering subsidiary). (See Section 10.2.2.2 "Financing of the Group After Admission to Trading of the Company's Shares on Euronext Paris", and Section 19.3 "Consequences of Admission of the Company's shares to Trading on Euronext Paris".) The Group will also no longer benefit from certain advantages relating to its membership in Kering Group (primarily pooled purchasing agreements or purchases of currency hedges), or from the advisory agreement entered into with Kering Group. (See Section 19.1 "Transactions with the Kering Group", and Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".)

To respond to the loss of certain services and benefits provided by Kering Group on the date of the visa on this prospectus, and in order to conduct its business as an independent listed group, the Group will be required to adapt certain support and general administration structures and/or hire and train the necessary staff. (See Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".) The Group may encounter difficulties in setting up or operating its own independent functions, in hiring, training or retaining the necessary staff, and/or in negotiating new agreements with counterparties on terms equivalent to those agreed with or by Kering Group (to fund its operations, for example). The Group's information systems may also prove to be unsuitable or insufficient to enable the Group to publish its financial and accounting information within the timeframes typical in its industry. Certain information systems are currently provided under agreements with Kering Group and have not yet been taken over by the Group or outsourced to third party providers. The Group cannot guarantee that the cost of the services and functions it develops independently will not exceed the remuneration and fees it paid for services provided and re-invoiced by Kering Group in the past. The management team's availability to monitor operating activities may also be affected, which could have a material adverse effect on the Group's business, results of operations, prospects, financial position and assets.

The main shareholder of the Company holds a significant percentage of the Company's shares and could influence decisions made by the Company.

Upon the distribution of Company shares by Kering to its shareholders and the admission to trading of the Company's shares on Euronext Paris, the Artemis Group will hold approximately 38.88% of the share capital and voting rights of the Company. As such, depending on the participation rate at the Company's general shareholders' meetings, the Artemis Group could influence the adoption or rejection of resolutions submitted for approval by shareholders of the Company at such meetings and/or at extraordinary shareholders' meetings, in particular with respect to the nomination or removal of members of the board of directors, approval of the annual financial statements and dividend distributions, authorizations related to capital increases, mergers, contributions, or any other decision requiring shareholder approval.

4.4 MARKET RISKS

The Group has set up an organizational structure which enables it to manage market risks on a centralized basis. Within the Group, risk management is the responsibility of the Group's treasury department. The Group believes that monitoring market risk at the Group level allows more effective risk management.

4.4.1 Currency Risk

The Group makes the vast majority of its sales and incurs the vast majority of its costs in euros. In non-euro zone countries where the Group maintains operations, it generally makes its sales and incurs the majority of its operating expenses in local currency. As such, the Group's sales and most of its operating costs in Switzerland and Brazil are made and incurred in Swiss francs and Brazilian reals, respectively. Because the Group's results are published in euros, any appreciation of the euro relative to the Swiss franc and the Brazilian real reduces the value of the corresponding amounts in euros in the Group's financial statements, while any depreciation of the euro increases the value of such amounts in euros.

At the end of 2012, the Group was exposed to certain currencies such as the euro (for purchases made in Switzerland), the US dollar, the yen and the pound sterling as a result of purchases from suppliers denominated in foreign currencies. If the currencies in which sales are made depreciate relative to the currencies in which purchases have been made, more local currency would be required to cover the purchase price of such goods, and the Group may not be able to raise its local currency prices sufficiently to maintain its margins or cover the full increase in cost. Furthermore, any price increase the Group implements to cover the additional cost may adversely impact the Group's sales volume.

The balance sheet exposure to currency risk as of December 31, 2012 was as follows:

(in € million)	**2012**	**Euro**	**US dollar**	**Yen**	**Pound sterling**	**Swiss franc**	**Other**
Monetary assets[(1)]	**33.8**		**0.1**		**0.0**	**27.2**	**6.6**
Monetary liabilities[(2)]	**5.5**	**5.4**			**0.0**	**0.0**	**0.0**
Gross balance sheet exposure	**28.4**	**(5.4)**	0,1		**(0.0)**	**27.2**	**6.5**
Forecast gross exposure	**(31.7)**	**(5.1)**	**(24.6)**	**(0.2)**	**(1.6)**		**(0.2)**
Gross exposure before management	**(3.3)**	**(10.5)**	**(24.5)**	**(0.2)**	**(1.6)**	**27.2**	**6.3**
Hedging instruments	**1.6**		1.6				**0.0**
Gross exposure after management	**(1.7)**	**(10.5)**	**(22.9)**	**(0.2)**	**(1.6)**	**27.2**	**6.4**

(1) Consists of loans and receivables, as well as bank balances, investments and cash equivalents where the maturity is less than three months at the acquisition date.
(2) Consists of loan financial liabilities and operating and miscellaneous liabilities.

Based on market data as of December 31, 2012, an immediate 10% change in the exchange rate of the euro against the main currencies in respect of which the Group has the highest exposure (the US dollar, the Swiss franc and the Brazilian real) would not have a significant impact. This analysis excludes the impact of the translation of each Group entity's financial statements into its reporting currency (the euro), and the valuation of the balance sheet foreign exchange position, which is considered non-significant as of December 31, 2012.

The Group's currency risk management policy consists of the mitigation of currency risk inherent to the Group entities' business activities through fixing pricing policies and gross margins on the Group's imports and exports at the latest when an entity makes a commitment, and by prohibiting any currency speculation. The management of currency risk is governed by internal procedures aimed at hedging risks as soon as they are identified.

In accordance with IAS 39, instruments used to hedge currency risk are analyzed according to hedge accounting eligibility criteria. As of December 31, 2012, hedging derivatives were as follows:

(in € million)	**2012**	**Euro**	**US dollar**	**Pound sterling**	**Swiss franc**	**Other**
Hedging derivatives at fair value through profit or loss						
Forward purchases	**2.1**		**2.1**			0.0
Forward sales						
Total	**2.1**		**2.1**			0.0

These derivatives are recognized on the balance sheet at their market value at the end of the fiscal year.

The Group's hedging instruments and associated risks are described in Note 29.2 "Exposure to Currency Risk" of the annual financial statements included in Section 20.1 "Group Consolidated Financial Statements."

4.4.2 Interest Rate Risk

The Group's floating-rate debt consists primarily of debt with a maturity of less than one year. Assets and liabilities and exposure to cash flow risk are broken down as follows:

		2012 Schedule		
(in € million)	**2012**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Investment securities and cash	**305.5**	**305.5**		
Floating-rate financial assets	**305.5**	**305.5**		
Other financial liabilities	13.5	12.8	0.7	
Floating-rate financial liabilities	**13.5**	**12.8**	0.7	

Given the breakdown of the Group's debt between fixed and floating-rate, an immediate 50 basis point change in interest rates would have a full-year impact of +/- €1.5 million on the Group's consolidated pre-tax income as of December 31, 2012.

4.4.3 Liquidity Risk

The majority of the Group's non-derivative financial instruments, which principally consist of trade payables and other financial liabilities, have maturities of less than one year.

The table below sets forth the contractual obligations relating to financial liabilities and trade payables as of December 31, 2012, including interest. The future cash flows shown have not been discounted. Based on the data at December 31, 2012, the cash flows shown are not expected to be generated early or in significantly different amounts than those shown in the maturity schedule. The table below excludes cash and cash equivalents and trade receivables, which amounted to €305.5 million (€218.9 million in cash equivalents and €86.6 million in cash) and €118.8 million (net) respectively as of December 31, 2012.

As of December 31, 2012 *(in € million)*	**Book value**	**Cash flow**	**Less than 1 year**	**From 1 to 5 years**	**More than 5 years**
Non-derivative financial instruments					
Other financial liabilities	12.8	(12.8)	(12.1)	(0.7)	–
Trade payables	717.1	(717.1)	(717.1)	–	–
Total	**729.8**	**(729.9)**	**(729.2)**	**(0.7)**	**–**

In the past, to meet its financial obligations, the Group has principally relied on cash on hand, cash flows from operations, and borrowings from its current account with Kering.

For purposes of the admission to trading of the Company's shares on Euronext Paris, Fnac S.A. has negotiated a syndicated revolving credit facility with a group of financial institutions in the maximum principal amount of €250 million to replace the funding previously provided by Kering Group. The credit facility will cover the amount of short-term funding provided by Kering Group and will ensure a reasonable margin of liquidity, in order to provide flexibility in meeting the Group's future funding requirements. For more information on the Group's sources of liquidity, see Chapter 10 "Cash and Capital Resources", particular Section 10.2.2.2 "Financing of the Group After Admission to Trading of the Company's Shares on Euronext Paris" and Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris."

4.4.4 Credit and/or Counterparty Risk

Given the Group's high number of customers, it believes that it is not exposed to credit risk concentration.

The Group is exposed to counterparty risk as a result of its use of derivatives in managing its exposure to currency risk. In the past, the Group reduced its exposure to counterparty risk by transacting primarily with Kering Group for the purposes of its derivative transactions. Upon admission to trading of the Company's shares on Euronext Paris, the Group plans to set up hedging instruments directly with external market players. The Group nevertheless expects its counterparty risk to be minimal due to its limited use of derivatives.

4.4.5 Risks Relating to Shares and other Financial Instruments

Non-consolidated equity investments (€0.1 million as of December 31, 2012) are not hedged and result in a minimal risk exposure for the Group.

4.5 RISKS RELATING TO THE FINANCING OF THE GROUP

Artemis Group Agreement – A reduction in the Artemis Group's interest in the Company could have an impact on the Group's financing conditions.

Kering's main shareholder, the Artemis Group, will have an interest of approximately 38.88% in the Company's share capital and voting rights following the allotment of shares in the Company to its shareholders by Kering, and admission of the Company's shares to trading on Euronext Paris. The Loan Agreement (as defined in Section 10.2.2.2 "Financing of the Group After Admission of the Company's Shares to Trading on Euronext Paris") requires the early prepayment of amounts lent by the lenders under the facility and the cancellation of any remaining available credit thereunder in the event that Artemis (via one or several of its subsidiaries), directly or indirectly, ceases to hold at least (i) 38.8% of the Company's share capital or voting rights before the second anniversary of entry into the Revolving Credit Facility (i.e. on April 18, 2015), or (ii) a 25% interest in the Company's share capital and voting rights at any time after that date until the maturity of the Loan Agreement (the “Triggering Event”). Under a separate agreement, Artémis has agreed (for itself and on behalf of its subsidiaries) not to trigger such early prepayment under the Loan Agreement or cancellation of available credit by sole reason of the Triggering Event until after the initial maturity date thereof (i.e. April 18, 2016). It is specified that such agreement will not require Artémis, directly or indirectly (through one or more subsidiaries) to subscribe, underwrite or purchase any additional number of shares in the Company or other securities or to utilize the voting rights attached to its shares or other securities of the Company. Any reduction of the Artemis Group’s shareholding in the Company prior to the maturity of the Loan Agreement, for example if Groupe Fnac decided to undertake a share capital increase in which Artemis did not participate, could trigger an early prepayment event under the Loan Agreement, which could have an immediate material adverse effect on the Group. More generally, even after the expiration of the Loan Agreement, a reduction by Artemis of its interest in the Company could adversely affect the Group’s ability to secure financing and its financing conditions, which could have a material adverse effect on the image, business, results of operations, prospects, financial condition and net assets of the Group.

A direct or indirect reduction by Kering in its interest in the perpetual deeply subordinated notes could have an impact on the Group’s financing conditions.

Kering will hold 100% of the perpetual deeply subordinated notes (TSSDI) issued by the Company. The Loan Agreement (as defined in Section 10.2.2.2 “Financing of the Group After Admission of the Company’s Shares to Trading on Euronext Paris”) requires the early repayment of the amounts lent by the lenders and cancellation of any remaining availability under the credit facility in the event that Kering (via one or several of its subsidiaries) ceases to hold 100% of the perpetual deeply subordinated notes either directly or indirectly. Therefore, despite the fact that Kering has agreed (for itself and on behalf of its subsidiaries) not to trigger such early payment requirement due to a violation of this covenant until after the initial maturity of the Loan Agreement (i.e April 18, 2016), any direct or indirect reduction of Kering’s interest in the perpetual deeply subordinated notes by Kering (via one or several of its subsidiaries) would constitute an early repayment event under the Loan Agreement. This would or could have an adverse effect on the Group’s financing capacity and conditions, including after the expiry of the Loan Agreement. This situation could have a material adverse effect on the Group’s image, business activities, results, outlook, financial position, and net assets.

The Group may not be able to comply with the restrictive covenants under the Loan Agreement.

The Group may be unable to respect certain of the restrictive covenants under the Loan Agreement (as defined in Section 10.2.2.2 “Financing of the Group After Admission of the Company’s Shares to Trading on Euronext Paris”), and specifically the restrictive covenants described in Section 10.2.2.2.1(c) “The Group’s Main Restrictive Covenants under the Loan Agreement”, particularly in the event of negative developments that affect the Group’s markets or business activities. Failure to comply with the one or more of these restrictive covenants could constitute an event of default under the Loan Agreement, pursuant to which the Loan Agreement Agent (Société Générale) may, or upon request by the lenders, shall (i) cancel the commitments made by each lender; (ii) declare immediately due and payable all amounts under the Loan Agreement (including interest accrued on those amounts and any other amounts due under the Loan Agreement); and (iii) enforce the security interests granted by the Group’s members. In the event that all amounts under the Loan Agreement are declared immediately due and payable, the Group may lack sufficient cash to make such payments and it is possible that the assets pledged by the borrowers, and their other assets, where applicable, would not be sufficient to ensure its full repayment. This situation could have a material adverse effect on the Group’s image, business activities, results, prospects, financial position, and net assets.

The Group's covenants under the Loan Agreement could reduce its flexibility in conducting its business.

The Loan Agreement includes covenants that significantly reduce the Group's flexibility to conduct its business, including, among other things, restrictions on granting of security interests or guarantees, restrictions on mergers and restructuring transactions, restrictions on certain investments or asset disposals, restrictions on changing the financial structure of the Group including its indebtedness. The resulting inability to change its corporate structure or business could have a material adverse effect on the Group's image, business activities, results, outlook, financial position, and net assets.

The availability of credit under the Loan Agreement and its use are subject to conditions precedent.

The availability of credit under the Loan Agreement (as defined in Section 10.2.2.2 "Financing of the Group After Admission of the Company's Shares to Trading on Euronext Paris"), and its use are subject to various customary conditions precedent described in Section 10.2.2.2.1(d) "Conditions Precedent to the Availability of Credit under the Loan Agreement and its use." If the conditions precedent to the availability of credit under the Loan Agreement or its use are not met, the Group would be required to find other sources of financing to replace its current account with the Kering Group. At the date of the approval of this prospectus, the Company is not aware of any event that would prevent the Company from fulfilling the aforementioned conditions precedent.

4.6 RISKS RELATING TO THE COMPANY'S SHARES

The sale of a large number of the Company's shares could have an adverse effect on the market price of the Company's shares.

Kering's main shareholder, the Artemis Group, will own approximately 38.88% of the Company's share capital and voting rights after Kering's distribution of shares of the Company to Kering shareholders and the admission to trading of the Company's shares on Euronext Paris. This concentrated ownership of the Company's shares, and any decision by the Artemis Group or any other major shareholder in the Company to reduce their interest, or the perception that such a reduction is imminent, could have a material adverse effect on the market price of the Company's shares.

The Company's shares have not been listed in the past and are subject to market fluctuations.

Prior to the admission to trading of the Group's shares on Euronext Paris, the Group will not have been listed on a regulated market since it was de-listed in the 1990s. The initial price of the Group's shares on Euronext Paris will be the result of a combination of the initial market orders, the nature and size of which will depend on a number of factors, including market and economic conditions at that time, the Group's results of operations, the condition of the Group's operations and the interest shown by investors, as well as any sales concluded on the market by Kering shareholders after they receive shares of the Company. These shareholders may follow an investment policy that includes luxury, sports and life-style segments, but does not necessarily include a retail business such as that of the Group, or an investment policy that is geared towards international securities, but not necessarily a business such as that of the Group that is principally focused on the euro zone. (See Section 18.1 "Shareholders".) If Kering shareholders entitled to distribution decide not to remain shareholders of the Group, the market value of the Group's shares would decline, and the Group's share price may be affected. The market price of the Group's shares may not reflect the true value of the Group's shares in the months following their admission to trading, during which time the various market players will be in the process of becoming better acquainted with the Group.

Furthermore, although the Company has requested the admission to trading of its shares on Euronext Paris, it cannot guarantee that an active market for its shares will develop or, once present, will persist. If an active market for the Company's shares does not develop, the liquidity and price of its shares may be adversely affected.

Finally, certain holders of fractional allotment rights to the Group's shares may not be able to acquire or sell sufficient allotments rights on the market to result in the holding of a whole number of the Group's shares. Moreover, the market price of allotment rights to the Group's share may not accurately reflect the value of the Group shares they represent.

Volatility of the market price of the Company's shares

Stock markets experience significant fluctuations which are not always related to the results of operations of the companies whose shares are being traded. These market fluctuations may have a material adverse effect on the market price of the Group's shares.

The market price of the Group's shares could also be materially adversely affected by factors that affect the Group and its competitors, general economic conditions, or the retail market (in particular the editorial products and consumer electronics segments). The market price of the Company's shares may fluctuate significantly, particularly in response to factors such as:

- variations in the Group's or its competitors' financial results from one period to another;
- announcements made by the Group's competitors or other companies with similar businesses and/or announcements relating to the specialty retail market (in particular the editorial products and consumer electronics retail market), or to the financial and operating performance of these companies;
- adverse political, economic or regulatory developments in the countries and markets in which the Group operates;
- announcements relating to changes in the Group's share ownership;
- announcements relating to changes in the Group's officers or key employees; and
- announcements relating to the Group's scope of consolidation (acquisitions, disposals, etc.).

The actual amount of dividends received by investors might be lower than indicated in the Company's dividend policy.

The Company intends to align its dividend policy with market standards for comparable companies. (See Section 20.5 "Dividend Distribution Policy".) However, the Company is under no obligation to distribute such dividends. The amount of future dividends will depend on a number of factors, including strategic goals of the Group, its financial condition, applicable contractual restrictions (including those in the Group's financing documents), development opportunities, applicable legal limits and other factors considered as pertinent by the Company's board of directors.

4.7 RISK MANAGEMENT

The Group closely associates risk management and internal control. The Group's risk management and internal control systems rely on a series of resources, procedures, and actions aimed at ensuring that necessary measures are taken to identify, analyze and manage:

- risks that may have a significant impact on the Group's net assets or the achievement of its objectives, regardless of whether they are of an operational or financial nature, or that relate to compliance with applicable laws and regulations; and

- operations, operational efficiency, and the efficient use of resources.

For more information on risk management and internal control procedures (including with respect to the Group's subsidiaries), see the report on risk management and internal control procedures attached as Annex 1.

4.7.1 The Risk Management System

The implementation of the risk management system at Fnac is based on an organizational framework, a three-step risk management procedure and ongoing oversight. These procedures are independent and do not involve the Kering Group (excluding the Group's teams) as of the date of the visa on this prospectus.

The Group accordingly believes that the transaction to which this prospectus relates should not have a material impact on its risk management process.

4.7.1.1 Organizational Structure

Managing the exposure to decentralized risks at the "country" level is the responsibility of the managing director in each country and local executives who are closest to the risks relating to the operations they conduct or oversee.

Managing exposure to centralized risk at the "Group" level involves risk mapping, identification and assessment work performed by the Internal Audit, Financial Control, Risk Prevention, and Legal and Strategy Departments.

A Fnac risk management policy was formalized in 2011 and is based on the COSO II guidelines. This document lists the steps and procedures to be followed as part of an ongoing risk management framework and during annual risk assessment exercises.

The Group also has a Director of Safety, Security and Risk Prevention, whose goal is to harmonize procedures and reduce security costs at the Group level by encouraging synergies and raising awareness among the Group's employees.

4.7.1.2 Procedure

The risk management procedure is organized into three chronological steps:

- *Risk Identification*– At Fnac, risk identification is an ongoing process. It allows key risks to be identified and centralized based on type by the Risk Prevention Department or by the Internal Audit Department.

- *Risk Assessment* - At Fnac, this approach is also ongoing and is formalized in writing at least once a year, either during a risk self-assessment process headed by the Internal Audit Department or upon the update of the strategic plan. The risk management policy sets out the criteria and procedures for these assessments. The aim is to review potential consequences of the main risks (consequences that may be of a financial, labor, legal or reputational nature) and to assess the likelihood of their occurrence, as well as the required level of risk management.

- *Risk Processing* - During this final step, the most appropriate action plan(s) is/are identified.

4.7.1.3 Oversight

The risk management system is subject to regular monitoring and review, which allows for ongoing improvements of the system. Upon the appointment of new management (see Section 16.3 “Board of Directors Committees”), the oversight of risk management will be handled by the Company’s Audit Committee, in place of the Audit Committee of Fnac SA, a subsidiary of the Company.

Prior to the date of the visa on this prospectus, the Fnac SA Audit Committee met at least once a year to review the outline of business risks prepared by the Group’s management and to follow up on the progress of dedicated action plans. It also reviewed risks relating to the risk self-assessment procedures at least once a year.

The Group also conducts regular internal audits to assess and improve the effectiveness of its risk management systems. The Group’s Internal Audit department consists of one director and two internal auditors. Approximately twenty audits were carried out in 2012 across all the Group’s operations.

4.7.2 Risk Mapping

As part of its risk management and internal control procedures, the Group prepares risk maps for the main risks to which it is exposed. The Group assesses the potential impact of each risk that is identified. The risk maps are updated regularly and allow the Group to define and monitor the various action plans that are implemented to reduce or manage these risks. The risks identified in the most recent Group risk map are described in the previous sections of this Chapter 4 “Risk Factors.”

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5. GROUP INFORMATION

5.1 HISTORY AND DEVELOPMENT

5.1.1 Company Name

The name of the Company is “Groupe Fnac”.

5.1.2 Place of Registration and Registration Number

The Company is registered with the Paris Trade and Companies Registry under identification number 055 800 296. At the date of this prospectus, the Group is in the process of transferring its registration from the Paris Trade and Companies Registry to the Créteil Trade and Companies Registry.

5.1.3 Date of Incorporation and Duration

5.1.3.1 Date of Incorporation

The Company was incorporated on December 15, 1917.

5.1.3.2 Duration

The Company’s duration is fixed at January 1, 2100, except in the event of early dissolution or extension.

5.1.4 Registered Office, Legal Form and Applicable Legislation

5.1.4.1 Registered Office

Groupe Fnac’s registered office is located at 9, rue de Bateaux-Lavoirs, ZAC Port d’Ivry, 94868, France (Tel. No.: +33 1 55 21 57 93).

5.1.4.2 Legal Form and Applicable Legislation

Groupe Fnac is a French *société anonyme* (limited liability corporation) specifically governed by the provisions of Book II of the French Commercial Code.

5.1.4.3 Previous Corporate Form

The Company was initially incorporated as a *société anonyme*. It was transformed into a *société par actions simplifiée* (a simplified joint stock company) pursuant to a unanimous decision of the shareholders on June 4, 2002. On September 26, 2012, the Company’s shareholders resolved to transform the Company back into a *société anonyme à conseil d’administration* (a limited liability corporation with a Board of Directors).

5.1.5 History of the Group

Since its foundation by André Essel and Max Théret in 1954, Fnac has had a remarkable history built on passion, daring and adapting to changing consumption patterns.

From the outset, the two founders had no desire to conduct business in the usual fashion and founded their enterprise around the idea of consumer protection. When it was created, “Fnac” was the acronym for the *Fédération Nationale d’Achats des Cadres* (the National Federation for Purchases by Executives). At that time, the organization enabled executives to buy photographic and cinematographic equipment at attractive prices. Fnac subsequently opened up to a wider customer base by introducing new kinds of products like books, music….

Fnac opened its first store at Boulevard Sebastopol in Paris' 4th District in 1957, which was dedicated to photography and audio equipment. A few years later, this store was expanded with the introduction of a dedicated record line.

In 1960, Fnac's first laboratory tests comparing various consumer electronics products were published in *Contact* magazine. The introduction of a testing laboratory forged Fnac's enduring image as a specialist in consumer electronics.

In 1965, the Group created a cultural association called Alpha (*Arts et Loisirs Pour l'Homme d'Aujourd'hui* or Arts and Leisure For Today's Man), which became the first ticket sale business in France. A year later, the Fnac launched its first photo gallery, which sealed its destiny to be involved in the cultural field.

Fnac opened a second store in 1969, on Avenue de Wagram in Paris' 17th District. The highly innovative design of this store reflected a different retail concept. This was followed three years later by the opening of the first store outside of Paris, in Lyon.

1974 marked the beginning of book sales, with the opening of the Fnac store at Montparnasse (in Paris) and the creation of cultural event *Forums*. These areas, inside the stores, are entirely devoted to culture and to interaction with artists, through events like concerts, book signings, and discussions with leading figures; this confirmed the Fnac concept and the company's status as a cultural player.

In 1979, Fnac's *Forum des Halles* store opened its doors and quickly became the largest Fnac Group store in terms of both size and revenues.

Fnac was listed on the Paris Stock Exchange in 1980. A year later, it began to diversify internationally through store openings in Brussels, Belgium. The same year, it also launched *Fnac Voyages*, the travel business.

After Belgium, in 1993, Fnac headed south and established itself in Spain, with a first store in Madrid.

The Crédit Lyonnais Group became Fnac's majority shareholder. The Fnac then became part of the Kering Group in 1994 and was delisted in December 1994.

In 1998, the Group opened its first store in Lisbon, Portugal.

In 1999, Fnac began its multi-channel development by setting up a website (Fnac.com) and continued its expansion outside Europe with the opening its first store in Sao Paulo, Brazil.

In 2000, Fnac accelerated its international expansion, by introducing its business to two new countries: Italy and Switzerland.

In 2006, Fnac began operating in suburban areas with a new one-story store format, the first of which was located in Bordeaux Lac.

In 2011, at the beginning of Alexandre Bompard's term as Chairman of Fnac, the Group launched a new strategic plan, called "Fnac 2015", which places the customer at the heart of its growth policy, specifically expands the product range to leisure activities, and accelerates the roll-out of the "multi-channel to omni-channel" sales strategy. As part of this plan, Fnac introduced innovative tools aimed at optimizing customer service including: database pooling, personalizing customer relationships, developing new services, etc. In addition, in

2012 Fnac sold its operations in Italy and accelerated and strengthened its territorial coverage by opening new directly-owned or franchised stores. (See Section 6.3 "Strategy".)

5.2 INVESTMENTS

5.2.1 Investments Since 2010

Between 2010 and 2012, the Group's total gross operating investments amounted to €250.6 million (excluding discontinued operations). These investments, in order of priority, were made in the following areas: opening new stores, developing a new logistics platform, developing internet and mobile retail portals, and adapting stores to changes in product sales.

The Group's operating investments in property, plant and equipment, and intangible assets primarily consist of store openings and renovations, and IT investments.

The table below shows gross operating investments by geographical area (excluding discontinued operations) for the 2010, 2011 and 2012 fiscal years:

(in € million)	**France**	**Iberian Peninsula**	**Brazil**	**Other Countries**	**Total**
December 31, 2010					
Sub-total for investments in stores and internet websites	42.8	9.7	5.6	7.9	66.0
Sub-total for capital expenditures other than on points of sale	6.8	2.2	0.9	0.6	10.4
Total operating investments	**49.5**	**11.9**	**6.5**	**8.6**	**76.5**
December 31, 2011					
Sub-total for investments in stores and internet websites	64.8	13.9	1.1	1.6	81.5
Sub-total for capital expenditures other than on points of sale	9.9	2.8	1.0	0.4	14.1
Total operating investments	**74.7**	**16.7**	**2.2**	**2.0**	**95.6**
December 31, 2012					
Sub-total for investments in stores and internet websites	52.9	5.0	1.0	2.0	60.9
Sub-total for capital expenditures other than on points of sale	14.6	1.2	1.3	0.6	17.6
Total operating investments	**67.5**	**6.2**	**2.3**	**2.5**	**78.5**

More information is available in Section 10.4.2.1 "(Net) Operating Investments".

5.2.2 Main Investments in Progress

The principal investments currently underway for the 2013 fiscal year are in the following areas: (i) adapting stores to changes in product sales, (ii) developing internet and mobile retailing websites, and (iii) developing logistics tools. The Group's gross operating investments should be less than $70 million for the 2013 fiscal year. These investments will be financed through operating cash flow and cash on hand. (See Section 10.2.1 "Overview" and Section 10.4.1 "Net Cash Flows from Operating Activities".)

5.2.3 Main Investments Planned

As at the date of the visa on this prospectus, no significant financial investments are required under covenants or other firm undertakings towards third parties.

The Group expects that for the year 2014, gross operating investment should be in line with levels common in prior years and will be made in comparable areas of investment.

More generally, in next few years, the Group intends to pursue its investment policy of controlled investments in the order of 60 to 70 million euros per year.

In the context of the "Fnac 2015" strategic plan, the Group intends to build a denser retail store network in France to be closer to and reach more customers. The Group plans to implement this strategy primarily by opening franchise locations, which are lower-cost, but also through opening new fully-owned stores. Franchise openings will take place in particular in medium-size cities primarily in the 'proximity' format and in train stations and airports in the 'travel' format. The Group also intends to accelerate the deployment of its brand in new countries with high growth potential through the opening of franchises. Please see Section 6.3.4 "Build a Denser Retail Store Network in France to be Closer to and Reach More Customers" and Section 6.3.5 "Continuing International Expansion."

6. BUSINESS

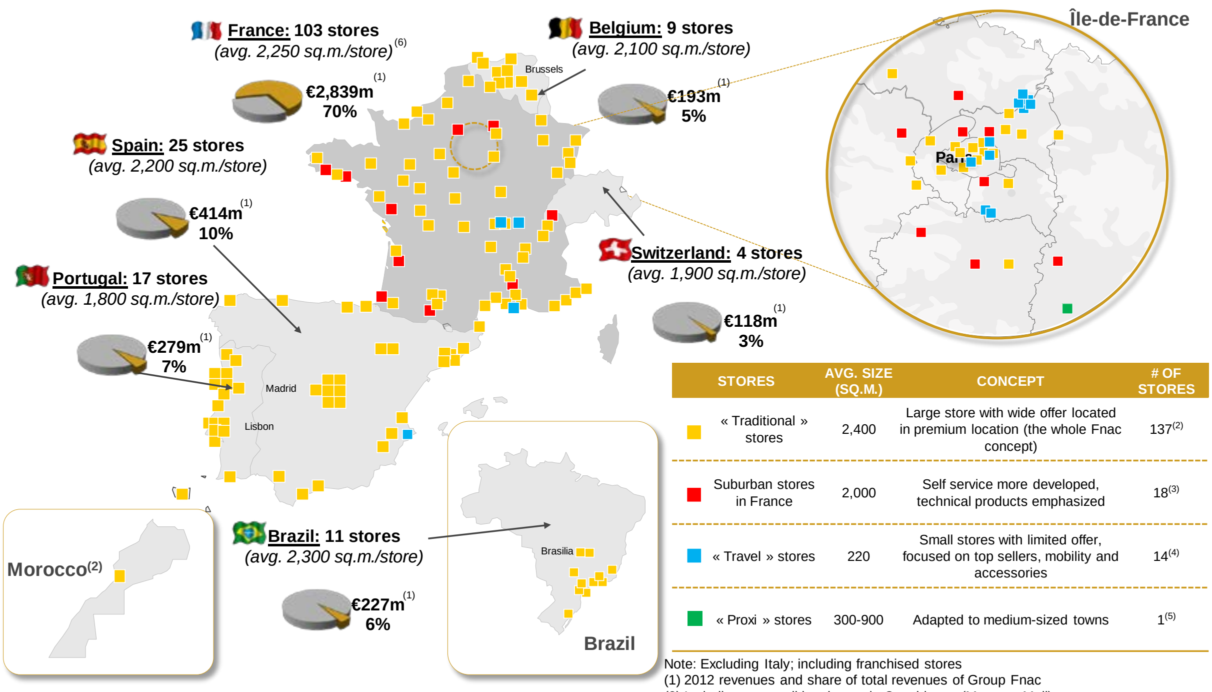
6.1 BUSINESS OVERVIEW

The Group believes it is the leading French retail distributor of entertainment and leisure products (including consumer electronics), and a major market player in the other countries in which it operates (i.e., Spain, Portugal, Brazil, Belgium and Switzerland). The Group also has a store in Morocco operated as a franchise.

Fnac was established in 1954. The Fnac brand benefits from a strong and long-standing level of consumer awareness, particularly in France, that has allowed the Group to position itself as a “premium yet accessible” distributor of entertainment and leisure products, which include both editorial products (music, video, books and gaming) and consumer electronics (photography, TV-video, audio and computers). The Group also offers a full range of other services that complement its core product offering (including extended warranties and product return programs), as well as ticketing and box office services. As part of its growth strategy, Fnac has recently expanded its product offerings to include new product categories, such as toys and games, and home and design.

At year-end 2012, the Group’s multi-format network included a total of 170 stores (103 of which were in France). The Group’s network includes stores that are directly owned and, since 2011, also includes stores operated as franchises. The Group’s network also includes e-commerce websites, allowing it to benefit from synergies between its retail store network and its internet presence, thereby implementing its omni-channel strategy.

The map below illustrates the geographic breakdown of the Group’s stores at the end of 2012:



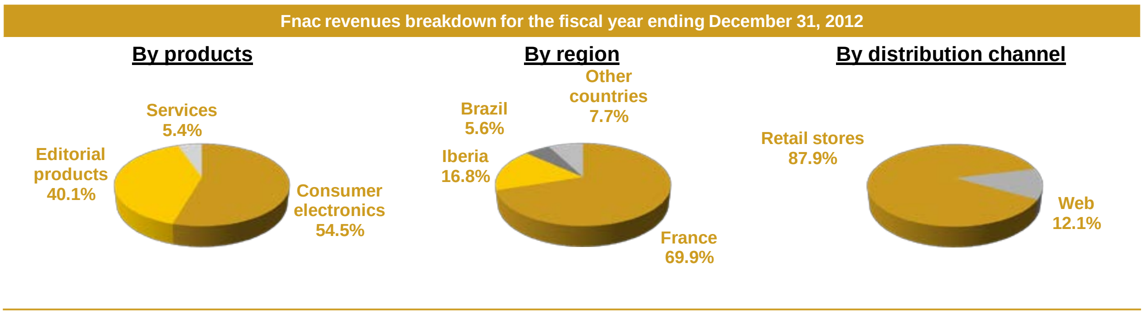
STORES	AVG. SIZE (SQ.M.)	CONCEPT	# OF STORES
« Traditional » stores	2,400	Large store with wide offer located in premium location (the whole Fnac concept)	137(2)
Suburban stores in France	2,000	Self service more developed, technical products emphasized	18(3)
« Travel » stores	220	Small stores with limited offer, focused on top sellers, mobility and accessories	14(4)
« Proxi » stores	300-900	Adapted to medium-sized towns	1(5)

Note: Excluding Italy; including franchised stores
(1) 2012 revenues and share of total revenues of Group Fnac
(2) Including one traditional store in Casablanca (Morocco Mall)
(3) Including one franchised store (La Roche-sur-Yon)
(4) Including one store in Spain (Valencia train station) and 13 franchised stores in France
(5) Franchised store (Melun)
(6) Including travel stores

The strength of the Fnac brand and concept allow the Group to generate significant traffic in both its retail stores and on its websites as well as a high ratio of revenues to store surface area. In 2012, the Group made sales to approximately 20 million customers,[4] generated 130 million visits to its stores in France, and had the third largest French e-commerce website, based on average unique visitors per month [5]. Fnac also boasts a strong customer loyalty program, with a total of 5.0 million members, 3.2 million of which were in France, as of year-end 2012.

For the year ended December 31, 2012, the Group generated consolidated revenues of €4,061.1 million and current operating income after Kering management fee of €63.3 million.

The following charts provide a breakdown of 2012 consolidated revenues by category of products and services, by geographic segment and by distribution channel.



6.2 STRENGTHS

With nearly sixty years of market experience, Fnac has a strong base from which it can draw as it becomes an independent group and develops its own growth strategy. The planned separation from the Kering Group and the admission to trading of its shares will increase the Group's visibility, build on its strengths and reinforce its competitive position, both in France and abroad.

6.2.1 A Cutting-Edge Omni-Channel Strategy, Drawing on a Dense Network of Retail Stores and a Powerful Online Presence

Fnac's dense network of stores with varied formats, together with its powerful online presence (including its mobile site) give it a multi-channel presence that the Group intends to reinforce and further integrate to become an "omni-channel" player. (See section 6.3.3 "Developing Omni-Channel Synergies as a Competitive Advantage Over Other Players in the E-Commerce Market that Lack an Offline Presence".) The Group's "click and mortar" approach, which draws on its network of stores (in France and abroad) and its online presence through Fnac.com allows Fnac to distinguish itself from both traditional retail players (i.e., those who market their products exclusively in stores) as well as internet pure players.

At year-end 2012, Fnac had a network of 103 stores in France, operated either directly or as a franchise, located in strategic locations in both city centers and suburbs. While Fnac had traditionally developed mainly city-center stores, the Group has more recently developed new store formats (see Section 6.5.3.1.1, "The FNAC Store Concept") adapted to the suburban shopping experience (e.g., a broader range of consumer electronics products, greater reliance on self-service and more entry-level products).

4 Source: BVA Survey, February 2013.
5 Source: Médiamétrie/Netratings, December 2012 (excluding travel websites)

In the summer of 2011, Fnac also launched a network of franchise locations in train stations and airports that has since expanded (since the summer of 2012) to include airport duty-free zones. The format of these stores has been adapted to meet the needs of travelers, with editorial products offerings focused on news and best sellers and a consumer electronics offering focused on accessories for mobile devices. Stores located in duty-free areas focus mainly on consumer electronics. At year-end 2012, Fnac had 14 stores in train stations and airports (in both duty-free and non-duty free areas). These stores benefit from significant customer traffic and high visibility.

Fnac has had an online presence for more than ten years and its Fnac.com site is currently ranked as the third most-visited e-commerce site in France, as measured by average monthly unique visitors, after Amazon and Cdiscount (which are pure players)[6]. To further enrich its online offer, the Group launched MarketPlace in September 2009 and has developed a mobile version of its website.

Against the backdrop of the growth in e-commerce and fundamental changes in consumer spending habits over the past ten to fifteen years, Fnac's multi-channel positioning gives it a strong base from which to benefit from the growth in e-commerce, expand its network, adapt to retail trends and respond to the needs of its customers while continuing to provide high quality service. The Company believes that this multi-channel positioning gives it several key advantages over pure player competitors such as Amazon, Cdiscount, Pixmania and Rueducommerce, including:

a) The Group's multi-channel presence allows it to leverage the synergies between its network of stores and its online presence to offer its customers a compelling range of services. Examples of the complementary nature of the Group's online and offline sales channels include :

    - Certain customers who research products online and then make in-store purchases (the "ROPO" (Research Online, Purchase Offline) effect),

    - Certain customers who identify the products they want in the store with the help of a sales clerk but complete the purchases online,

    - When customers who come to pick up a product in store, they may make further purchases while there. The Group has observed that 33% of loyalty members who came to the store to pick up their products made an additional in-store purchase on the pick-up day,

    - Certain customers who visit a store in search of a specific product that is not in stock can order it online while in the store, with the help of a sales clerk.

    The Company's multi-channel presence supports the growth of Fnac.com by giving the Group better information about customer preferences and allowing it to benefit from synergies in recruiting new customers and presents an opportunity to convert the Group's seven million customers in France who purchase goods online, but who are not yet Fnac.com customers (See Section 6.3.3 "Developing Omni-Channel Synergies as a Competitive Advantage Over Other Players in the E-Commerce Market that Lack an Offline Presence" and Section 6.5.7.1 "Logistics in France".)

6 Source: Médiamétrie/Netratings, December 2012 (excluding travel websites)

b) Fnac's multi-channel presence allows it to offer customers a flexible range of shopping experiences that leverages the respective strengths of its stores and the Fnac.com website. Examples include:

- "Click and mag": where a sales clerk places an order for the customer on Fnac.com when a store does not have a product in stock, with delivery to the location of the customer's choice. This allows every store in the Group's network, regardless of size, to offer the full range of products Fnac offers;

- "Click and collect": where the customer orders a product on Fnac.com that is in stock in a nearby Fnac retail store and collects it from that store within the hour, free of charge. This allows customers to obtain their products quickly and at the same time to ensure the product will be available before making the trip to the store;

- "Click and ship to store": where the customer purchases a product on Fnac.com and retrieves the product free of charge within two to four days from the Fnac store of his or her choice (this service is only available for products not available in stores); and

- "Customer Service Centers" in Fnac stores, which provide after-sales service to Fnac.com customers.

Access to the Fnac.com website in the Group's retail stores is an essential part of the Group's omni-channel strategy, as it not only facilitates shopping for customers, but also assists sales clerks in making sales by allowing them to deliver more personalized recommendations to customers by accessing (i) the wealth of product information available on the website, (ii) data on Group sales, including data on best-selling products, (iii) customer recommendations, and (iv) a customer's purchase history and profile.

6.2.2 A Strong Customer Loyalty Program, with a Relatively High-Income Membership Base

Fnac benefits from a strong customer loyalty program with 5.0 million total members, 3.2 million of whom were in France, at the end of 2012. In exchange for a membership fee of between €10 and €30, members of the customer loyalty program receive many benefits (discounts, private sales, gift certificates and exclusive offers) and information reserved for loyalty program members. Fnac's customer loyalty program provides it with an important competitive advantage. Revenues generated by members accounted for 57% of Fnac's total revenues in France and 55% of its global revenues. The number of members and their share in the Group's revenues increased significantly between 2010 and 2012 (with the number of members increasing by more than 22.2%).

The customer loyalty program is designed as a customer loyalty and retention tool that also allows the Company to carry out better-targeted and more effective sales promotions.

Fnac's customer loyalty program members are an asset that sets the Company apart from its peers. Members visit the store four times more often than the average customer (based on all customers of the Group) and spend on average double the amount of a non-member on each visit. As a result, the average yearly expenditure of a customer loyalty program member is eight times higher than that of a non-member.

In addition, the membership base of Fnac's customer loyalty program consists primarily of persons with mid- to high- incomes. In 2012, 17% of the French upper socio-professional category (*CSP+*) (including business professionals, craftsman, company managers, executives and senior management and other professionals) were Fnac customer loyalty program members[7]. Fnac targets this group, as its members have high purchasing power, purchase a large number of entertainment- and leisure-related goods, and are frequent internet users. Such consumers also tend to be less sensitive to economic downturns. By way of illustration, the upper socio-professional category accounts for 38% of Fnac customers,[8] but only 27% of the French population[9].

Since 2009, Fnac has also offered a specific preferred membership program for its top customer loyalty program members (based on number of visits and annual purchases), known as the "One" program. The purpose and effect of this program is to encourage these customers to purchase higher-grade products and thereby increase the average size of their purchases. At the end of 2012, the Company had over 124,000 One members. One members receive special benefits, including a dedicated help-desk and priority check-out lines in stores, a dedicated telephone line available seven days a week, exclusive product pre-ordering privileges, priority box office services, and a dedicated after-sales service helpline and the availability of a personal appointment with a Fnac sales clerk, if needed. They also receive exclusive sales promotions and free shipping on all orders placed on Fnac.com.

6.2.3 The Benchmark Brand Within Its Markets

With a strong history spanning over 60 years, the Fnac brand benefits from a high level of consumer awareness in France and in its other markets that has allowed the Group to position itself as a "premium yet accessible" retail distributor of entertainment and leisure products (including consumer electronics).

The Fnac brand name has strong spontaneous recognition, meaning the percentage of people who independently (without any aids or suggestions) recall a brand's name in a given sector. In the summer of 2012, 57% of survey respondents in France spontaneously cited Fnac's name as a go-to retail brand for editorial products and consumer electronics (1st place)[10]. Similarly, Fnac's "top-of-the-mind" popularity (i.e. the number of times a brand is mentioned in first place in spontaneous awareness surveys) was 35% (1st place)[11].

This recognition is largely due to Fnac's three core pillars: expertise, independence, and cultural promotions.

- ***Expertise*** **-** Among specialty retail brands, Fnac is known for its expertise in the products it sells. The Company maintains its reputation for expertise by focusing on three main areas: laboratory tests of products, the quality of its sales force and communications. The legitimacy of the Group's expertise is supported by Fnac product testing facilities (the "Fnac Labs") and the related tests it conducts on consumer electronics, the results of which are published in reports providing independent product comparisons based on predefined criteria. The Fnac Labs use internationally-recognized equipment and testing benchmarks. The Company's reputation for expertise also stems from its focus on hiring sales clerks with expertise in their product areas who are able to provide tailored recommendations and advice to all categories of customers (i.e. from novice to expert). Fnac's sales clerks receive ongoing training, and test out and personally use the products they sell. The Company's expert image is also reinforced through its publications (by Fnac Labs and their representatives, and through the Group's publications, guides, catalogs, forums, etc.) and the Group's recommendations, all designed to help customers choose among the large range of

7 Source: BVA Survey February 2013
8 Source: BVA Survey February 2013
9 Source: INSEE
10 Source: To luna online survey, Summer 2012
11 Source: To luna online study, Summer 2012

editorial products and consumer electronics sold by the Group. Fnac's legitimacy as an expert is widely recognized by its customers. [12] The know-how and professionalism of its teams are key factors that differentiate the Company from both e-commerce and traditional store-oriented competitors.

- ***Independence*** **-** Since its foundation, Fnac has sought to maintain its image as a retailer that is independent from its suppliers. This focus on independence not only legitimizes the Company's product recommendations, but allows it to develop close and trusting ties with its customer base. The Fnac Labs exemplify this focus on independence by performing tests on products and assigning ratings based on predefined criteria. The fact that no direct incentive payments are permitted to be made by suppliers to sales clerks (unlike certain competitors) also guarantees the independence of the Company's sales force. Similarly, the process by which the *Prix du Roman Fnac* is awarded (i.e. by a fully independent panel of booksellers and members) is another example of the Company's historical and continued focus on prioritizing independence.

- ***Cultural promotion*** **-** Fnac provides recommendations for editorial products and consumer electronics, facilitating access to culture. Fnac is a benchmark in its markets, with a rich and diverse catalog of editorial products made accessible through its sales personnel and online resources. In particular, the Company's sales assistants make recommendations through *"Coups de cœur du vendeur"* (Staff favorites) or "*Fnac Talents*", publications it makes available in its stores. Moreover, Fnac publishes an online news magazine, "*L'AdhéziF*", which reviews new product releases, as well as "*Contact*", a monthly magazine for loyalty program members, which has a section dedicated to recommendations.

  Fnac is the only retailer in its category that actively focuses on promoting culture, not only through the range of cultural goods that it sells, but also through the events it organizes inside and outside its stores. Fnac hosts major events in France, such as "*Fnac Live*", a free music festival in the plaza outside of Hôtel de Ville in Paris (formerly the *Fnac Indétendances* Festival), the *Prix Goncourt des lycéens*, a literary prize awarded to high school students, and the *Prix du Roman Fnac,* a prize for best novel. Similarly, Fnac also organizes over 2,000 free events in its stores, including opportunities to meet performers, showcases, photography exhibitions, and master-classes. In Spain, Fnac organizes the annual *Nuevo Talento*, a talent show for young photographers and cinematographers that has been put on for the past 10 years. Fnac Spain also organizes the annual "*Novela Grafica Fnac-Sins Entido*", which is an annual award for the best comic book, in collaboration with Sins Entido, a comic book editor in Spain. These examples illustrate Fnac's demonstrated and ongoing commitment to promoting culture that is vibrant, creative and accessible to all.

6.2.4 Leader in the Retailing of Entertainment and Leisure Products

Fnac believes it is a leading retailer of entertainment and leisure products (including consumer electronics), in terms of the traffic and revenues it generates and the range of products it offers.

6.2.4.1 Strong Multi-Channel Traffic

Fnac owes its leadership position in the retailing of editorial products and consumer electronics to the high level of traffic it generates: approximately 20 million customers[13] and

12 Source: study conducted by TNS SOFRES (June 2010)
13 Source: BVA Survey February 2013.

130 million store visits in France in 2012. Fnac is France's leading retailer of books (with 48 million books sold in 2012), music (with 14 million audio CDs sold in 2012), videos (with 18 million DVDs and Blu-Ray discs sold in 2012), certain computers (laptops and tablets) and photography products, and a key player in the camcorder and MP3 markets.[14] Despite a difficult economic environment since 2010, the Group has demonstrated its resilience by improving its market shares in consumer electronics and editorial products. (See Section 6.4 "Market Overview".)

Fnac also generates significant traffic and holds strong market positions in the other countries in which it operates. In particular, Fnac had a market share of 12.0% in editorial products and 6.3% in consumer electronics in the Iberian Peninsula in 2012.[15]

Fnac's market positioning, store concept and high retail store traffic make it an essential distribution channel for manufacturers, to whom the Group offers the benefit of prime locations in city centers and suburbs and unrivaled sales expertise, especially with respect to high-end and innovative products.

In addition to high traffic in its stores, the Group's Fnac.com website is a key e-commerce player in the French retail markets for editorial products and consumer electronics. In 2012, Fnac.com was France's third largest e-commerce site based on monthly unique visitors.[16] In addition, Fnac Direct, the operator of Fnac.com, generated positive current operating income in 2012, which is not the case for all comparable players in the industry.

6.2.4.2 A Broad Range of Products and Services

In addition to its high customer traffic, Fnac distinguishes itself through both the wide range of cultural and entertainment products and consumer electronics and the related services it offers its customers. This range of products and services is constantly updated to reflect developments in the various product categories offered by the Group.

Fnac believes that it is currently the only company in the market offering customers a store concept that brings together in one location such a full range of cultural and entertainment goods (including consumer electronics), including: computers, CDs, DVDs and Blu-Rays, gaming, books (hard copy and e-books) and stationary, TV and video, audio and music, photography, telecommunications, toys and games, small household appliances, ticketing and box office services, gift boxes and related accessories. In addition, the Company offers many services that support or complement its range of products. (See Section 6.5.2.2 "Services" and Section 6.5.2.3 "Other Activities".)

The range of products offered by Fnac.com is even broader, including a wider array of products from the product categories listed above (certain products being sold exclusively online) as well as certain categories of products offered exclusively online (including childcare-related products and large household appliances). In France, Fnac.com offers nearly ten million new and second-hand products. In September 2009, the Group enlarged its online product offering by launching MarketPlace, a platform that allows over 1,500 partner vendors (who meet certain Fnac service quality criteria) to be referenced on and use the Fnac.com site as a sales interface and benefit from the site's high visibility, reputation and IT security system. (See Section 6.5.3.2.2 "The MarketPlace".)

Fnac's diverse product range also helps to protect the Company from overexposure to specific product categories that may be affected by changing consumer preferences. Within each category of products it offers, the Group proposes a broad product offering that positions

14 Ranking source: Company, based on the GfK database
15 Source: Accuracy – See Sections 6.4.2.2, 6.4.2.3 and 6.4.5
16 Source: Médiamétrie/Netratings, December 2012 (excluding travel websites)

it as a specialist in the category, making the Group a multi-specialty retailer. The Company believes the breadth of its product offering makes it easier for customers to find products they want to purchase and reinforces the Group's attractiveness because it offers a full range of products online and in its stores.

Furthermore, the Company boasts a large ticketing and box office services arm that sells tickets for concerts and other types of performances and events (around 58,000 shows per year in France). France-Billet, a subsidiary of the Group, sells nearly 13 million tickets per year, has a network of nearly 5,800 affiliates and 375 partners and holds a greater than 50% share of the ticketing and box office market in France.[17]

6.3 STRATEGY

In July 2011, the Company announced its "Fnac 2015" strategic plan, the pillars of which are:

(i) Renewing the business model by expanding the range of products and services offered to include promising new categories such as toys & games and small household appliances, making greater use of strategic partnerships and targeting the Group's promotional offers to members of its customer loyalty programs in an effort to reinforce the Group's reputation for competitive prices while preserving overall margins;

(ii) Refocusing the business on the customer to promote customer retention and loyalty;

(iii) Accelerating the Company's omni-channel strategy in France and abroad in order to create and take advantage of synergies between the Company's retail stores and websites;

(iv) Expanding the Company's brand into new markets, including medium-size cities, high traffic areas (train stations, airports) and high-potential international markets, as well as the adoption of new store formats ("proximity" and "travel");

(v) Increasing operational efficiency, an effort characterized by optimizing the Group's purchasing process, reducing fixed charges and simplifying organizations and processes.

The first concrete results of "Fnac 2015" can be seen in the Company's 2012 financial results:

(i) Renewing the business model resulted in tangible gains in market share points: +1.7 % in consumer electronics and +0.5% in editorial products in France in 2012 as compared to 2010, and +0.7% in consumer electronics and +0.9% in editorial products in the Iberian Peninsula in 2012 as compared to 2011. (See Sections 6.4.1 "Fnac's Markets in France", 9.3.1.1 "Revenues in France", and 6.4.2 "Fnac's Markets in the Iberian Peninsula");

(ii) As a general matter, the expansion into new product categories produced very encouraging results. By the end of 2012, 26 stores included "Fnac Kids" areas, which offer a full range of children's products (including toys & games) and 35 stores had "Home & Design" areas. (See Section 6.3.1.1 "Expanding the Range of Products Offered and Adapting to New Consumer Purchasing Preferences".) The revenues generated by these new product categories in France more than offset the decline in music sales in 2012, despite the fact that these two new categories were present in only a third of the Company's stores in France. In addition, the strategic partnership

17 Source: Company estimate (based on the box office retail market).

with Kobo positioned the Company as an early mover in the new market for e-books: the Group sold 550,000 e-books in France in 2012. Finally, the creation of SFR sales areas in 66 stores (at year-end 2012) resulted in an increase in telephone-related sales.

(iii) In order to build closer relationships with its customers and improve the overall customer experience, the Company is developing several tools designed to allow more personalized services and to increase customer satisfaction, including its "Unique Customer Record", its "Net Promoter Score" and the internal training program "REVER" (DREAM) all of which are in the process of being deployed throughout the Group. (See Section 6.3.2, "Strengthen Customer Relationship in Order to Promote Retention and Loyalty".) In addition, in order to promote a service-oriented culture and promote the services offered by the Company, the Group has created dedicated "Service Center" areas in its stores designed to assist customers interested in the Group's after sales services, home delivery services, product warranties and in-home training services. (See Section 6.5.2.2 "Services".)

(iv) In 2012, the Group's internet business generated nearly 12.1% of total Group revenues, an increase of 10.2% at constant exchange rates as compared to 2011. The Group's website is one of France's top three e-commerce sites, with very acceptable levels of profitability. The Group's omni-channel strategy allowed it to double the number of internet orders either picked up or initiated in its stores in 2012. Such orders generated 21.5% of the total value of all orders placed on Fnac.com in France in 2012. This success is due in part to the expansion of the *click & mag* sales channel to all French stores. (See Section 6.2.1, " A Cutting-Edge Omni-Channel Strategy, Drawing on a Dense Network of Retail Stores and a Powerful Online Presence".) In 2012, to ensure the necessary logistical support for its omni-channel strategy, the Company mechanized its Wissous 1 warehouse and expanded its capacity to carry more products in stock by opening its fully omni-channel compatible Wissous 2 warehouse. (See Section 6.5.7 "Organization of Logistics and Transportation".) 2012 was also characterized by a reworking of product information sheets on Fnac.com and a redesign of the mobile version of the Group's website. Outside France, the Company transferred the Belgian site fnac.be to the Fnac.com platform (which allows fnac.be to offer nearly 10 million products) and deployed omni-channel features of Fnac.com on the Spanish website. (See Section 6.5.3.2 "The Website".)

(v) In 2012, the Group accelerated the rollout of its franchise network. By the end of the year, the Group's franchise network in France included 16 stores: 13 "travel" stores, one "traditional" store (Casablanca), one "suburban" store (La Roche-sur-Yon) and one "proximity" store (Melun). (See Section 6.5.3.1.3 "Franchise Operations".)

(vi) In parallel with the transformation of its business model, the Group took steps to optimize its economic and financial structure. To this end, the Group announced a cost-savings strategy in January 2012 designed to enhance the Group's competitive position by generating €80 million in cost-savings. This plan began bearing fruit in 2012, generating cost-savings of approximately €60 million by year-end, or approximately €80 million on full-year basis. (See Sections 6.3.6.2 "Continued Improvements in Productivity and Optimizing Organizational Structures " and 9.1.3.2 "Implementation of the "Fnac 2015" Plan, and Cost-Cutting Efforts".)

To continue to strengthen its market position, and in the context of the admission of its shares to trading on Euronext Paris, the Company will continue to implement its FNAC 2015 plan, with a focus on the following strategic areas.

6.3.1 Renewing the Business Model in Line with Market Changes

To respond to the new market environment, the Group will continue to renew its business model.

6.3.1.1 Expanding the Range of Products Offered and Adapting to New Consumer Purchasing Preferences

As part of its business strategy, the Group intends to progressively introduce new product categories to drive growth in its retail stores and on Fnac.com. Areas targeted include product categories as diverse as toys & games, small household appliances, interior decoration, the connected home, and lifestyle and design products.

One of the goals of this business strategy is to make the shopping experience more family-friendly, particularly for higher-income families, while maintaining high customer satisfaction. One of the key pillars of this strategy is the creation of dedicated "Fnac Kids" departments in the Group's stores that bring together a full range of consumer electronics and editorial products targeted at children and further enrich that product offering with games, toys, educational products and arts and crafts areas. The lighting, furniture and color schemes of these dedicated areas have been tailored to meet the tastes of younger customers, with products available by age range (from infants to 12 years of age). They also have a layout designed to welcome children and create an attractive space for them to read, listen to music or stories, and play on interactive tablets. At the end of 2012, the Company had 26 "Fnac Kids" areas in its stores in France, with plans to expand into 19 additional stores in 2013. All stores are expected to include a toys & games corner or children's department by the end of 2013.

Fnac is also continuing to introduce new product categories with high growth potential, including small household appliances (focusing on high-end and innovative products) and home & design products. Concentrating its product offering on innovation and design and high-end products (Dyson, Nespresso, Magimix, Alessi, KitchenAid, etc.) positions the Company to benefit from the growth and relative profitability of these product categories. To create store space for these new categories, the Company plans to reduce space dedicated to the sale of audio CDs, while continuing to sell the full catalogue of music online.

With a view towards an enjoyable customer experience, Fnac plans to continue its efforts to make its stores even more attractive and welcoming for customers, by creating product layouts with a sense of theatre, interactive product-testing areas, and thematic product groupings (e.g. music corners, "FNAC Kids", or "Home & Design" departments).

In addition, to optimize its positioning in certain markets and rapidly penetrate new markets, the Company has pursued strategic partnerships. To respond to the ongoing transition from physical to digital formats for editorial products, for example, the Company entered into a partnership with Kobo and launched an e-bookstore that offers over two million titles, over 200,000 of which are in French. (See Section 6.5.2.1.2(c) "Editorial Products – Books and Stationery".) Similarly, Fnac entered into a partnership with SFR under which SFR operates mobile phone sales areas in the Company's stores (see Section 6.5.2.3.1 "Telecommunications – SFR Partnership"); with Apple, for whom the Group is the leading distributor in France; with Microsoft (see Section 6.5. 2.1.1(d) "Consumer electronics – IT Products"); with Disney, in connection with "FNAC Kids" (see Section 6.5.2.1.3 (b) "The New Product Range – Toys & Games"); and with Groupon, in connection with ticketing and box office services (see Section 6.5.2.3.2 "Fnac Ticketing and Box Office Services").

Fnac is also continuing to develop its service offering, with a view towards accompanying consumers at every step of the sales cycle, continuing to improve its customer service and to strengthen areas that set it apart from competitors, particularly internet pure players. To increase customer awareness of the services it offers, the Group is introducing dedicated Service Centers in its stores (including after-sales services and loyalty program services). Online, the Group promotes these services through a dedicated webpage focused on customer assistance and services. The development of the Group's services turns on four major pillars:

- Assisting customers pre-purchase by providing information and decision-making tools, offering one-on-one appointments with sales clerks and making the shopping experience easier for families (e.g. children's activities in the Fnac Kids department, birthday registries, dedicated check-out areas, etc.);

- Creating new purchase models, for example by making it possible to trade in old consumer electronics items for vouchers ("FNAC Returns" service);

- Helping customers after they have purchased a product, through in store tutorials, telephone hotlines, at-home training, online user forums, innovative warranty options, and product insurance; and

- Proposing new product support and repair offers that create an enjoyable customer experience: on-line trouble shooting, online case tracking, better tools for scheduling repair appointments, loaner products, etc.

6.3.1.2 A Recentered Sales and Marketing Strategy

Fnac intends to continue to refocus its sales and marketing strategy on members of its customer loyalty program. The Group believes its customer loyalty program helps both to distinguish the Company from its competitors and to increase customer loyalty and retention. The key elements of this strategy are as follows:

- Continuing to invest in Fnac's customer loyalty program in order to promote loyalty and increase traffic at both retail stores and on Fnac.com. The Group plans to continue to upgrade the tools it uses to interact with its customers and to continue the transition to digital versions (including the launch of mobile applications to make signing up for the loyalty program easier and a mobile version of the loyalty program magazine "Contact");

- Refocusing marketing efforts and sales promotions on loyalty program members, allowing members to benefit from prices that are among the most competitive in the market.

In addition, the Group intends to promote its price-competitive image in order to counteract the aggressive pricing policy used by certain competitors, especially online. To this end, the Group intends to: (i) focus advertising to spotlight only competitively-priced products, (ii) prominently display competitively-priced products at the front of the aisle to drive traffic, while placing higher-end and higher margin products towards the back of the aisle, (iii) selectively align online pricing of certain products (new products, and best-sellers, etc.) with those of pure players to avoid pricing that appears off-market, and (iv) coordinate pricing between the Group's different distribution channels.

As part of its new sales and marketing policy, the Group will continue to strengthen sales and marketing efforts that benefit the entire Group, including by focusing promotional periods on the periods that generate the highest revenues for the Group (back to school, Christmas and New Year, and sale periods etc.) and developing new offers that bundle several categories of products and services (box sets, bundles, and cross-promotions, etc.).

Finally, Fnac intends to continue to strengthen the presentation of its products and improve the customer experience by allowing customers to purchase in its stores any product available on Fnac.com (*click & mag*). In-store access to Fnac.com allows the Group's retail stores to offer a full range of products regardless of store size and to rationalize the products that they carry in the store.

6.3.2 Strengthen Customer Relationship in Order to Promote Retention and Loyalty

To strengthen customer relationships, Fnac will continue to develop tools aimed at tailoring its services to individual customer needs and improving customer satisfaction. These tools are focused on three main objectives (i) obtaining a better understanding of Fnac's customers, (ii) reliably measuring customer satisfaction, and (iii) improving the training of sales clerks. To this end, Fnac has already identified and is rolling out the following three tools throughout the Group:

- Unique Customer Record – To better understand consumer preferences and tailor the customer experience, Fnac has developed a unique customer record (UCR) database that consolidates all of the information relating to a customer that can be found in the Group's various databases (purchase history, loyalty program points available, preferred stores, birthday, etc.). Launched in mid-2012 in the Group's stores and on Fnac.com, the UCR will be further enriched in mid-2013 with data from the Group's call center, product support and repairs, and ticketing and box office databases. The unique customer record is a tool that will allow the Group to implement a targeted sales and marketing strategy that draws on detailed customer information and feedback. It will also help the Group promote its omni-channel offering by, for example, sending personalized internet offers to customers who historically have only shopped in stores to encourage them to make purchases on Fnac.com.

- Net Promoter Score – Launched in summer 2012, Net Promoter Score ("NPS") systematically measures the satisfaction of loyalty program members (and, as from 2013, all customers) that make purchases through a series of follow up e-mail exchanges. Members who give a customer satisfaction score of 6 or less out of 10 are considered potential critics of the Group, and are therefore the focus of targeted and personalized service. A daily reporting process identifies these customers, allowing the store manager to place personal phone calls to respond to or solve the issues giving rise to the dissatisfaction. NPS results are reported and tracked on a regular basis by the Group's Executive Committee (average NPS score for each store, the best and worst stores (tops and flops), etc.).

- *REVER* (DREAM) - A training program focused on improving the customer experience and customer satisfaction. This program, which represents a significant portion of Fnac's training budget, is designed for all sales personnel. In 2012, nearly 2,000 employees were trained through this program in 18 stores. The program will be extended to all employees in 2013.

6.3.3 Developing Omni-Channel Synergies as a Competitive Advantage Over Other Players in the E-Commerce Market that Lack an Offline Presence

Fnac will continue to strengthen the synergies between its store network and its online sales in order to become not simply a multi-channel player, but an *omni-channel* player, i.e., to offer to its customers an integrated and streamlined shopping experience across its distribution channels (in store, online, and on its mobile sites) and on social networks. Although many Fnac in-store customers purchase consumer electronics and editorial products online, they are not all Fnac.com customers. The 7 million customers in France within this category in 2012 represent a large pool of potential customers for Fnac.com, and a significant source of potential future revenues, particularly in light of the fact that the average omni-channel customer spends about 18% more at Fnac than two single-channel customers combined.[18]

The growth of Fnac.com is a key element of the Group's strategy for responding to pure players and generating in-store traffic. The main objectives for Fnac in this area include not only increasing web traffic, but also increasing the conversion rate. The Group has developed several strategies to meet these challenges, including:

- The introduction of new product categories to enrich the Group's product offering, an increase in the number of products available within 24 hours and the development of MarketPlace;

- Improvements to enhance the operating efficiency of the site through the modernization of logistical support services, including: (i) the creation of a dedicated warehouse to permit the Group to hold more items in stock, (ii) automation of order preparation through investments that increase reliability and shorten delivery times, and (iii) opening of a third warehouse to allow the Group to hold new categories of products in stock (See Section 5.2 "Investments");

- Increasing traffic on the website through increased and better targeting advertising campaigns;

- Continuous improvements to the website through investments to improve its performance and ergonomics;

- Ongoing improvement in service quality (including delivery times and charges), with an emphasis on characteristics that distinguish the Group from pure players, including:

  - Product recommendations (Fnac Lab tests, product certification, guides, reviews, etc.),

  - The wealth of content available to customers (product information, online forums, etc.),

  - The promotion of the omni-channel services offered by the Group:

    - "*Click & mag*", "*click & collect*", "*click & ship to store*" (see Section 6.2.1 "A Cutting-Edge Omni-Channel Strategy, Drawing on a Dense Network of Retail Stores and a Powerful Online Presence");

    - Cross-channel complementary services, including online access to "Fnac Returns", and the ability to obtain customer support through online diagnostic tools and scheduling appointments online with customer support and repair staff based in the Group's store locations;

    - Making it easier to identify products and services available in Group stores by allowing online access to pertinent information such as store details (opening hours, schedule, promotions, etc.) and the availability of products in each store;

    - An update of the Group's mobile website in July 2012 and the launch of mobile applications (Fnac.com and *tick&live* for box office services) to

18 Source: Company estimate

allow the Group to fully benefit from the expansion of “m-commerce” (mobile commerce) and to offer customers a quality omni-channel experience on all platforms. In France, revenues from m-commerce (excluding MarketPlace) increased by 179% in 2011 and by 115% in 2012. In 2012, traffic from cellphones and tablets accounted for 18% of total web traffic on Fnac.com.

In addition, the expansion of the Group’s network of stores and the creation of new retail outlets should increase the Group’s websites’ penetration rate by increasing overall consumer awareness of the Fnac brand.

6.3.4 Build a Denser Retail Store Network in France to be Closer to and Reach More Customers

Fnac intends to continue the build out its retail network in France to improve coverage of the regions where it is present, strengthen its proximity to customers and gain market share. The Group plans to implement this strategy primarily by opening franchise locations, but also through opening new fully-owned stores.

The Group plans to expand to new zones it previously left to its competitors (including Virgin, Cultura and the Leclerc *Espaces Culturels*) through the development of smaller store formats:

- A “proximity” format, with a surface area of between 300 and 1,000 m², stocking the full catalogue of Fnac products and services, which will allow the Company to open stores in medium-sized cities (i.e. fewer than 100,000 inhabitants) that cannot support “traditional” or “suburban” formats, or to fill in gaps in city coverage. The Group’s store in Melun, opened in December 2012, is an example of this “proximity” format. Fnac intends to open thirty stores in this format by 2015;

- A “travel” format in high-traffic areas such as train stations and airports (in particular through the strategic partnership with Lagardère Services) which is expected to increase visibility of the Fnac brand. Travel stores will be divided into two sub-formats: (i) a 60 to 300 m² format in train stations and non duty free areas in airports, which will include a range of editorial products focused on new releases and best-sellers, and a limited range of consumer electronics and accessories focused on mobile devices (e.g. the stores at the Gare de l'Est and Orly-Ouest stations), and (ii) a 60 to 100 m² format in duty-free areas, focusing on consumer electronics and accessories for mobile devices (e.g. the Roissy T4 and Lyon Saint-Exupéry airport stores). FNAC intends to open about fifteen stores in this format by the end of 2015.

These small-format stores will be operated on a franchise basis, which should allow the Group to expand the visibility of the Fnac brand at a lower cost. The Group will implement this strategy through its partnership with Lagardère Services (in duty-free and non-duty free areas), and by seeking out local partners who are already present in the areas in question. (See Section 6.5.3.1.3 “Franchise Operations”.) Acquiring well-known bookstores in towns or on the outskirts of cities with a regional focus will be another strategy for the development of “proximity” stores.

The Group also plans to open on a targeted basis new fully-owned stores in the traditional format, i.e. stores of 2,400 m² that offer the full range of products offered by Fnac (See Section 6.5.3.1.2 “Store Formats”.) The Group will focus its efforts on new city center locations to avoid competing with existing stores and help drive traffic to Fnac.com.

To accompany the increased visibility of the Fnac brand derived from the expanded network, the Group will continue to pursue marketing campaigns with the Group's new slogan ("Fnac. *On ne peut qu'adhérer*", "*You have to join*") and highlighting key areas of the strategic plan. The Group may also benefit by recovering market shares abandoned by competitors in financial distress.

6.3.5 Continuing International Expansion

The Group intends to continue to roll out the Fnac.com platform in most of the countries where it currently has operations, thereby allowing each of these countries to benefit from the up-to-date design and full suite of features of the Fnac.com platform. The Fnac.com platform provides a strong base from which to take advantage of the growth of e-commerce, by allowing local vendors the opportunity to list and sell products on MarketPlace and offering the full range of omni-channel services the Group offers in France to leverage the Group's online, offline and mobile presence. The group has in particular focused on growing its web presence in the Iberian Peninsula in order to benefit from the growth in e-commerce in the region.

As in France, the Group also intends to seize opportunities to open stores in various formats in all countries where it is present, either on fully-owned or franchise basis.

In the same vein, the Group intends to accelerate the deployment of its brand in new markets with high growth potential through the opening of franchises, as it has done in Morocco. In particular, the Group intends to expand into the Middle East, drawing on consumer awareness of its brand in order to benefit from the strong growth in population, consumption and general wealth in the region. Several opportunities for franchise-based expansion are currently under review.

6.3.6 Optimizing Operational Efficiency and Profitability

Improving operational efficiency is an important priority for the Group. The Group's strategy in this area is centered on two main pillars: (a) centralized purchasing and (b) improving productivity and optimizing its organizational structure.

6.3.6.1 Centralized Purchasing

To improve its margins, the Group intends to continue its efforts to centralize purchases and to use its purchasing power to produce cost-savings. This program is based on two main principles:

- Strengthening the centralized purchasing of consumer electronics products in Europe:
  - by harmonizing the range of products offered by stores in different countries with a view towards building a common European product offering that will allow the group to negotiate better terms based on higher volumes of purchases; and
  - by optimizing the Group's supply chain to procure products from the countries that offer the best terms net of transportation costs. In 2011, the Group centralized its purchasing and procurement programs for certain categories of products (principally consumer electronics, but also all or a portion of editorial products in francophone countries, depending on pricing terms). This centralization is designed to allow the Group to benefit from better pricing terms and generate synergies between the various European countries in which the Group operates (economies of scale, optimization of logistics functions, cost reductions, etc.) by centralizing procurement in France to the extent possible.

The program was put in place in Switzerland and Belgium in 2012, and the Group began rolling it out for small consumer electronics items in Spain and Portugal in 2013.

- Better use of the Group's purchasing power when determining product ranges for the Group in France by enabling the Group Purchasing Department to: (i) bring suppliers with high margins into line by substituting products (i.e. by using the suppliers that permit the Group to have the best margins), (ii) increase the percentage of goods purchased from strategic suppliers (i.e. those from which the Group stands to benefit the most at the European level), and (iii) encourage the sharing of best practices (e.g. by involving the Group Purchasing Department in negotiations for editorial products).

Please see Section 6.5.6 "Purchasing Policy."

6.3.6.2 Continued Improvements in Productivity and Optimizing Organizational Structures

To strengthen its competitive position, the Group intends to continue its strategy of continuously striving to improve operational efficiency by increasing productivity and optimizing its organizational structure. This strategy builds on an effort that has been underway for several years to adapt the Group's organizational structures to the evolving structure of the industries in which it operates.

To this end, Fnac announced a plan in January 2012 aimed at generating €80 million per year in annual cost savings. This cost-reduction and performance plan includes a plan to reduce general expenses (including current expenditures, rent and technical services), instituting a country-wide hiring freeze, a policy of moderation in salary increases, the elimination of 310 positions in France and the elimination of 200 positions abroad by not replacing departing employees. At year-end 2012, the Group had already generated cost savings of approximately €60 million, or approximately €80 million on full-year basis. The Group intends to further pursue this cost-reduction and performance plan in 2013-2014.

The below lists the main policies that have been adopted or are planned to improve operational efficiency:

- Introduction and implementation of operational best practices in stores, in order to improve productivity and service quality, while at the same time making appropriate use of self-service checkout and pick-up;

- Targeted implementation services designed to improve the customer purchase process and traffic flow in stores by testing the implementation of self-service check-out stations;

- Optimizing the process of purchasing and supply, with a view towards increasing efficiency and performance all along the supply chain. Specific targets include better monitoring and balancing of supply of products across stores, as well as optimizing the range of products offered by ensuring products are in-stock for Fnac.com and offering a range of products that is adapted to the different concept areas and departments within the Group's stores;

- Centralization of in-store support functions related to Fnac Relais and Codirep. In 2012, in connection with the aforementioned cost-savings plan, the Group pooled together the human resources, finance and communications teams serving stores in regions outside Paris and in the Ile-de-France region. The objective is to recenter the focus of store managers on *front office* activities and improve the expertise of the affected entities; and

- Optimization of logistics linked to the performance of Fnac.com. The Group is moving towards mechanized logistics (packaging, transportation, etc.) for editorial products ordered online, which should slow the rise of logistics-related costs despite a growing volume of online sales.

6.3.7 Sustainable Development

Fnac has long been committed to a Social, Environmental and Corporate Responsibility ("SECR") policy (described in more detail in Annex 2).

The Group's policy is based on three pillars (social, environmental and corporate issues), which are reinforced by a strong commitment to overcome cultural exclusion, drawing on the Group's history and values.

Since 2011, the Group has formalized this policy and shared it through dedicated annual reports on the subject. The Group's approach applies both in France and abroad.

The Group intends to further solidify its commitment in this arena by forming a Committee for Social, Environmental and Corporate Responsibility at the board of directors' level. (See Section 16.3.3 "Corporate, Environmental and Social Responsibility Committee".)

6.3.7.1 2011-2012 Sustainable Development Highlights

The ***social pillar*** is the result of an overarching human resource policy rooted in the company's long-standing values: fairness in the workplace and employee development.

Employees are central to Fnac's approach to its business, and Fnac has a strong commitment to diversity and equal opportunity, placing a strong emphasis on gender equality, social, age and ethnic diversity in the workplace, and working with seniors and persons with disabilities. Fnac has also demonstrated a strong commitment to recognizing experience and professional development.

The internal survey "*How's the weather*?" showed strong awareness of these values amongst employees and a sense of belonging to a company with a responsible attitude towards its workforce. In 2012, 87% of employees considered that the Company treated all employees equally, regardless of origin (84% participation rate).

In addition, thirteen members of the management had a personal stake in the Group's success in implementing its policy in 2012, with related performance goals taken into account in setting their variable compensation.

The ***environmental pillar*** is based on ambitious and quantifiable targets (e.g. a 20% reduction in the Group's carbon footprint between 2009 and 2014). The policy is implemented throughout the Group's business, including foreign subsidiaries, suppliers (Corporate and Social Responsibility Charter), the supply chain (various country initiatives, ISO 14001 procedures), the stores (eco-friendly posters, fair-trade staff jackets, power consumption management, etc.), employees (eco-driving training) and customers (collection bins for recycling).

By way of illustrative results, in 2012, 10.1 million kWh were saved as compared to the previous year, and the volume of waste collected increased by 20%.

The ***corporate responsibility pillar*** is centered on the most important aspect of the Company's business: culture. The Fnac approach involves a strong desire to make culture accessible to all. In this vein, Fnac entered into a partnership with the non-governmental organization (NGO) *Libraries Without Borders*, under which Fnac facilitates the collection of cultural goods for use in the NGO's projects and has implemented a system that allows customers to make a donation to the NGO on Fnac.com by rounding up their bill to the nearest euro.

6.3.7.2 Sustainable Development Priorities for 2013

While the three pillars of the CSR policy have been clearly defined and deployed throughout the Group, Fnac is seeking to increase its efforts in this domain and ensure the full alignment of the Group's long-term strategy with this policy. The Social, Environmental and Corporate Responsibility Committee will spearhead this focus on alignment.

Without calling into question the priorities that have historically defined the Group, in 2013 the focus will be particularly placed on initiatives promoting diversity and reducing the Group's energy usage. Customers and employees will be encouraged to become even more involved in the Group's sustainable development policies, through an emphasis on recycling and proper disposal of consumer electronics products, as well as specific training courses and solidarity programs similar to those implemented in prior years.

The sustainable development policy will continue to be monitored by the head of sustainable development, which reports to the head of human resources for the Group, and is responsible for ensuring internal coordination and proper implementation of the program.

6.4 MARKET OVERVIEW

This section provides an overview of Fnac's markets in four geographical areas: France (Section 6.4.1), the Iberian Peninsula (Section 6.4.2), Brazil (Section 6.4.3) and other countries (Section 6.4.4).

The sections relating to the Fnac's markets in France (Section 6.4.1) and in the Iberian Peninsula (Section 6.4.2) include quantitative data that specifically relate to the size of, recent trends in and forecasts for these markets. Unless otherwise stated, the data included in these sections are taken from research performed and estimates made by the external consulting firm Accuracy, as described in further detail in Section 6.4.5 "Source for Certain Information Included in Sections 6.4.1 and 6.4.2."

6.4.1 Fnac's Markets in France

The Group's French network includes 103 stores and the Fnac.com website. Nearly 70% of consolidated revenues and almost 76% of current operating income (before Kering management fee) was generated in France in 2013. France is the largest geographical market in terms of revenue generation for the Group.

In France, the main markets for the Group are consumer electronics and editorial products. The main trends in recent years in these markets are the following:

- *The French market for consumer electronics* – Between 2008 and 2011, the market for consumer electronics contracted by an average of 2.1% per year as a result of lower prices, despite an increase in sales volumes. In 2012, this market declined by 9.5% compared to 2011 and represented approximately €10 billion. Over this same period, the Group's sales[19] declined by only 3.2%, which led to the growth of Groupe Fnac's market share to 12.9% in 2011 and 13.8% in 2012. For the 2012-2015 period, an unfavorable scenario would lead to a decline in the French consumer electronics market of 2.6% per year, whereas a favorable scenario would lead to an increase of 0.4% per year.

- *The French market for editorial products* – Between 2008 and 2011, the market for editorial products (other than digital products) decreased by an average of 4.9% per year. In 2012, the market for editorial products decreased by 8.1% compared to 2011, and represented approximately €6.345 billion. Nonetheless, the Group's sales[20] declined by only 5.7%, which led to the growth of Groupe Fnac's market share for editorial products (other than digital products) from 16.4% in 2011 to 16.9% in 2012. For the 2012-2015 period, the French editorial products (other than digital products) market is expected to experience a decline of between 4.0% and 7.0% per year.

- *Changes in the competitive environment* – In terms of total market share, Groupe Fnac's main competitors remain traditional retailers, i.e. specialized distributors (such as Darty or HTM Boulanger for consumer electronics, and independent bookstores, Micromania or the *Espace Culturels Leclerc* for editorial products) and supermarkets. While internet sales currently account for a minority of sales compared to in-store sales, the former are increasing and therefore pure players, such as Amazon, Cdiscount, Pixmania or Rueducommerce, have been presented with an opportunity to progressively increase their market share. Moreover, pure players increase competitive pressure on the market through their tendency to compete on the basis of price.

This section describes in more detail the Group's markets in France. After outlining the main characteristics of the Group's markets and the major trends at work in these markets (Section 6.4.1.1), this section describes the competitive environment in France (Section 6.4.1.2), the consumer electronics market (Section 6.4.1.3), the editorial products market (Section 6.4.1.4), the market for the new products offered by the Group (Section 6.4.1.5), and lastly the ticketing and box office market (Section 6.4.1.6).

6.4.1.1 Characteristics of Groupe Fnac's Markets

6.4.1.1.1 Markets That Are Primarily Correlated to Households' Disposable Income

The Group believes that it is the leading retailer of entertainment and leisure products in France, where the Group earned 70% of its revenues and 76% of its current operating income (before Kering management fee) in 2012. The Group operates primarily in two markets: the consumer electronics market and the editorial products market. For Group Fnac, the "consumer electronics" category includes products relating to photography, TV & video, audio, and information technology ("IT"), while the "editorial products" category includes music, video, books and gaming.

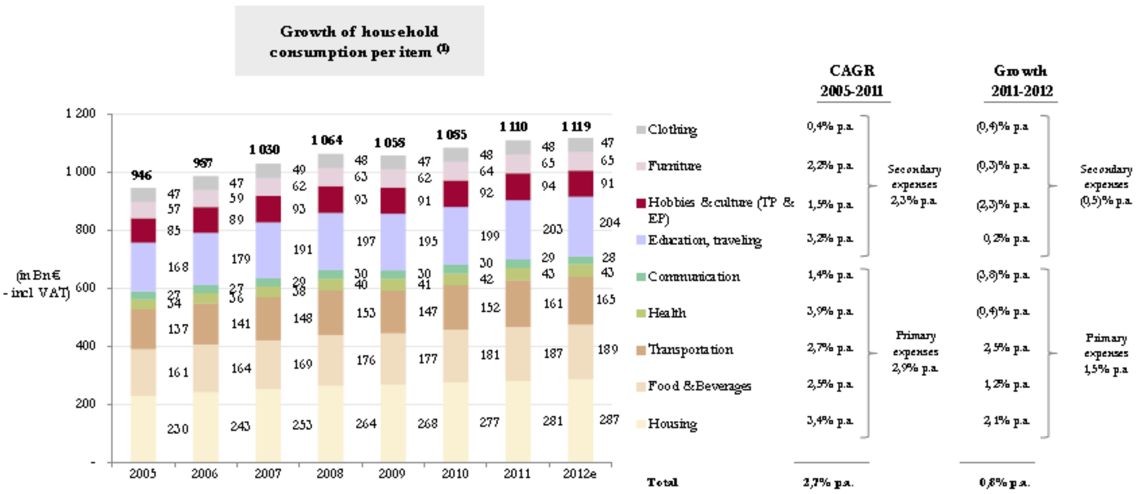
19 Corresponds to Groupe Fnac sales in France in the photo, TV-video, audio and computer segments, excluding sales from telephony, B-to-B, and French internet sales delivered abroad and after re-treatment for seasonal effects.

20 Corresponds to Groupe Fnac sales in France in the audio, video, books and gaming segments, excluding sales from stationary, B-to-B, and French internet sales delivered abroad and after re-treatment for seasonal effects.

At the macroeconomic level, trends in the consumer electronics and editorial products markets are primarily linked to changes in levels of disposable household income. During the period between 1990 and 2012, a strong correlation existed between disposable household income and spending on entertainment and leisure products. At the same time, disposable household income is correlated with changes in gross domestic product ("GDP") and is sensitive to households' tax burdens, and to their savings rates.

Disposable household income available to be spent on consumer electronics and editorial products also depends on primary household consumption, i.e. spending on the essential goods and services purchased by each household, including spending on accommodation, health, food, drinks and transport. The rising cost of goods and services included in primary consumption limits the resources available for secondary consumption (i.e. spending on goods and services relating to expenditures that are non-essential, such as clothing, furniture, entertainment, culture and travel), which is the category that includes consumer electronics and editorial products.

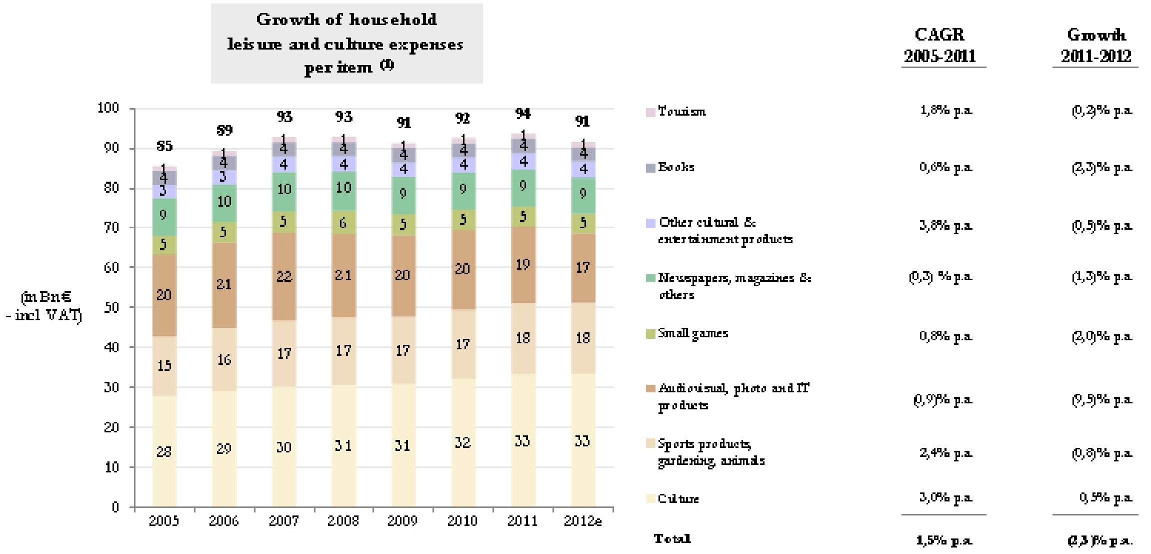
Over the past twenty years, the proportion of disposable household income allocated to secondary consumption has grown steadily. However, more recently, there has been a downturn in that growth. The chart below shows the trend in French household consumption between 2005 and 2012:[21]



This chart illustrates how, over the period between 2005 and 2012, the share of primary consumption in household budgets grew at a faster rate than secondary consumption. We note that this growth differential is even wider for secondary consumption on goods such as entertainment and cultural goods.

21 VAT included in data.

The following chart illustrates the evolution of French household consumption of entertainment and leisure goods between 2005 and 2012:[22]



Based on this data, it is clear that, within the secondary consumption category, consumer electronics and editorial products have been particularly adversely affected by the recent downturn. The INSEE category that includes audio-visual, photography and IT equipment (corresponding to the consumer electronics) contracted by an average of 0.9% per year between 2005 and 2011, and fell a further 9.5% in 2012, while the INSEE books category experienced average growth of 0.6% per year between 2005 and 2011 before contracting by 2.3% in 2012.

The market decline in terms of value over the most recent period can be explained by a decrease in purchasing power due to an increase in the share of primary consumption in household budgets, as well as by an adverse economic environment more generally. These factors have limited household resources available for consumption of entertainment and leisure goods. The decrease can also be explained by a fall in price levels, the source of which varies by product category. In the case of the consumer electronics category, this deflationary trend is explained by the fact that the product life cycle has reached maturity, by a relative lack of innovation in recent years (with the notable exception of tablets), and by the expansion of e-commerce. In the case of the editorial products category, the decrease in prices is attributable to the effects of dematerialization and piracy. These phenomena are discussed in more detail below.

6.4.1.1.2 Markets Affected by the Internet Revolution

The expansion of the internet over the last fifteen years has radically changed the Group's markets. The markets have experienced (i) significant growth in e-commerce, (ii) accompanied by a change in the Group's competitive environment, and (iii) a phenomenon involving the dematerialization of editorial products, (iv) which has increased the pirating of editorial products.

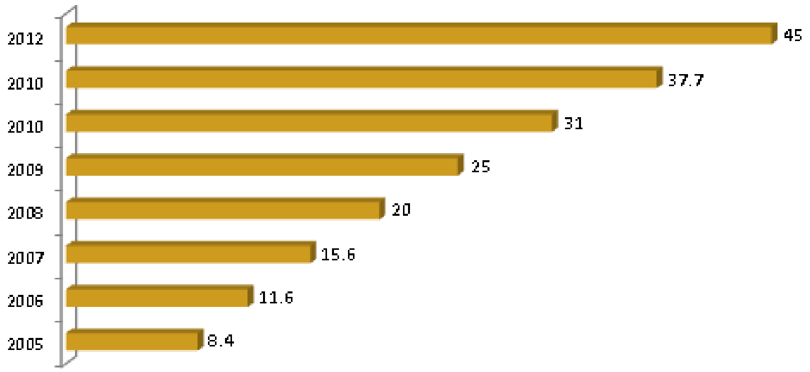
(a) The Ramp-Up of E-Commerce

Electronic commerce or "e-commerce" includes all business transactions carried out over the internet from any device (PCs, tablets, and mobile phones, etc.). As the following chart

22 VAT included in data.

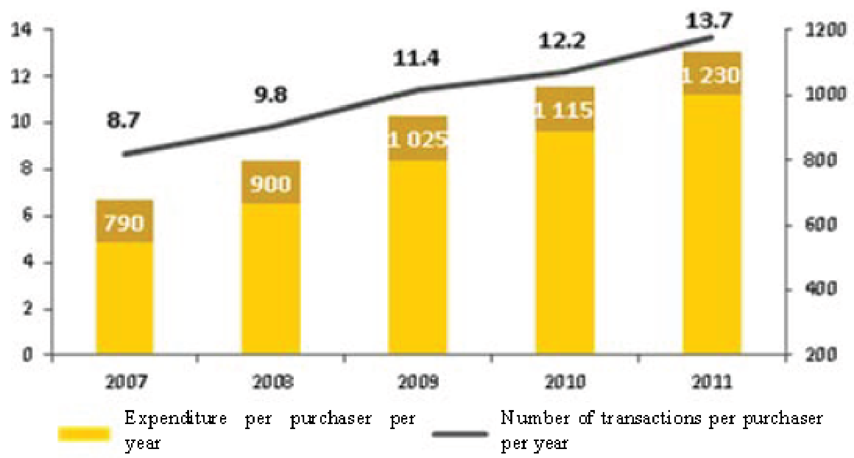
shows, since 2006 the e-commerce market for products and services has almost quadrupled in value in France, where online sales reached €45 billion in 2012 (representing an increase of 19.3% as compared to 2011)[23].

Change in the value of e-commerce in France (in billions of euros)[24]



Between 2007 and 2012, the number of active e-commerce websites increased by over 200%, from 35,500 in 2007 to 117,500 in 2012;[25] at the same time, there was also a consistent increase in the number of online purchasers, along with an increase in spending per purchaser. In 2011, 30 million of France's 38 million web users were e-consumers, compared with 25 million e-consumers out of 33 million web users in 2009[26].

Change in the number of transactions per purchaser and average spending (France, in euros)[27]



The m-commerce market in France, i.e. the sales made via smartphones and digital tablets, is also expanding rapidly, and is estimated to represent approximately €1 billion in 2012 (compared with €400 million in 2011), or approximately 2% of online sales revenues[28].

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23 Source: FEVAD (French e-commerce and remote selling federation)
24 Source: FEVAD (French e-commerce and remote selling federation)
25 Source: FEVAD (French e-commerce and remote selling federation)
26 Source: Competition Authority, Opinion No. 12-A-20 of September 18, 2012 on the competitive operation of the e-commerce market, § 9.
27 Source: FEVAD (French e-commerce and remote selling federation)
28 Source: FEVAD (French e-commerce and remote selling federation)

The development of online shopping affects most sectors of the French economy, albeit in an uneven way. The e-commerce development rate (i.e. online sales as a proportion of the entire market) is already high in the consumer electronics and editorial products categories. The e-commerce development rate for IT and photo products was over 20% in 2012, while the e-commerce development rate for editorial products (e.g. books, music, video and gaming), excluding sales of dematerialized products, was between 9 and 11%.

(b) The impact of e-commerce development on Fnac's competitive environment

The development of e-commerce has changed consumer purchasing habits and increased competitive pressure the Group's markets, mainly by increasing price competition.

The growth in e-commerce has resulted in the emergence of new specialist online competitors, who compete on the basis of price and on the continual expansion of their product range. Some of these pure players, like Amazon or Pixmania, have an international presence, while others, like Cdiscount or Rueducommerce, are primarily focused on the French market. (See Section 6.4.1.2.1 "The Competitive Environment within Groupe Fnac's Markets – Online Competitors".) At the same time, the development of electronic commerce has given rise to a disintermediation trend, whereby some manufacturers are marketing their products directly to consumers over the Internet. (See Section 6.4.1.2.3 "The Competitive Environment within Groupe Fnac's Markets - Manufacturers".)

In addition to the practical advantages of this purchasing method, the success of e-commerce is related to the fact that online prices are often more attractive than in-store prices. This is explained by the fact that the online retailing costs are not as high as those in stores. Due to the lack of physical stores and some services, overhead costs incurred by pure players are usually lower than those incurred by traditional retailers or click & mortar retailers, i.e. traditional retailers who also have developed an online presence. On average, pure players incur lower overhead costs for personnel, logistics, marketing, technical costs, property, and payment processing, which typically amount to 15 to 20% of their revenues, while these types of costs incurred by click & mortar retailers equal between 25 of 30% of revenues. [29]

Often, this difference is attributable to personnel expenses (e.g. for the in-store sales teams) and to additional property costs for bricks & mortar retailers. Online retailers' lean cost structure means that they can offer lower prices and benefit from higher product sales. The companies that are the best illustration of this low pricing policy are Cdiscount and Amazon.

In the case of consumer electronics, not only have pure players' e-commerce market share increased significantly as a whole (i.e. from 7% to over 11% of sales between 2006 and 2011); but, in the case of online sales, the weight of pure players is higher in value terms than that of click & mortar retailers.[30] The pure player model is also based on generating traffic on the website (driven by broad product ranges and attractive prices), which can then be monetized (e.g. through business links, or income generated in the form of commissions, and through the sale of additional services by marketplace sellers).

However, it should be noted that, as is the case with the Group, some traditional retailers of entertainment and leisure goods and consumer electronics have also developed so-called "multi-channel" or "omni-channel" business strategies over the past few years, in order to benefit from the growth in electronic commerce and respond to competition from pure players. These click & mortar retailers can assert their own competitive advantages over pure players, by offering higher service quality, the existence of physical contact points which

29 Source:Competition Authority, Opinion No. 12-A-20 of September 18, 2012 on the competitive operation of the e-commerce market, § 98

30 Source:Competition Authority, Opinion No. 12-A-20 of September 18, 2012 on the competitive operation of the e-commerce market, § 21

make purchasing and follow-up easier, advice from sales associates and immediate product availability.

The pricing pressure created by the expansion of e-commerce has increased as a result of the development of price comparison websites. Although they do not generally sell goods, price comparison websites list products and services found on other retail websites and enable their users to find and compare offers from participating retail websites. These sites sometimes link directly to the purchasing portal on a listed retail website, using search engines and site-specific comparison tools. These websites can also help users to search and shop by providing additional services, like opinions from other users or product information. The pricing pressure is even greater due to the fact that items are easily identifiable and directly comparable, while additional information is not necessarily highlighted, such as related services offered by sellers whose products are being compared.

Aside from pricing, competitive pressure arises from the broad product ranges available online. Offering a wider range for sale does not have the same result for all retailers; the impact varies depending on whether the offer is available online or in-store. Although some constraints are common to both formats, including storage and logistics management, only physical retail outlets have to deal with the significant constraints of limited display space. For this reason, click & mortar retailers, including the Fnac, tend to market a larger number of inventory items online than offline.

Websites are also subject to severe constraints in terms of marketing, however. These constraints impose substantial costs for pure players, since the visibility of retail sites is a crucial element in their growth. Although all online retailers must create interest and raise awareness in order to generate sales and traffic (i.e. the number of single visitors), pure players and click & mortar retailers do not necessarily face the same constraints. Some click & mortar retailers, like Fnac, benefit from strong brand recognition due to their networks of physical stores and the longevity of their brand, and their online sales obviously benefit from that.

Lastly, the development of marketplaces, such as the MarketPlace hosted by the Group, has reinforced the pro-competitive effect already exerted on the retail sector by e-commerce, first by reducing barriers to entry and, second, by encouraging price comparisons. Marketplaces reduce barriers to entry for mid-sized operators by giving them the ability to access a wide audience at a low cost by taking advantage of their host sites' reputation. Without marketplaces, these operators would most likely be unable to bear the costs related to traffic generation, computerized sales and payment interfaces, or to the logistics involved in online selling, given their sales volume. By aggregating multiple offers from many operators, marketplaces can encourage the expansion of a product range by increasing the number of listed products and the number of sellers offering the same listed product. This expansion encourages price comparisons between various sellers, which contributes to the growth of e-commerce and may, to some extent, increase competitive pressures.

The Group expects that e-commerce's share of consumer electronics and editorial products sales will continue to increase in France, in a manner consistent with the levels achieved in Germany and the United Kingdom[31]. Should the e-commerce expansion reach maturity, some analysts predict an increase in marketing costs for pure players, in response to the need to retain customers, and to retain sellers in virtual shopping malls[32]. Such an increase could

31 In 2011, online sales accounted for 9% of retail trade in Germany and 12% in the United Kingdom, compared to 7.3% in France (Source: *Center for Retail Research*, Kelkoo, 2012 data, mentioned in Competition Authority Opinion No. 12-A-20 of September 18, 2012 on the competitive operation of the e-commerce market, p.7).

32 Study entitled "E-commerce is approaching turbulent times" by Xerfi-Precepta, quoted in *Les Echos*, September 20, 2012.

affect their profitability (or in some cases exacerbate their losses) and create a trend towards consolidation. As a result of its click & mortar presence, its omni-channel strategy and the services that it offers in addition to its products, the Group considers itself to be well-positioned for this possibility.

(c) Dematerialization of editorial products

The rapid development of the Internet has given rise to dematerialization, i.e. the transition from physical media to digital media, which promotes downloading and has radically altered consumer spending patterns on editorial products. As described below, the phenomenon of dematerialization is very significant. Consumers increasingly prefer dematerialized media, partly due to lower prices compared with the physical equivalents, but also because of the benefits that this format provides, including space saving, accessibility, and immediacy. However, dematerialization affects each editorial products segment differently.

The editorial products segment that was affected earliest and most significantly by dematerialization is music. The physical CD market has been declining steadily since 2006, and the value of this cultural good has been greatly reduced. At the same time, digital music sales are booming, with growth of 14.1% in 2010, 25.7% in 2011 and 13.0% in 2012[33]. The consumption of digital music through streaming (i.e. reading an audio file without having to download it first) has also increased dramatically in recent years. Streaming generated total revenues of €52.5 million in 2012[34]. Lower prices for digital music primarily reflect (i) lower production and distribution costs than in the physical market, and (ii) the opportunity to buy tracks individually. In addition, the dematerialization phenomenon is accompanied by a high level of piracy, which has resulted in a loss of value in the music market.

Video is the second-largest segment affected by the dematerialization phenomenon. Sales of physical video products, such as DVDs and Blu-Ray discs, have declined significantly in value terms, although the decline has been less marked than that of physical music products since 2005. The digital market, including video-on-demand services (VOD or S-VOD), downloading and streaming, has increased substantially (by about 70% per year over the period between 2008 and 2011 and by about 20 % in 2012). Unlike the music market, the video market is restricted by regulations concerning media release timetables; these regulations govern the availability of different video media over time. Physical media and pay-per-view VOD services benefit from this system, since content can usually be sold after the expiration of a four-month waiting period following a film’s release (with the exception of VOD per-view rentals, whereby user benefits from exclusive use within a usage window through a contractual agreement). For other forms of media, such as S-VOD, free VOD or Pay-TV film, subscriptions are subject to longer waiting periods of between 10 months and four years. (See Section 6.7.8 “The Legal Framework Governing the Film Release Timetable”.)

Gaming is the third segment that is most affected by the dematerialization phenomenon. Dematerialized games are booming, with growth of 18.9% per year over the period between 2008 and 2011 period and of 21.0% in 2012. Although console-based physical video games still dominate the market due to high-quality high-value video games that require large amounts of storage space and powerful electronic components, the Group expects the development of digital games (especially in the PC games field) to continue to rise sharply in value terms.

The book segment is also affected by dematerialization, but in a less noticeable manner to date. Physical media continues to garner the lion’s share of the book market. The e-book

33 Source: French Association of Phonographic Publishers
34 Source: *Stratégies* No. 1709, 31.01.2013

market accounted for 0.3% of total book sales in France in 2012, compared with 0.1% in 2011. This slow rate of digitization, compared with the music or video markets can be explained by the structure of the French publishing industry and its regulatory constraints. The regulations effectively set the price of a book, and prohibit discounts of more than 5% off the cover price determined by the publisher. They also require digital publishers to set a single public sales price, which is imposed on all sellers targeting buyers in France. (See Section 6.7.3 "Regulations Applicable to Book Prices".) To differentiate themselves from their competitors on the e-book market, retailers therefore tend to focus on increasing the size of their catalogs.

(d) The expansion of piracy

Digitizing content has led to the emergence of an illegal, free method of consumption: piracy. Piracy includes all forms of downloading, copying, and viewing, or any other illegal consumption of editorial products, like music, video, or books, to the detriment of copyright owners. Overall, piracy has become widespread in all editorial products categories, in tandem with the dematerialization cycle. Although no recent reliable data regarding piracy in France is available, the audio category appears to be the most affected by piracy. Video is also significantly affected, though apparently to a lesser extent, while books appear to be relatively unaffected thus far due to low levels of e-book dissemination.

The expansion of piracy in the audio and video categories may not continue to grow at the same pace as in the past and may even have peaked. The implementation of coercive legal measures in France, the United States and other countries could help to curb growth of this activity in the medium term. For instance, as a result of U.S. authorities' closure of the MegaUpload and MegaVideo sites in January 2012, many piracy services have disappeared or have modified their operations, resulting in an immediate change in consumers' habits.[35] These closures and other similar cases may serve as examples and foreshadow the type of proceedings that can now be brought against illegal websites. In addition, thanks to the widespread use of paid downloading and streaming services, consumers now have the legal means of accessing dematerialized editorial products, which could help stabilize piracy levels.

6.4.1.2 The Competitive Environment Within Groupe Fnac's Markets

The markets for consumer electronics and editorial products are fragmented due to the existence of different retailing models. There are four main categories of players on these markets: (i) pure player online competitors, (ii) traditional retailers, some of which are also developing an online presence using the same brand name, (iii) manufacturers, and (iv) ISPs and digital platforms.

In terms of total market share, the Group's principal competitors remain traditional retailers, i.e. specialized distributors (such as Darty or HTM Boulanger for consumer electronics, and independent bookstores, Micromania or the Espace Culturels Leclerc for editorial products) and supermarkets. Even though internet sales currently account for a minority of sales compared to in-store sales, such sales are increasing and this offers pure players, such as Amazon, Cdiscount, Pixmania or Rueducommerce, an opportunity to progressively increase their market share. Moreover, pure players increase competitive pressure on the market through their greater tendency to compete on the basis of price.

In each subsection of this Section 6.4.1.2, the main competitors are presented in decreasing size order by market share, as estimated internally.

35 Source: Research on the economic model for websites and services providing streaming and direct downloads of illegal content, Hadopi, March 21, 2012

6.4.1.2.1 Online Competitors

The success of e-commerce has resulted in the emergence of new specialized online competitors, known as pure players, who focus on competitive prices and on continually extending their product ranges. These pure players account for the bulk of the online e-commerce market, ahead of click & mortar retailers. Fnac's main competitors are the Amazon, Cdiscount, Pixmania and Rueducommerce websites.

- Amazon is the leading online retailer of cultural goods and consumer electronics, housewares and personal equipment throughout most regions in the world. Amazon is the most-visited retail website in France[36], generating revenues of €889 million in France in 2011[37]. Historically, Amazon has focused on books (in both paper and electronic formats). It accounted for 60% of all online physical book sales in 2010[38]. More recently, the Kindle e-reader marketed by Amazon has garnered a significant share of e-reader sales in France, in competition with Kobo by Fnac. Amazon, a powerful international retailer, currently offers a wide range of products, and relies on solid logistics.
- Cdiscount, a subsidiary of the Casino Group, is the second most popular website in France in terms of number of visitors.[39] This online retailer offers a wide range of products (appliances, consumer electronics, editorial products, and food, and clothing, etc.). Cdiscount has seen an increase in sales in recent years, with revenues rising from €660 million in 2007[40] to approximately €1,500 million in 2012, i.e. an increase of 127%. Cdiscount's strategy focuses on pricing, by offering customers a range of products that does not include high-value added or high-end products or services. Cdiscount recently increased its number of pick-up/delivery points using the Casino Group's network of supermarkets, hypermarkets and convenience stores. Cdiscount now has 3,000 pick-up/delivery points and one store in downtown Paris. This strategy was further accelerated in 2012 with the opening of 422 additional pick-up/delivery points.[41]

- Pixmania, a subsidiary of the Dixons Group, was originally a camera and video-camera retailer that has switched to selling computer products and consumer electronics. Following a series of diversifications, the French website now offers fashion & cosmetics products, car accessories and childcare products. Pixmania is facing financial difficulties and reported a loss of €25 million and a 10% decline in sales for 2011[42]. This trend worsened in the first half of 2012 with a loss of some €20 million[43] and a 7% decline in sales at constant consolidation scope.[44] Pixmania, had opened eight stores in France, but decided to close them in early 2013 and withdraw from several countries.[45]

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36 Source: Mediamétrie/Netratings December 2012; for 2012, and in terms of the average number of unique visitors per month.

37 Source: http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/716/716we06.htm: UK Parliament, Public Accounts Committee

38 Source: *Le Figaro*

39 Source: Mediamétrie/Netratings December 2012; for 2012, and in terms of the average number of visitors per month.

40 Source: 2007 annual report of Casino Group

41 Source : 2012 consolidated financial statements of Casino Groupe

42 Source : Le Figaro

43 Based on a GBP/EUR exchange rate of 1.15

44 Source : Dixons Interim Statement Report 2012/2013.

45 Source: http://www.lsa-conso.fr/pixmania-ferme-ses-magasins-en-france,139115.

- Rueducommerce, a subsidiary of Altarea-Cogedim, is a website that has historically specialized in the sale of high-tech products. Since 2007, the website has diversified its product range by selling household and personal equipment and opening a virtual shopping mall. As part of its partnership with Altarea-Cogedim, Rueducommerce has announced plans to develop a multi-channel strategy by setting up in shopping malls in France. Rueducommerce has recorded losses in recent years, and its sales fell from €309 million in 2007 to €291 million in 2011, representing a decline of 5.8%. However, revenues rose by 10% to €325 million in 2012[46].

It should be noted that 82.4% of consumer electronics sales in 2012, for products like computers, photography, audio, and TV & video, were made in stores, compared to 17.6% for online sales.[47] While online sales currently remain comparatively low compared to in-store sales, they are growing, and therefore provide an opportunity for pure players to gradually expand their market share.

6.4.1.2.2 Traditional Retailers

Traditional retailers are those who offer products to their customers through a network of physical retail outlets (bricks & mortar) and, where applicable, via a website (click & mortar). These players usually have an established reputation among the general public because of their longevity, and in general, offer a basic range of products.

(a) Specialty retailers

In France, the following players are the main specialty retailers:

- Darty is a leading specialty retailer of household and mass-marketed electronics in France, which has a solid reputation for high-quality after-sales service. In 2011, Darty generated revenues of €2.921 billion via its website and in its 224 stores, which are primarily located in city centers. The website, which was launched in 1999, accounted for 12% of total sales in 2011. The Darty Group announced a loss of €313.9 million for the fiscal year ending in April 2012[48], and closed four stores in Italy[49]. However, Darty continues to strengthen its multi-channel presence.

- HTM Boulanger is focused on consumer electronics, and specializes in particular in the editorial products, multimedia and household appliance sectors. Boulanger has a website and 132 stores in France, which are mainly located on the outskirts of cities. Boulanger generated revenues of €2.4 billion in 2011,[50] including approximately €1.5 billion from consumer electronics sales (estimate). Saturn, a subsidiary of the German Metro Group, which specializes in electrical appliances, was acquired by HTM Boulanger in 2010 and the company implemented a layoff plan in 2012.

- Conforama is a general-purpose furniture and home furnishings store, but it also sells consumer electronics. This retailer has a website and 203 stores in France, which are mainly located on the outskirts of cities. Conforama generated

46 Revenues at December 31, 2012, as published in Altarea's financial statements following the acquisition.
47 Source: GfK
48 Source: 2012 Annual Report
49 Source: *La Tribune*
50 Source: LSA Conso

revenues of €2.3 billion in 2011,[51] including €0.9 billion from consumer electronics sales.

- The "*Espaces culturels Leclerc*" are featured in 209 Leclerc stores and generated revenues of around €880 million from editorial products sales in 2011. These areas offer books, as well as a wider range of music, films and video games.[52]

- Cultura, which belongs to the Mulliez group, focuses on the sale of editorial products and has 52 stores in France, mainly located on the outskirts of cities and in medium-sized towns. Cultura also sells online via its website. These stores offer books (in paper and digital formats), video games, music, arts and crafts products, and toys and stationery.

Virgin, which was a flagship player on the traditional editorial products retail market in France due to the reputation of its brand, declared bankruptcy in January 2013. Virgin had experienced financial difficulties in recent years and had begun to significantly reduce its store network in France. Small and medium-sized retailers specializing in editorial products face similar competitive pressures and difficulties. For instance, Harmonia Mundi, a network specializing in the production and sale of classical and world music, announced the closure of fifteen stores in France in early 2013, citing difficulties caused by a declining record market and changes in consumer behavior, like downloading and e-commerce[53]. In addition, the revenues generated by independent bookstores in France fell by 5.4% between 2003 and 2010[54]. In general, these independent retailers do not sell their products online, and therefore their sales are cannibalized by pure players and multi-channel and omni-channel retailers.

Small and medium-sized retailers that specialize in consumer electronics are also suffering due to competitive pressure from the web, and to their structurally low margins. For instance, Surcouf, which accounted for 1.3% of the consumer electronics market in 2010, experienced declining sales from €247 million in 2007[55] to €160 million in 2010,[56] and was the subject of liquidation proceedings in October 2012.

(b) General-purpose retailers

In addition to these specialty retailers, large-scale retailers (mainly hypermarket chains like Carrefour, Auchan, Leclerc, Géant Casino and Cora) also offer consumer electronics and editorial products. Big-box retailers are particularly active in the consumer electronics market, where they had a market share of around 26% in 2012[57]. These retailers operate throughout France. They offer a wide range of products at attractive and entry-level prices, and benefit from the volume discounts that they receive from suppliers. They also sell their products under private labels. Some of these retailers have also developed specific editorial products "corners" like Leclerc's "*Espaces Culturels*", which are described above. However, some general-purpose retailers recently announced their intention to reduce the retail space allotted to non-food products. In June 2012, Carrefour announced that it would be focusing on seasonal non-food products. Likewise, Casino announced that the retail space assigned to these products would be reduced by 8% over the next three years, and by an additional 15% after 2015[58].

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51 Source : Conforama website
52 Source : LSA Conso
53 Source: Le Figaro
54 Source:Xerfi
55 Source: Channel Business Partner
56 Source: boursier.com
57 Source:GfK
58 Source: *La Tribune*

6.4.1.2.3 Manufacturers

A new form of competition has recently emerged and is gathering strength: disintermediation. Certain manufacturers are increasingly marketing their own products directly to consumers without using retailers, either by rolling out networks of physical stores or by taking advantage of the internet to develop online sales. One of the pioneers in this field is Dell, which strongly encouraged the direct sale of its products online. However, the most emblematic example of the phenomenon to date remains Apple, which is continuing to open its Apple Stores and Genius Bars in France. Apple continues to generate a significant portion of its sales in France through retailers, like Fnac, however, which is considered a key retailer for Apple products in France. At the same time, Apple relies on online sales through its website and has also established an internet presence through its "iTunes" platform, which has become a key player and contributed to the dematerialization of editorial products. Fnac entered into an affiliation agreement with Apple in 2012. (See Section 6.5.2.1.2(a) "Editorial Products – Music".)

6.4.1.2.4 Internet Service Providers (ISPs) and Digital Platforms

The increasing dematerialization of editorial products has resulted in the emergence of new competitors in Fnac's markets, namely ISPs and digital platforms.

Video-on-Demand, or "VOD", products are increasingly available online or via ISP "boxes" marketed in France by service providers like Free, Orange, SFR, Numéricâble and Bouygues Telecom. These ISPs provide access to content supplied through partnerships with televisions channels in France like Canal Play and TF1 Video, for instance, and, in some cases, provide their own content directly, such as with SFR Club Video and Orange, for example. Free also provides gaming services.

Likewise, some digital platforms are beginning to offer music, VOD and gaming. Online gaming is offered by digital platforms like Steam, Metaboli, EA Store, Windows Marketplace and Gamersgate. In addition, some console manufacturers, such as Sony and Microsoft, are developing their own online gaming line through new digital platforms like the PlayStation Store or the Xbox Games Store.

6.4.1.3 Consumer Electronics

The "consumer electronics" category covers cameras, photography equipment, televisions, video equipment, audio equipment and accessories and IT products.

6.4.1.3.1 Overview of the Consumer Electronics Market

(a) The Impact of Innovation Cycles

Consumer electronics markets are heavily dependent on product innovation cycles and on household ownership rates. Innovation is by its very nature difficult to predict, as are the effects of innovation.

The traditional cycle in consumer electronics begins with introduction to the market, followed by high levels of growth while households purchase the new technology. Once households are fully equipped, growth gradually decreases and the market reaches maturity. At the end this period, the length of which may vary depending on the product in question, prices fall. The product may, however, experience a resurgence in growth linked to the replacement of older models and the purchase of additional models by a single household.

Innovations can disrupt the "purchase-maturity-replacement-multiple purchase" growth cycle with strong acceleration or deceleration effects. For instance, the generalization of flat-screen televisions in 2008 created a new growth cycle in the television market as households replaced their cathode ray tube televisions with flat screens. On the other hand, new technologies may allow multi-tasking appliances to replace or cannibalize sales of existing devices (such as when smartphones cannibalized MP3 sales), which can interrupt or disrupt the "purchase-maturity-replacement-multiple purchase" growth cycle by introducing permeability between traditionally separate product categories. The importance of this phenomenon is further accentuated by the trend towards convergence that is affecting several market segments, in particular for photography and audio products.

In recent years, these cycles have become shorter and consumers are increasingly replacing their consumer electronics at a faster rate.

(b) Recent Developments in the Consumer Electronics Market

The consumer electronics market contracted by an average of 2.1% per year between 2008 and 2011, which was due to lower prices, despite an increase in volumes.

The deflationary trend observed in consumer electronics can be explained by the growth of e-commerce and the maturity of product innovation cycles and ownership rates. Over this period, with the notable exception of tablets, the consumer electronics category has experienced a period of generally limited innovation in terms of new products. The lack of innovation means that there are no new "purchase-maturity-replacement-multiple purchase" cycles to generate growth on Fnac's markets.

Initially lower price levels improved sales, as products became increasingly accessible to consumers. However, since 2010-2011, the consumer electronics market in France has also been affected by the economic environment; primary household consumption has increased both in absolute and relative value terms compared to secondary consumption. (See Section 6.4.1.1.1 "Markets that are Primarily Correlated to Households' Disposable Income".)

In 2012, the consumer electronics market in France contracted by 9.5% compared with 2011 and amounted to around €10 billion. Over the same period, Group sales declined by only 3.2%[59] resulting in an increase in Fnac's market share from 12.9% in 2011 to 13.8% in 2012. In 2011, Fnac's market share had already increased by 0.8% compared to 2010.

For further information on the strong brand recognition Fnac enjoys in its markets in France, please see Section 6.5.1.1 "France".

For the 2012-2015 period, a unfavorable scenario would lead to a decline of 2.6% per year in the French consumer electronics market, whereas a favorable scenario would lead to growth of 0.4% per year.

6.4.1.3.2 Photography

The photography sub-segment essentially includes compact cameras, bridge cameras, single-lens reflex cameras ("SLR cameras"), hybrid cameras, camcorders, and related peripherals and accessories.

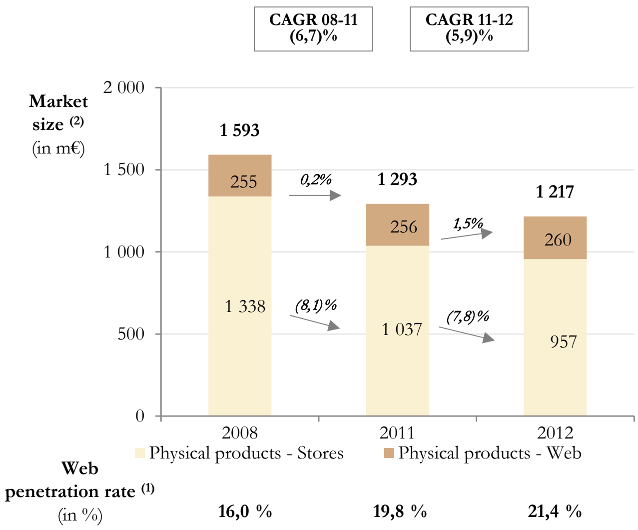
The photography segment has evolved very quickly over the past decade. Whilst the sector is traditionally strong in France, the digital revolution has effected this segment in divergent

59 This figure corresponds to the revenues generated by Groupe Fnac in France in the photography, television, video, audio and IT products segments, excluding telecommunications, BtoB sales and French online sales delivered internationally, and after adjustments for timing effects.

ways. Since 2005, the segment has seen a general decline in market size in terms of volumes sold and a shift in the product mix towards high-end products like SLR and hybrid cameras.

Sales of compact and bridge cameras, which began as flagship consumer products, have decreased from €800 million in 2005 to €572 million in 2010, which represents a decline of 28.5%. This decline has continued since 2010, when the French photography market reached maturity with an ownership rate of over 70%[60]. Typically, a replacement phase would have begun shortly afterwards, driving the market upwards. However, the subsequent replacement phase has not created the expected growth. In other words, consumers have not replaced their old cameras with new equipment. There has even been a decline in the camcorder market (which contracted by 28.7% over the period 2010 to 2012) and in the compact and bridge camera markets (which contracted by 24.7% over the period 2010 to 2012). This is because the replacement phase for these products was partially cannibalized by smartphones. Since 2010, the smartphone ownership rate has risen rapidly (with an ownership rate of 41% at the end of 2012[61]). At the same time, users have substituted their smartphones for compact cameras, a phenomenon made possible by (i) the increased storage capacity of smartphones, (ii) the improved quality of the photos taken with these devices, and (iii) technological advances incorporated into smartphones which now allow users to post photos on social networking sites more easily than with compact cameras. It should be noted that Fnac has a presence in the telecommunications market through its partnership with SFR. (See Section 6.5.2.3.1 “Telecommunications –Partnership with SFR”).

Sales volumes in the photography market have seen a significant decline overall, from €1,593 million in 2008 to €1,293 million in 2011, with an average annual descent of 6.7% over this period. In 2012, the photography market contracted by a further 5.9%. The following chart shows the trend in the photography market over the 2008 to 2012 period (in € million):[62]



However, although the low-end has shrunk, contributing to the market contraction, the photography market is showing a partial shift towards higher-quality products with a higher price tag. Sales of SLR cameras grew from €222 million in 2008 to €261 million in 2012, an increase of 17.6%, while sales of hybrid cameras grew from €6 million in 2009 to €36 million in 2012, an increase of 500%. Therefore, although the market for compact cameras is currently being cannibalized by smartphones, the sales volumes for higher-price items like digital SLR cameras and hybrid cameras have partially offset this effect. In 2012, there was

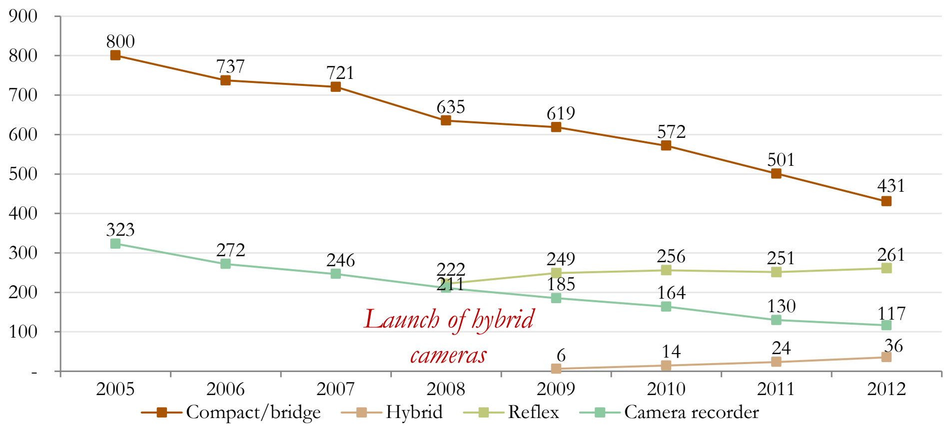
60 Source: *Observatoire de Professions de l’Image* (French Image Professions Observatory)

61 Source: Journal du Net

62 After adjustments made for calendar effect. Web penetration corresponds to the market share of the internet sales channel.

actually an expansion in high-end compact camera sales. In addition, it should be noted that these higher-end cameras also benefit from a higher accessory add-on rate (such as lenses, tripods, bags, and memory cards). These developments work in Fnac's favor, given its positioning on the market.

The following chart shows the trend in key photography market products (compact/bridge, hybrid, and SLR cameras and camcorders) over the period between 2005 and 2012 (in € million):



In the future, sales of high-end items are expected to remain strong, and it is likely that retailers will change their product mix to focus mainly on these high-value items. The Group considers itself to be well-positioned to take advantage of changes in the photography market, since 50.5% of its revenues in the camera segment came from high-end items in 2012. The Group is still the leading player in the photography market in France[63], and will continue to benefit from its well-established reputation on this market. According to a 2012 survey of buyers and potential buyers of photography equipment, Fnac is still the top retailer in consumers' minds for purchasing camera equipment, ahead of competitors like Amazon and Darty[64].

6.4.1.3.3 TV-Video

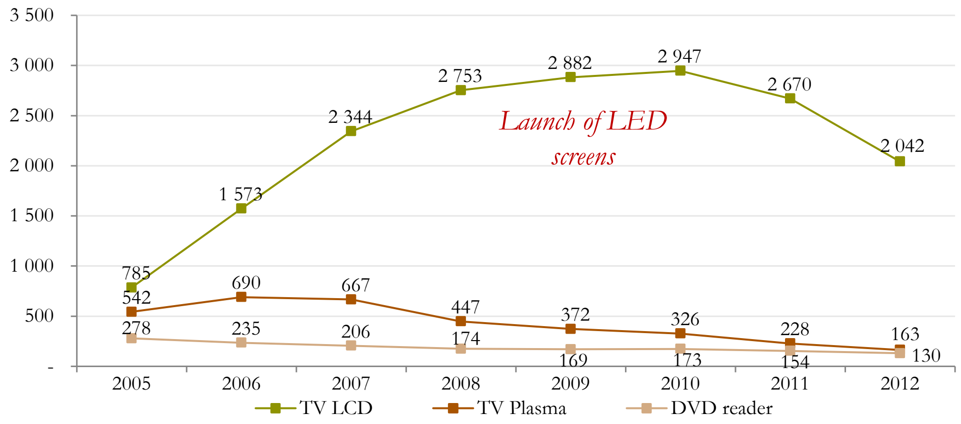
The TV-video sub-segment includes LCD televisions, plasma televisions, DVD players, Blu-Ray players and other home cinema accessories.

This segment experienced strong growth until 2010. The key drivers of this growth were (i) the household ownership cycle for flat-screen televisions, (ii) the transition from analogue to digital television, which generated a new ownership cycle, and (iii) increased demand for this type of equipment due to the Soccer World Cup in 2010. In addition, the unit price of televisions has steadily declined, resulting in greater accessibility and increased demand. Sales of LCD televisions were the main growth driver, with sales up from €785 million in 2005 to €2,947 million in 2010, an increase of 275.4%. Over the same period, plasma television sales decreased by 39.8% as households were being equipped with LCD televisions, while DVD player sales decreased by 37.8% due to the dematerialization of video formats.

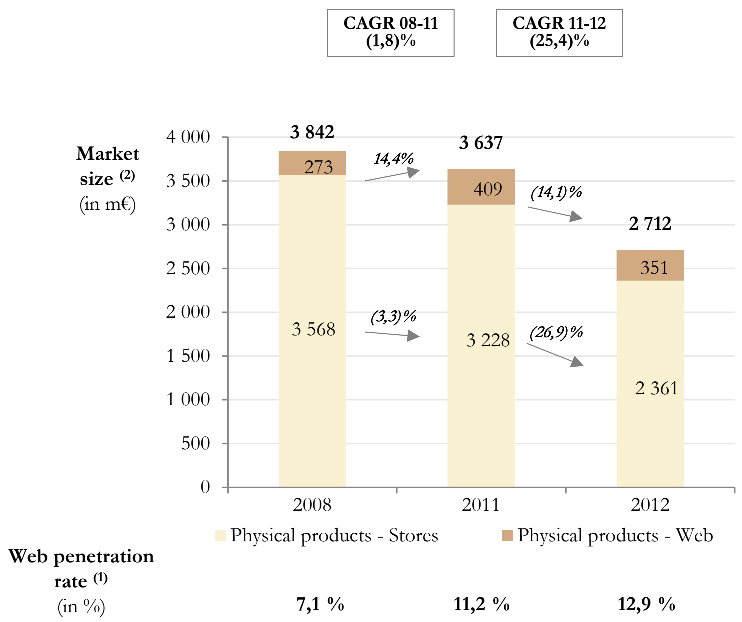
As shown in the chart below, television sales peaked between 2009 and 2011, which was due to the replacement of analog televisions (completed in late 2011), the launch of LED screens, and to increased flat-screen ownership rates in general.

63 Source: Company, based on GfK data
64 Source: Harris Interactive

The following chart shows the trend for key products in the television and video market (LCD televisions, plasma televisions and DVD players) over the period between 2005 and 2012 (in € million):



The television and video market represented sales of €3,842 million in 2008 and €3,637 million in 2011, reflecting an average decrease of 1.8% per year. In 2012, the market represented sales of €2,712 million, a decline of 25.4% compared with 2011. The following chart shows the trend in the television and video market over the period between 2008 and 2012 (in € million):[65]



In addition to the factors outlined above, this segment has declined since 2011 due to (i) the end of the household ownership cycle for televisions in France (ownership rate of 92% in 2012)[66], (ii) a downward price trend, and (iii) an adverse economic environment, which effectively puts downward pressure on the household income available for the purchase of expensive consumer electronics like televisions.

65 After adjustments made for calendar effect. Web penetration corresponds to the market share of the internet sales channel.
66 Source: Samsung

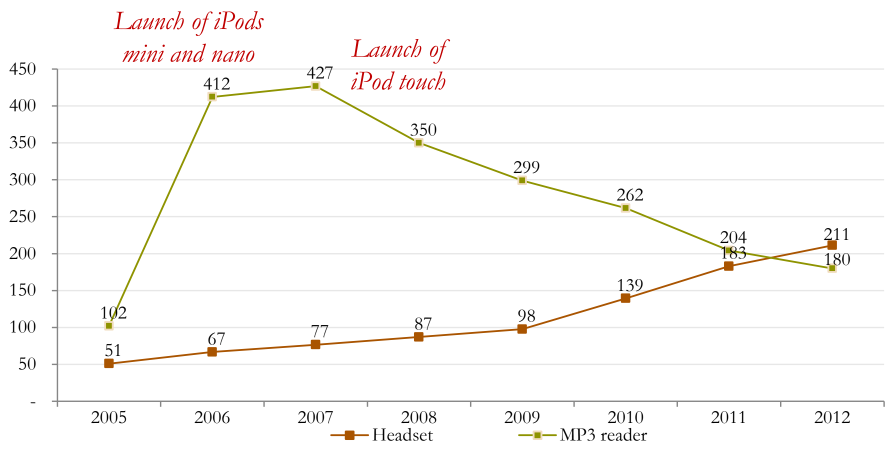
Because of its low market share, the Group has been less exposed than others to the decline in the television and video market since 2011. In the coming years, however, new innovations, like the development of web-connected televisions, the launch of Apple TV or the development of OLED or Ultra High Definition (UHD) components could generate a new ownership phase, representing new opportunities for Fnac.

6.4.1.3.4 Audio

This sub-segment primarily includes MP3 players, headphones, docking stations and related accessories.

The audio market has been characterized by the recent growth of headphones and docking stations. However, since 2008, there has been no major technological innovation in this market, and although the market should have entered a replacement phase for the various MP3 player versions, the expected increase in sales volumes for MP3 players has been partially cannibalized by smartphones. Since 2010, the smartphone ownership rate has increased sharply (with an ownership rate of 41% at the end 2012[67]); meanwhile as smartphones have enhanced musical capabilities and embedded solutions (with greater memory capacity, music apps, ease of use), users are increasingly substituting smartphones for their MP3 players.

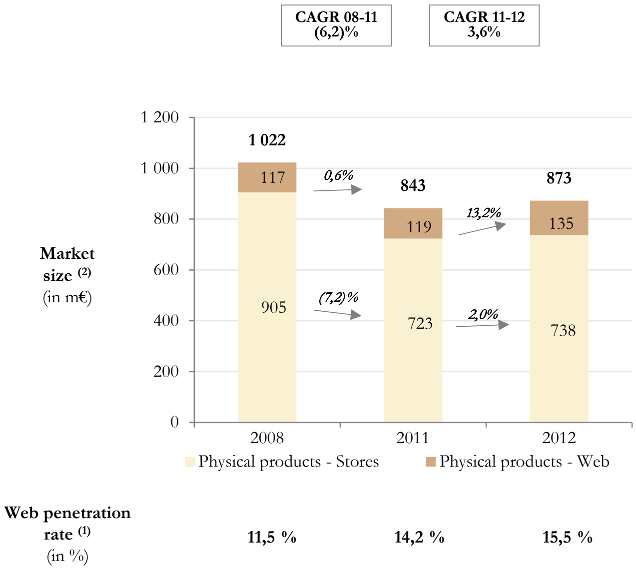
The following chart shows the trend in key audio market products (headsets and MP3 players) over the period between 2005 and 2012 (in € million):



Prices on the audio market have decreased slightly since 2008. This price reduction explains a shrinkage of the market size, as shown in the following chart, (from €1,022 million in 2008 to €843 million in 2011, an average decline of 6.2% per year), which is likely to have been a response to the slowdown in consumer demand due to a mature MP3 player ownership rate, following various iPod launches between 2005 and 2007.

67 Source: Journal du Net

The following chart shows market trends over the period between 2008 and 2012 (in € million):[68]



Although demand for MP3 players has declined, causing contraction in the market in general, sales of docking stations and headphones have continued to grow at a significant pace. In the case of docking stations, this growth is due to the continued household purchases of docking stations for MP3 players, and to the growth in mobile docking stations. In the case of headphones the market has experienced strong growth and has become extremely competitive, with strong customer appetites for designer and fashion products with high unit prices and/or high value-added. There is a general trend towards multiple purchases on the headphone market, as well as a broadening and fragmentation of the competitive landscape; today, headphones are sold not only by consumer electronics retailers, but also in the fashion and lifestyle sections of many other stores. Other audio accessories that are complementary to docking stations and headphones, may experience a slight increase in the future. Finally, the launch of new product versions is likely to create mini-replacement cycles on the audio market.

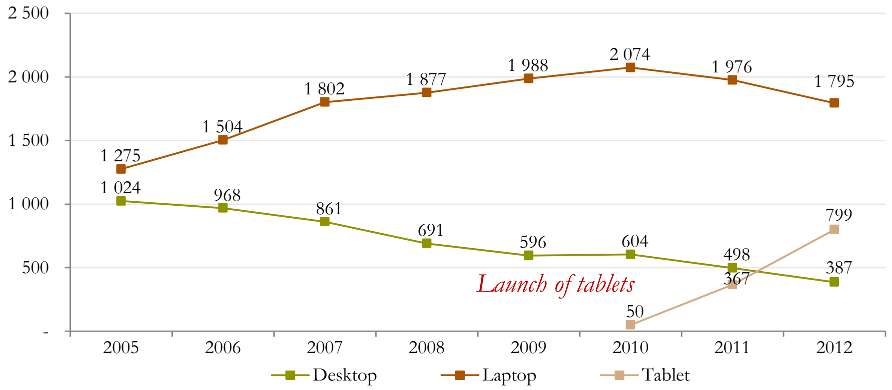
The Group's recent performance in this segment has remained strong when compared to market trends, and Fnac is striving to maintain its leading position in headphones and docking stations, which are the main growth drivers.

6.4.1.3.5 Information Technology (IT)

The IT products sub-segment primarily includes desktops, laptops and netbooks, tablets, PC tablets, office equipment and related accessories.

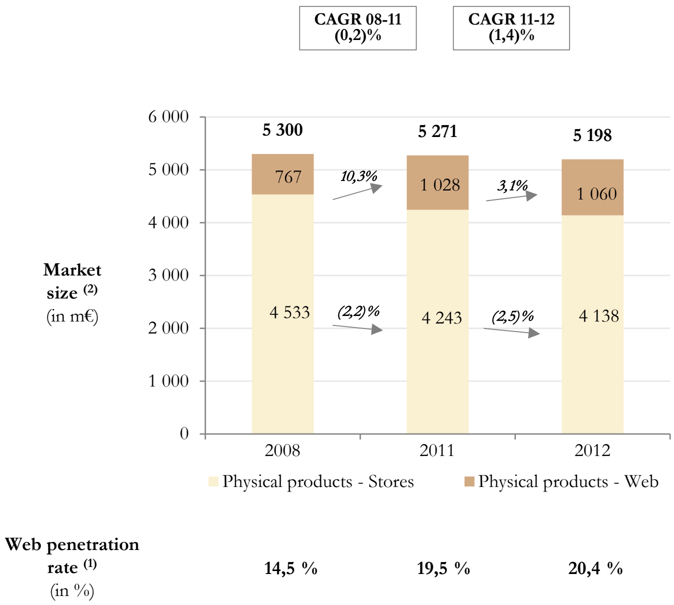
68 After adjustments made for calendar effect. Web penetration corresponds to the market share of the internet sales channel.

Information technology products have seen only limited innovation since 2010, resulting in few new product launches, with the notable exception of the launch of tablets in 2010. The following chart shows the trend in key information technology products (desktops, laptops and tablets) over the period between 2005 and 2012 (in € million):



Strong growth has been observed in tablet ownership rates since their launch, with market sales rising from €50 million in 2010 to €799 million in 2012. While creating growth in the market, the launch of the tablet has also contributed to the decline in sales of desktop computers, with consumers increasingly replacing these products with laptops or tablets. The use of tablets should not entirely replace that of laptops, since tablets tend to act as a portal for recreational and social media, while laptops are mainly used to produce content, write e-mails and perform office-based or creative tasks. A multi-purchase phenomenon has therefore been observed, with consumers buying both laptops and tablets. As a result, the laptop market has experienced modest growth in recent years, although it has seen a slight decline since 2011.

The following chart shows the trend in the market for information technology products over the period between 2008 and 2012 (in € million):[69]



Despite the economic downturn, and due mainly to the expansion of tablets, the market for information technology products has withstood the recent economic decline well over the past few years. The market represented sales of €5,300 million in 2008, and declined to €5,271 million in 2011 (an average fall of 0.2% per year), before declining to €5,198 million in 2012 (a decrease of 1.4%).

Over the period between 2008 and 2012, the Group maintained its position as the leading player in the market for information technology products in France, [70] The Group outperformed the market, increasing its sales in 2012, at a time when the market for information technology products contracted by 1.4%. This resulted in an increase in the Group's market share in 2012.

6.4.1.4 Editorial Products

In this section, "editorial products" encompasses music, video, books and gaming.

6.4.1.4.1 Overview of the Editorial Products Retail Market

Generally speaking, sales of editorial products depend on the pace of annual releases (new albums, films, novels, and video games, etc.), which contributes to renewal of the available range, driving sales. Therefore, the level of sales in each editorial product is dependent on current trends.

As explained above, the editorial products market has been affected by the online revolution, which was accompanied by a process of dematerialization. This resulted in a profound and long-lasting shift that revolutionized this market, resulting in the destruction of the value of physical goods without any transfer of value to digital products, and in deflation, which varied depending on the segment (see section 6.4.1.1.2 (c) "Markets Affected by the Internet Revolution - Dematerialization of Editorial Products"). An average contraction of 4.9% per

69 After adjustments made for calendar effect. Web penetration corresponds to the market share of the internet sales channel.
70 Source: Company, based on GfK data

year in the editorial products market (excluding digital products) was observed between 2008 and 2011.

Since 2011, the sovereign debt crisis and the recession in the euro zone have exacerbated this situation. The economic environment has effectively increased the downward pressure on household income available for spending on editorial products, and has forced households to make further spending cuts. As a result, the editorial products market (excluding digital products) represented sales of around €6,345 million in 2012 as overall sales declined by 8.1% compared with 2011. However, over this period, the Group's sales declined by 5.7%[71] which resulted in FNAC's market share in editorial products (excluding digital products) increasing from 16.4% in 2011 to 16.9% in 2012. In 2011, Fnac's market share remained stable compared to 2010.

For the 2012-2015 period, the French editorial products (other than digital products) market is expected to decline between 4.0% and 7.0% per year.

6.4.1.4.2 Music

The music sub-segment has been revolutionized by the advent of digital music. Music sales on physical platforms (i.e. primarily CDs) have declined steadily since 2002, while the value assigned to this cultural medium has fallen sharply. Overall, the decline in the audio market observed in recent years can be explained by various factors:

- Lower online distribution and production costs than those observed in the physical market;
- Growth in multi-purchase offers on the physical audio product market;
- Dematerialization, which has resulted in the segmentation of spending habits, by giving consumers the opportunity to purchase tracks individually, thereby creating deflationary pressure, and
- A high structural level of piracy, which has resulted in a reduction in the size of the overall audio market.

Overall, the physical music market contracted by 50% in the five years between 2006 and 2011. In 2012, sales of physical CDs in France decreased by 11.9%, while digital sales increased by 13%[72]. Fnac expects CDs to be obsolete by 2020.

In 2012, digital music sales accounted for almost 25.6%[73] of the French market in value terms (compared with around 12.9% in 2009[74]). Alongside the development of downloads, new players like Spotify and Deezer are offering a range of "streaming" music, which means that audio files can be played without having to download them first. These players give their members two options: (i) a free subscription, with reduced levels of service and enjoyment, or (ii) a paid subscription, with no advertising. Although streaming is on the rise, generating

71 This figure corresponds to the revenues generated by Fnac in France in the audio, video, books and gaming segments, excluding stationery, BtoB and French online sales delivered internationally, and after adjustment for timing effects.

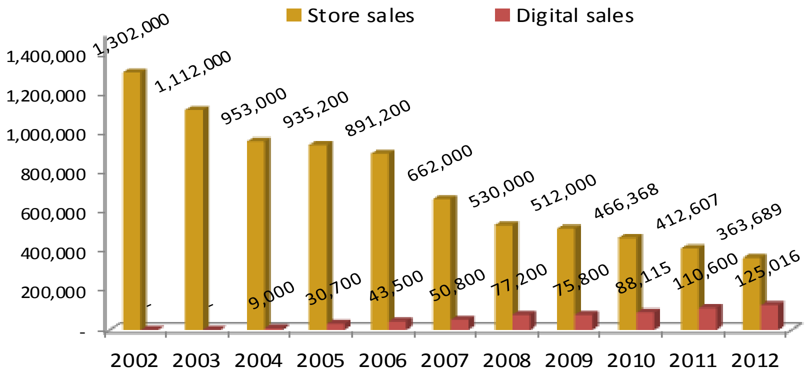
72 Source: French Phonographic Publishers' Union (*Syndicat National de l'Edition Phonographique, "SNEP"*)

73 Source: French Phonographic Publishers' Union

74 Source: French Phonographic Publishers' Union

€52.5 million in revenues in France in 2012, paid streaming subscriptions play a prominent role in income generation, generating revenues of €35 million in France in 2012[75].

Trend in recorded music sales (in € '000s)[76]



In 2012, Fnac remains the largest recorded music retailer in France[77] with approximately 200,000 catalog items available and some 14 million CDs sold. However, it should be noted that Fnac plans to reduce the in-store space dedicated to physical music, in order to focus on other products, while maintaining a full range of music on its website.

In the case of digital music sales, Fnac has chosen to partner with iTunes, by redirecting its internet users to the iTunes website as part of an affiliate program entered into with Apple in 2012.

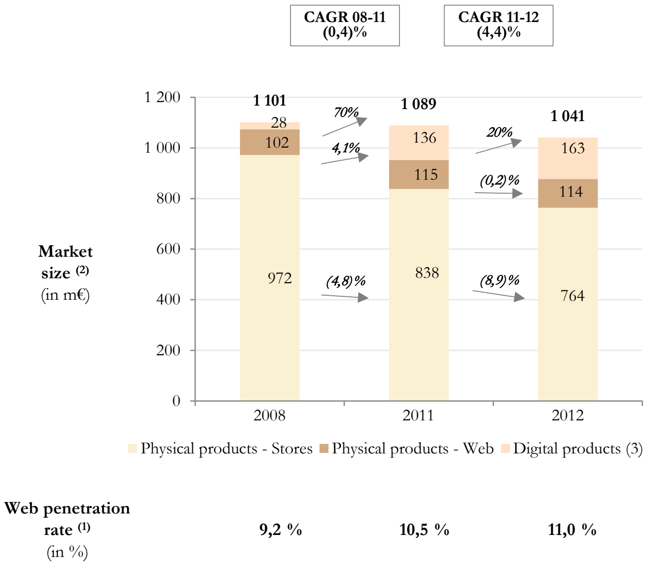
75 Source: French Phonographic Publishers' Union

76 Source: French Phonographic Publishers' Union. This chart presents publisher's sales and not retail sales. The market is calculated using the following statistical sample: Abeille, Believe, EMI, Harmonia Mundi, Naïve, Sony, Universal and Warner.

77 Source: Company, based on GfK data

6.4.1.4.3 Video

Like the music market, the video market is experiencing profound changes relating to online development and the dematerialization phenomenon. The following chart shows the trend in the video market over the period between 2008 and 2012 (in € million).[78]



The video market has seen a sharp decline in physical platforms (DVDs and Blu-Ray discs) in favor of digital product sales. In 2012, the physical product market was down 8.9% compared with 2011 for in-store sales, and by 0.2% for online sales. This decline in sales has been exacerbated by a deflationary trend for physical products, due partly to the development of ranges and box-sets including several DVDs. However, although DVDs are in sharp decline, Fnac has seen an increase in its Blu-Ray disc sales. Indeed, Blu-Ray offers a new format, and to a certain degree, consumers are not only purchasing new releases on Blu-Ray, but also replacing their existing DVD catalogs with Blu-Ray discs.

Over the period between 2008 and 2012, the decline in sales of physical products was partly offset by the development of digital products. In 2012, digital video sales accounted for approximately 15.7% of the market in value terms in France (compared with 2.5% in 2008). Sales of digital videos are expanding through VOD (or S-VOD, i.e. subscription-based VOD), the appearance of which has marked the arrival of a new form of competition in this market. VOD services, which are not offered by Fnac, are sold mainly via ISPs. VOD is experiencing strong growth in France.

Overall the video market contracted in 2012. In addition to the deflationary trend mentioned previously, this decrease can be explained by competition from other entertainment services, such as channels from satellite and cable services or digital terrestrial television (DTT), which includes the increase from seven to eighteen free channels. Furthermore, widespread piracy is increasingly affecting the video market. The video market in France is, however, structurally better protected against a loss in value resulting from dematerialization, because of the system regulating the release of video products, which specifically enables Fnac to promote its back catalog. Unlike the music market, the video market is restricted by regulations governing the timetable of media releases, which organize the availability of different media over time. Physical media and pay-per-view VOD services are both covered by these regulations which allow a media product to be marketed only after the expiration of a four-month waiting period

78 After adjustments made for calendar effect and excluding adult videos. Web penetration corresponds to the market share of the internet sales channel.

following the release of a film. Other media platforms, like S-VOD, free VOD or Pay TV Movie subscriptions, however, are bound by longer waiting periods, ranging from 10 months to four years. Pay-per-view VOD, wherein television services benefit from exclusive use within a specified operating window via a contractual agreement, is, however, not covered by these regulations. Physical media and pay-per-view VOD services are thus partly protected by this system. (See Section 6.7.8 "Legal Framework Governing the Film Release Timetable".)

Despite the development of digital products, the Group remains the largest player in the French video market in France[79] with 18 million DVDs and Blu-Ray discs sold in 2012.

6.4.1.4.4 Books

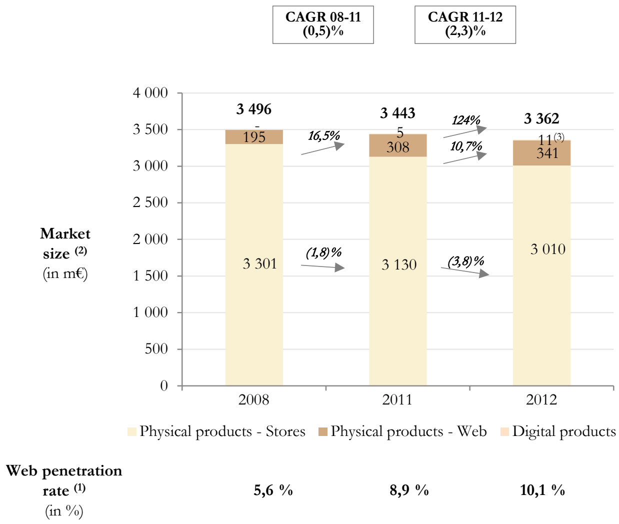
Compared to the accelerated dematerialization seen in the music and video markets, the French book market continues to be dominated by the physical medium.

E-books accounted for 0.3% of the total French book market in 2012, a very small proportion compared with the US market, where e-books accounted for around 15% of the market in 2012[80]. This slow digital adoption rate is primarily explained by regulatory protections that apply in France. The regulations in question effectively set book prices, prohibiting discounts of more than 5% of the price determined by the publisher. The regulations also require digital publishers to set a single retail price for the general public, which is imposed on all vendors targeting buyers in France. (See Section 6.7.3 "Regulations Applicable to Book Prices"). These regulations tend to reduce the price advantages of the e-book compared with physical books, which slows its growth. Although the French market remains more faithful to physical books than the U.S. market, e-book usage in the French market is showing steady growth. This growth is likely to be stimulated by lower prices for electronic readers and growing tablet ownership. In fact, although e-readers remain the most suitable devices in terms of reading comfort, consumers also read e-books on tablets, thereby increasing demand for digital formats, specifically content-enhanced products like interactive books.

In the market for physical books, the main recent development is the increase in online sales. Online sales of physical books accounted for 5.6% of this market in 2008 (in terms of value) and 10.1% in 2012.

79 Source: Company, based on GfK data
80 Source: Company assessment based on PwC and Bowker data.

The chart below shows trends in the book market over the period between 2008 and 2012 (in € million).[81]



As shown in the chart above, consumer spending levels in the book market have, as a whole, held up well over the period between 2008 and 2012. However, the decrease observed in 2012 reflects the effects of the economic environment and the specific situation of book retailers who, in accordance with applicable regulations, may not reduce prices by more than 5% off the price set by the publisher in order to boost sales. Certain secondary factors are also weighing down the book market, however, such as the fact that e-books tend to cost an average of 20% to 30% less than their physical counterparts, and the emergence of piracy, which remains a marginal phenomenon for books to date.

The Group considers itself to be well-positioned on the book market. Fnac benefits from a high level of consumer recognition on the physical book market. Meanwhile, the Group positioned itself early on the digital book market, with the launch of its *Kobo by Fnac* e-reader in late 2011, making Fnac one of the market leaders on the e-reader and e-book markets. In recent years, improvements in the user-friendliness and ergonomics of e-readers have stimulated sales of these products. Sales of e-readers have increased dramatically, from about 27,000 units in 2010 to 300,000 in 2012[82], and sales are expected to remain strong as the price of e-readers continues to fall.

Fnac is the leading bookseller in France[83] with over 380,000 titles available via catalog and 48 million books sold in 2012. In 2012, the Group's performance on the book market was in line with market trends, reflecting the stability of the Group's positions.

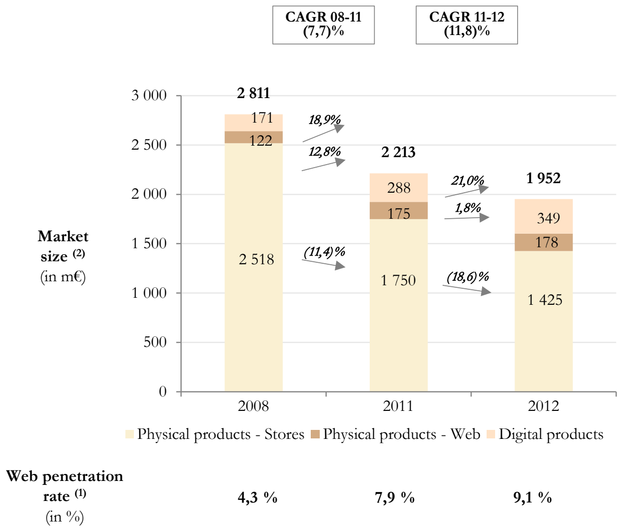
6.4.1.4.5 Gaming

The gaming market (video games and hand-held and home consoles) is strongly driven by the release of new consoles, on the one hand, and the release of new video games, on the other, and both factors have the potential to stimulate the market. Indeed, sales usually increase following the launch of a new console, at the same time as sales also increase for video games that are compatible with the new console. Likewise, the success of a new video game or of a new version of a video game can generate a growth phase on the gaming market. Although growth periods associated with the release of a new console are generally longer than those

81 After adjustments made for calendar effect and on the basis of an estimate of the size of the e-book market. Web penetration corresponds to the market share of the internet sales channel.
82 Source: GfK
83 Source: Company, based on GfK data

associated with the release of a new video game, both events have the potential to sustain the market.

The gaming market is currently at a low point in the innovation cycle, brought about by the end of the life cycle of the two main home consoles: Sony PlayStation 3 and Microsoft Xbox 360. With the exception of the Nintendo Wii U, which was released in late 2012, the gaming market has seen only a small number of new consoles launched in the recent past. This market has been declining since 2008, as shown by the following chart (in € million).[84]



As this chart shows, there has been a decline in the total value of the gaming market, which decreased from €2,811 million in 2008 to €1,952 million in 2012, for a decline of 30.6%.

The gaming market (particularly the PC games segment) has been affected by the online revolution and the ensuing dematerialization phenomenon. Digital game sales are booming and are expected to continue to experience strong growth in terms of total value. Specifically, the success of tablets and smartphones makes it easier to access platforms where consumers can play digital video games, and stimulates growth in this market. Likewise, the development of the internet has led to a broadening of the competitive field and to the emergence of new competitors. Online gaming is offered by digital platforms, such as Steam, Metaboli, EA Store, Windows Marketplace and Gamersgate, as well as by some console manufacturers, such as Sony with its PlayStation Store and Microsoft with its Xbox Games Store.

Only high-quality, high-end physical video games that require significant storage capacity and powerful components are withstanding the dematerialization phenomenon affecting the gaming market. However, the joint expansion of the digital gaming market and the second-hand market has resulted in deflation in the gaming market, particularly impacting online sales of video games that can be played on PCs and tablets. In fact, a second-hand market has developed for physical video game cartridges in recent years. In 2012, this market accounted for around 40% of the overall gaming market[85].

The release of a new generation of consoles is expected soon (in late 2013 or early 2014) and is likely to give rise to a new ownership cycle. A slight rebound in the gaming market is therefore anticipated.

84 After adjustments made for calendar effect. Web penetration corresponds to the market share of the internet sales channel.
85 Source: Company assessment.

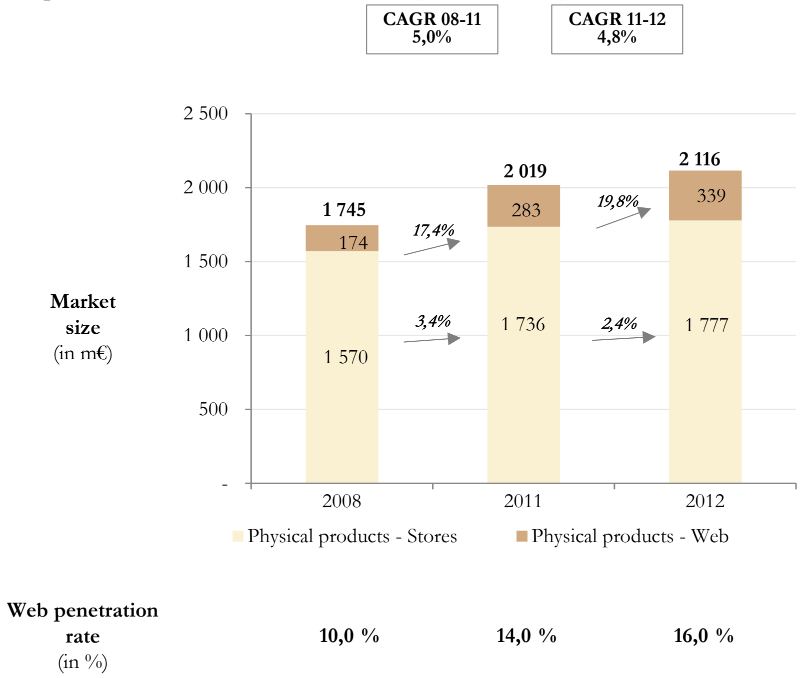
Fnac estimates that it is the leader on the French gaming market with 3.9 million products sold in 2012. For the past three years, Fnac has increasingly strengthened its market share by launching a video game return service for second-hand games (which are then sold in-store) coupled with a dedicated gaming loyalty program (Fnac Gaming) which had 1.2 million members at the end of 2012.

6.4.1.5 New Products

6.4.1.5.1 Small Household Appliances

The small household appliance market includes products relating to the following areas: food preparation, electric cooking, home care, personal care and laundry care. In Fnac's case, the small household appliances sub-segment also includes cooking utensils.

This market has grown steadily in recent years. The average market growth rate for the period between 2008 and 2011 was 5.0% per year. In 2012, the market grew by 4.8% to approximately €2.1 billion. The chart below shows the trend in the small household appliance market over the period between 2008 and 2012 (in € million).[86]



This recent market growth is mainly due to a new innovation cycle for certain household products, such as vacuum-cleaner robots, capsule espresso machines, beer machines, soda machines, and dental hygiene devices, for instance. Growth is also due to more significant polarization in range levels, as a significant high-end designer segment has emerged to match the profile of Fnac's customers.

At a time when competition between retailers is intensifying, online penetration of this market has increased from 10.0% in 2008 to 16.0% in 2012.

For the 2012-2015 period, the French small household appliance market is expected to grow between 2.8% and 4.3% per year.

In this market, Fnac has chosen to position itself in a narrow and selective range of technological, high-end, and designer appliances. It aims to focus on product lines that are

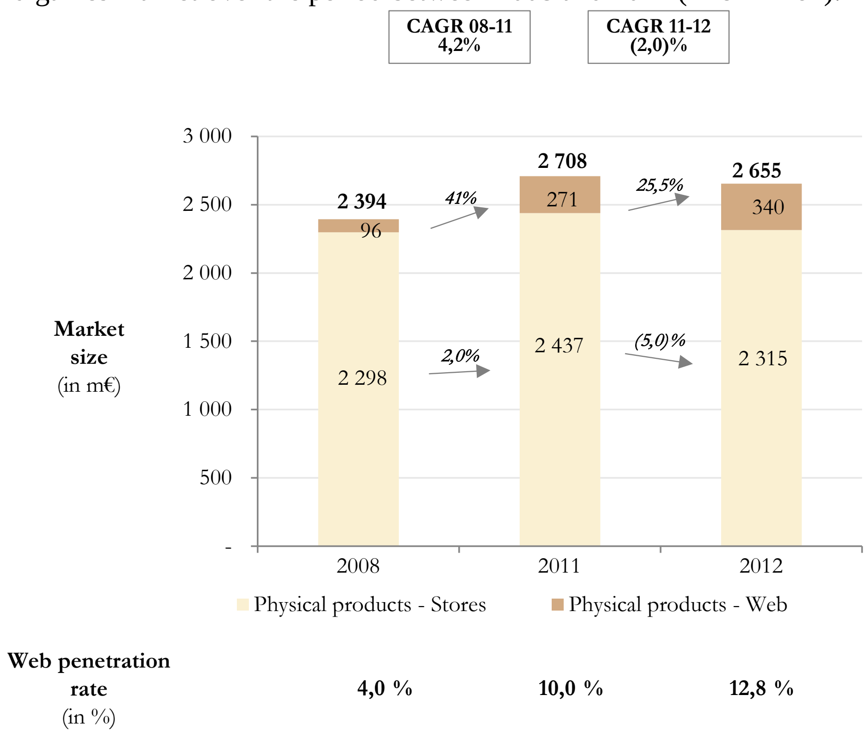
86 Web penetration corresponds to the market share of the internet sales channel.

experiencing strong growth with high per unit sale prices, meaning that it will not be directly competing with core market brands like Darty or the Cdiscount website. Fnac is a new player in the small household appliance market in France, and this segment's 2012 revenues were not representative, due to the recent launch of this range. However, Fnac has seen a ramp-up in these revenues as a result of the launch of these products in 65 stores in 2012.

6.4.1.5.2 Toys & Games

The French toy market is robust compared with that of other European Union countries, with average spending on toys per child of €242 in 2011, compared with only €230 in other EU countries[87]. This market also has a high potential for renewal, with a renewal rate of around 40% every year[88]. In addition, prices remain relatively stable due to the high quality requirements on the French market.

The toys and games market has grown steadily in recent years, from €2,394 million in 2008 to €2,708 million in 2011, representing an increase of 4.2% per year. In 2012, the market declined slightly to €2,655 million (a decrease of 2.0%). The chart below shows the trend in the toys and games market over the period between 2008 and 2012 (in € million).[89]



This market is particularly seasonal, however, and is characterized by a very marked peak in business as holiday season approaches, i.e. during the months of October, November, and especially December.

Competition on the toy market primarily comes from specialized retailers, such as La Grande Récré, King Jouet, Maxitoys, Oxybul and Toys 'R' Us, as well as from supermarkets, such as Leclerc, Carrefour, Auchan, and Géant, which account for approximately 85.6% of the

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87 Source: French Federation of Toy and Nursery Industries (*Fédération Française des Industries Jouets Puériculture* , "FJP")

88 Source: FJP

89 Web penetration corresponds to the market share of the internet sales channel.

market. [90] Online retailers are increasingly entering the market with an online penetration rate of 12.8% in 2012 compared with 4.0% in 2008.

For the 2012-2015 period, the French toys & game market is expected to grow between 3.0% and 4.2% per year.

Due to the recent launch of its toys and games range, Fnac's revenues in this segment were non-representative in 2012. Revenues increased by around 73% in 2012, nonetheless, which is in line with the Group's expectations, given that this range was developed in response to customer demands.

6.4.1.6 Ticketing and Box Office Services

The French ticketing and box office services market primarily includes the sale of tickets for museums, plays, concerts, sporting events, exhibitions and amusement parks. Fnac's ticketing and box office services arm consists of selling tickets for these events, as well as sales management (including IT support, fee management, and relations with partners, etc.). From a structural standpoint, the market is highly dependent on current trends in this field, as it is in the various editorial products markets.

Online penetration and dematerialization (i.e. the development of e-tickets) are growing phenomena in the French ticketing and box office services market. In 2012, Fnac generated almost 50% of its ticket sales online. Thanks to its two online ticket sales platforms (fnacspectacles.com and francebillet.com), its iPhone application and its two Android applications, Fnac believes that it is well-placed to benefit from the sharp increase in online purchases in this market. Fnac also has over 5,800 affiliated websites, which it either directly manages or runs through an affiliation platform.

In the ticketing and box office services market, there has been a trend towards consolidation among competitors, such as the 2010 takeover of Ticketnet by Livenation, or the 2010 purchase of Digitick by Vivendi, as well as the entry of new competitors offering very attractive prices. To respond to these developments, Fnac has entered into a partnership with Groupon, in order to strengthen its positioning in promotional offers (See Section 6.5.2.3.2 "Fnac Ticketing and Box Office Services"). In addition, the ticketing and box office services sector has witnessed growing disintermediation, insofar as venue managers and event organizers are increasingly marketing and selling tickets directly, without using third parties like Fnac. When it acquired 100% of Kyro in 2011, France Billet gained a proprietary software solution, which can provide venues and show producers with a comprehensive ticketing solution. Kyro now caters to 110 customers, including theaters, sports facilities, producers, events like Marseille 2013, etc.

Fnac has a ticketing and box office services and performance division, "France-Ticket", which enjoys a 50% market share[91] and is the number one competitor in ticketing and box office services for shows and cultural events. Ticket sales at Fnac have been relatively stable in recent years, with 13.3 million tickets sold in 2010 and 2011 and almost 13 million tickets sold in 2012. In 2012, Fnac consolidated its position in the ticketing and box office services segment, by taking advantage of the strong growth in this sector during the second half of the year. At the end of the year, sales relating to one-time performances highlighted the capacity of Fnac's technologies to sell large volumes of tickets within a very short timeframe. Fnac also strengthened its partnerships with major producers and suppliers, in order to develop exclusive features, such as exclusive sales, and preferential discounts.

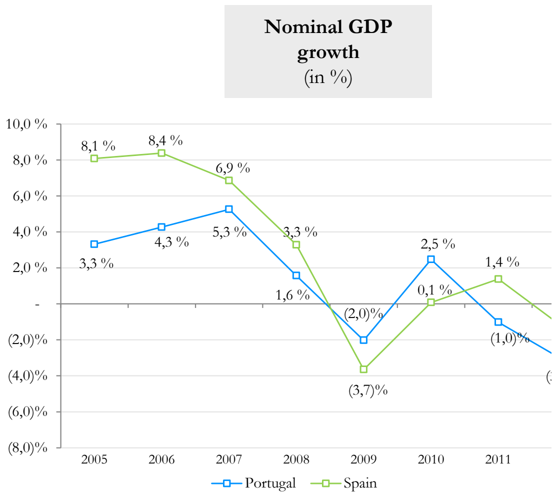
90 Data for 2010. Source : FJP
91 Source: Company estimate (based on the ticket retailer market).

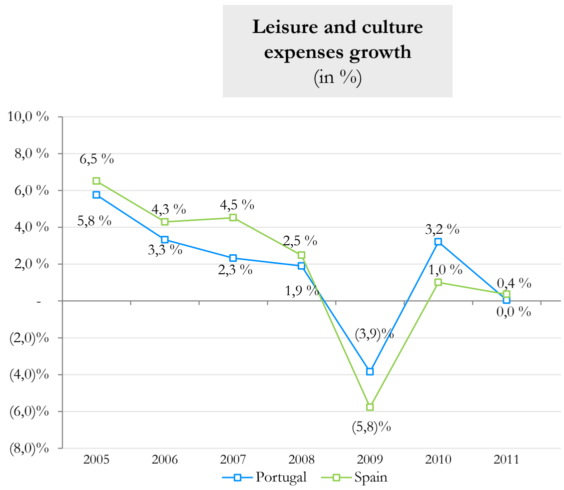
6.4.2 Fnac's Markets in the Iberian Peninsula

The Iberian Peninsula is Fnac's second largest market. It accounted for nearly 17% of Fnac's consolidated revenue in 2012 and approximately 24% of the current operating income, before Kering management fees. Fnac opened its first store in Spain in 1993 and its first store in Portugal in 1998 (See Section 6.5.1.2 "Iberian Peninsula".)

6.4.2.1 Characteristics of Fnac's Markets in the Iberian Peninsula

Similar factors and trends as those observed in France also influence the consumer electronics and editorial products markets in the Iberian Peninsula. Specifically, growth in these markets appears to be highly correlated to changes disposable household income. The following charts show changes in nominal GDP, between 2005 and 2012 in Spain and Portugal compared to Spanish and Portuguese consumer spending on entertainment and leisure products for the same period:





Between 2008 and 2011, household spending on entertainment and leisure products, including consumer electronics and editorial products, decreased by an average of 1.5% per year in Spain, while increasing by 0.8% per year in Portugal. In 2012, nominal GDP in Spain and Portugal declined by 1.4% and 3.2%[92]respectively, resulting in a significant decrease in household consumer spending on entertainment and leisure products.

This decrease can be explained by the severe economic downturn in countries since the end of 2008. It can also be explained by factors also observed on the French market, as outlined above, including (i) an increase in the share of primary consumer spending and (ii) a decline in price levels in each product category. (See Section 6.4.1.1.1 "Markets that are Primarily Correlated to Households' Disposable Income".)

In addition, as is the case in France, these markets have been affected over the past few years by the expansion of the internet. This development has had two effects. First, it has prompted a rise in e-commerce, which has changed spending habits and increased competition from pure online players, particularly in terms of price competition, although the e-commerce penetration rate is currently lower in the Iberian Peninsula than that it is in France. Second, it has also has encouraged the dematerialization of editorial products, and changed consumption patterns by promoting digital products, which are usually cheaper. Dematerialization has also generated a higher level of piracy than the level usually observed in France.

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92 Source: Preliminary estimates issued by the IMF and the INE.

In 2013, the Iberian Peninsula is expected to remain in a recession, with the IMF estimating a decline in gross domestic product of 1.6% in Spain and 2.3% in Portugal.[93]

6.4.2.2 Consumer Electronics

In this section, "consumer electronics" refers to products relating to photography, television and video, audio and information technology products (including telecommunications).

The consumer electronics market was very sluggish in the Iberian Peninsula in 2012. In value terms, it decreased by 11.0% compared with 2011 and amounted to €6,287 million. The photography and audio markets were particularly affected, posting respective declines of 20.8% and 19.6% (in value terms), while the television-video and information technology products markets (including telecommunications) contracted by 15.1% and 5.3%, respectively.

However, the Group outperformed the market in 2012, with a slight increase in overall sales of 0.5%[94]. The trend in the Group's sales relative to competitors led to an increase in Fnac's market share in consumer electronics in the Iberian Peninsula. Its share of this market increased from 5.6% in 2011 to 6.3% in 2012. This corresponds to a 2012 market share of 4.1% in Spain and of 15.3% in Portugal.[95]

For the 2012-2015 period, the consumer electronics market in the Iberian Peninsula is expected to decline between 2.0% and 5.0% per year.

6.4.2.3 Editorial Products

In this section, "editorial products" encompasses music, video, books and gaming products.

The editorial products market (excluding digital products) saw an overall decrease of 15.5% in 2012 compared with 2011, and represented sales of €2,217 million. The gaming market was hit particularly hard, with a fall of 23.3% (in value terms), while the markets for books, music and video contracted by 11.1%, 12.7% and 12.8%, respectively. In Spain, a reduced VAT rate of 4% on book purchases remains in effect.

However, the Group outperformed the market in 2012, with a decrease in sales of only 8.8%[96]. The trend in the Group's sales relative to competitors led to an increase in Fnac's market share in the Iberian market for editorial products. This market share increased from 11.1% in 2011 to 12.0% in 2012.

For the 2012-2015 period, the editorial products (other than digital products) market in the Iberian Peninsula is expected to decline between 4.3% and 7.3% per year.

6.4.2.4 Competition

In the Iberian Peninsula, Fnac faces three main types of competitors in the retail markets for general entertainment and leisure products and consumer electronics: (i) generalist large-scale retailers (hypermarkets), (ii) traditional retailers, some of which have also developed an online product lines under their own brand names, and (iii) pure online players.

93 Source: IMF, April 2013.
94 This figure corresponds to the revenues generated by Fnac in the Iberian Peninsula on the photography, television and video, audio and personal computing segments, including telecommunications.
95 Source: GfK
96 This figure corresponds to the revenues generated by Fnac in the Iberian Peninsula on the audio, video, books and gaming segments, excluding stationery.

- *Spain* - Aside from large-scale generalist retailers (hypermarkets), FNAC's main competitors in Spain are traditional retailers who offer products to their customers through a network of physical points of sale and a website, such as El Corte Inglés, Casa del Libro and Media Markt. (Media Markt is a subsidiary of the Metro Group, which has very strong purchasing power in Europe.) These companies offer either a generalist range (El Corte Inglés), a specialty editorial products range (Casa del Libro) or a consumer electronics range (Media Markt). All three brands have an established reputation among the general public. El Corte Inglés and Casa del Libro have been operating on the Spanish market for over fifty years and have a presence in most major cities in Spain. The Corte Inglés Group opened a new shopping mall in Cordoba in May 2012. Media Markt has been operating in Spain for 14 years and is a leading player in the Spanish consumer electronics market and in Europe in general. The already heavy competition in Spain was exacerbated by the arrival of Amazon in September 2011. However, in March 2013, Saturn announced its withdrawal from Spain, closing four of its stores and selling four others to Media Markt. Fnac believes that the leading vendors of consumer electronics in the Spanish market are the hypermarkets and El Corte Inglés. The third most important competitor is the specialist retailer Media Markt Saturn and Fnac is in fourth place. In the editorial products market, Fnac estimates that the top competitors are also the hypermarkets and El Corte Inglés, while the third and fourth actors are Casa del Libro and Fnac, respectively. The major multi-product actors on the internet are El Corte Inglés, Amazon, and Mercadona.

- *Portugal* - Fnac's main competitors in Portugal are specialist click & mortar retailers like Worten and Media Markt in consumer electronics, and Bertrand Bookshops and Leya Bookshops in editorial products. El Corte Inglés also has a significant share of this market. Pure internet players, specializing in editorial products (Wook, Bertrand) or consumer electronics (Pixmania, Box, Radio Popular) also provide serious competition. As is the case in France, the competitive advantage of pure players in the Iberian Peninsula is derived from low prices and a very extensive product range. Wook, one of Fnac's major competitors in the Portuguese market, is the online bookstore set up by Grupo Porto Editora, the country's leading publishing group, which has been operating in Portugal for over 50 years. Likewise, the Media Markt retail group, which operates in most European countries, has a presence in Portugal, and is one of the leading consumer electronics retailers in the country. Fnac estimates that the leaders in the Portuguese consumer electronics market are, in the order of importance: Worten, Fnac, Media Markt and El Corte Inglés. Fnac considers itself to be the retail distribution leader in the Portuguese editorial products market, alongside the supermarket chains, with Bertrand Bookshops and Leya Bookshops, taking third and fourth place respectively.

In the Iberian Peninsula, ISPs and information technology manufacturers have not been a source of significant competition for Fnac to date (with the exception of Apple). In the case of consumer electronics, few manufacturers have opened stores on the Iberian Peninsula. However, Sony has opened two Sony Stores in Spain, one in Barcelona and another in Madrid. Meanwhile, the Apple brand has 10 stores in Spain's major cities.

6.4.3 Fnac's Markets in Brazil

As is the case in France and in the Iberian Peninsula, the Brazilian market for the distribution of entertainment and leisure products (including consumer electronics) is correlated to disposable household income. This market is characterized by the same trends towards the dematerialization of editorial products and the development of e-commerce that has affected

European markets. In Brazil, Fnac's market share was approximately 4.3% for editorial products and 0.7% for consumer electronics in 2012[97].

Fnac's main competitors in Brazil are traditional retailers that have also developed online product lines under their own brand name. These retailers either offer a general range of products, as Pernambucanas, Magazine Luiza, and Colombo do, or a specialized product range. Specialized sellers include Livraria Saraiva, Livraria Cultura in editorial products or Ricardo Eletro, Casas Bahia, CTIS and Fast Shop, in the consumer electronics market. These competitors benefit from a high level of name recognition among the general public. For instance, the chain Magazine Luiza has been present in Brazil for over 50 years and is one of the major national retail chains, with over 600 stores throughout the country. In addition, competition from pure internet players intensified in Brazil in 2012 with the launch of Amazon's Brazilian website. Amazon's product range in Brazil includes 1.4 million books, including 13,000 books in Portuguese.

6.4.4 Fnac's Markets in Other Countries

In Belgium and Switzerland, the market for entertainment and leisure products (including consumer electronics) has the same features as the other European markets where Fnac operates: there is a strong correlation between market size and the disposable household income allocated to consumer spending on entertainment and leisure products, there has been a significant increase in e-commerce, and editorial products have become increasingly dematerialized.

In Belgium, Fnac's market share for editorial products is around 10.5% and 3.4% for consumer electronics[98]. Fnac's main competitors in Belgium are traditional retailers that sell products through a network of physical points of sale and/or a website. Certain sellers specialize in editorial products, like Staandard Boekhandel, Club, and Free Record Shop. Other sellers specialize in consumer electronics, such as Media Markt, Saturn, Krëfel and Vanden Borre. Most of these competitors have been operating on the Belgian market for many years. Media Markt and Saturn have had a presence in Belgium for ten years. They are both subsidiaries of the German Metro Group, which has very strong purchasing power in Europe.

In French-speaking Switzerland, the Company's market share for editorial products is approximately 36.7% and 7.7% for consumer electronics[99]. In Switzerland, the Group's main competitors are traditional retailers that have also developed an online presence under their own brand name, and may specialize in editorial products, as Payot does, or in consumer electronics, as Media Markt, Inter Discount, Migros and Fust do. Media Markt, one of the Group's main competitors on the Swiss market, has been present in Switzerland since 1994. In a very recent competitive trend, one pure internet player, Digitech, has opened a store in Lausanne, with in-store pricing identical to those found on its website. Moreover, Manor, a department store which remains a significant player in city centers, has intensified its strategy of competing on the basis of price.

6.4.5 Sources for Certain Information Included in Sections 6.4.1 and 6.4.2

Unless stated otherwise, the figures included in Section 6.4.1 "Fnac's Markets in France" and Section 6.4.2, "Fnac's Markets in the Iberian Peninsula" are derived from the research and estimates prepared by the external consulting firm Accuracy.

97 Source: GfK (including online sales).
98 Source: Company estimate
99 Source: French-speaking Switzerland market share (PBE FNAC)

This work was performed by Accuracy at the request of both the Company and Kering within the framework of the admission to trading of the Company's shares and in order to ensure the consistency of the cited market sources in this prospectus. The Company and Kering entrusted Accuracy with an assignment to research the French consumer electronics and editorial products markets, as well as, to a lesser degree, those in the Iberian Peninsula.

To prepare these estimates, Accuracy examined the products sold by Fnac, Fnac's markets and Fnac's market share, based on market data and publicly available information regarding the Group's competitors. Although Accuracy held discussions with the Group's management, it reached its conclusions independently, based on its own assessment of the Group's business, as well as on available information regarding Fnac's markets.

As part of its work, Accuracy familiarized itself with the information published by various reference sources like GfK, INSEE, Médiamétrie, the World Bank and the OECD, in order to assess, and, where appropriate, adjust, Fnac's assumptions. Accuracy also assessed Fnac's sales, pricing and market share trends based on information provided by management, which was adjusted in light of its reliability external data, and historical trends.

It is noted that the forecasts included in Section 6.4.1 "Fnac's Markets in France" and Section 6.4.2 "Fnac's Markets in the Iberian Peninsula" are considered reasonable as of the date of the visa on this prospectus, but are subject to change as a result of certain factors, including the macro-economic and financial environment, competition, the regulatory environment, as well as technical evolutions. Please see this Section 6.4 "Market Overview" for a detailed analysis of structural factors affecting the Group's markets.

There are no ownership ties between Accuracy or its representatives and Group companies or Kering Group companies.

6.5 BUSINESS OVERVIEW

6.5.1 Geographical Breakdown

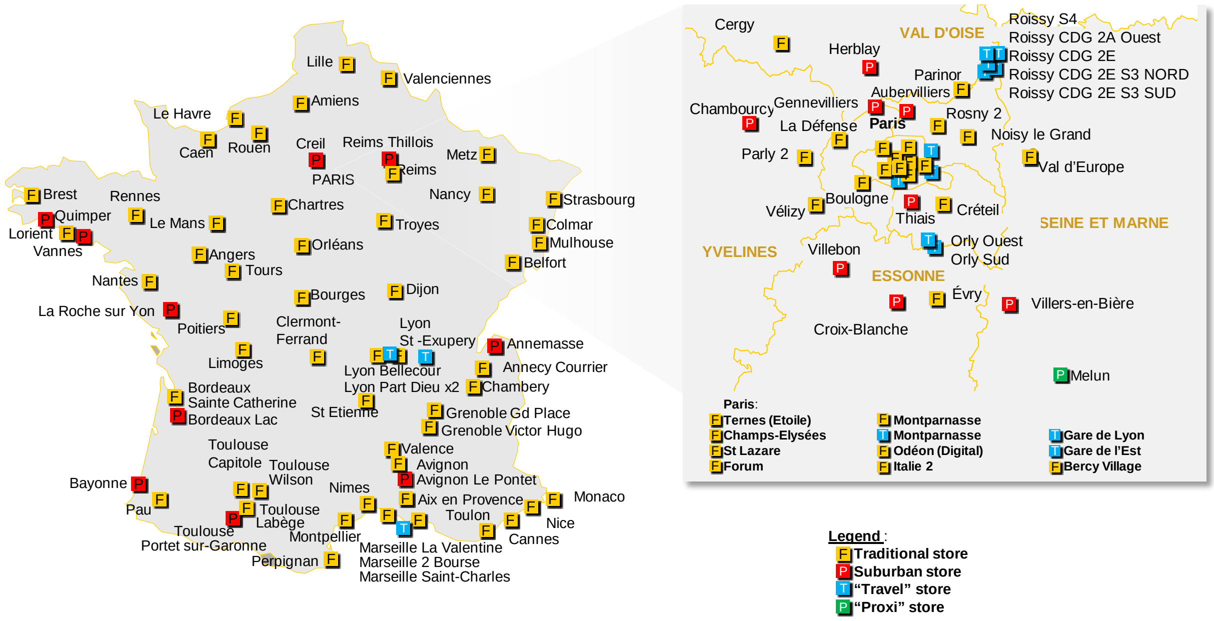
As the leading retail distributor of entertainment and leisure products (including consumer electronics), Fnac is a strong market player in France. The Group also maintains operations internationally in six countries: Spain, Portugal, Brazil, Belgium, Switzerland and Morocco. The Group conducts its business through both a network of stores and e-commerce websites, making it a "*click & mortar*" company.

6.5.1.1 France

At year-end 2012, Fnac's retail network in France included 103 stores, 88 fully-owned stores and 15 franchises. The Group's retail network has grown in terms of concentration in Paris and other large cities since the opening of the first store in Paris in 1957. Fnac's website Fnac.com, launched in 1999, is the third largest French e-commerce website, based on average unique visitors per month.[100]

The map below illustrates the geographic breakdown of Fnac's stores in France at year-end 2012, as well as the corresponding store formats (as described in Section 6.5.3.1.2 "Store Formats"):

100 Source: Médiamétrie/Netratings, December 2012 (excluding travel websites)



In 2011, despite a challenging economic and competitive landscape, in line with the "Fnac 2015" strategy plan, Fnac resumed opening new stores, opening five new stores in suburban and city-center locations, expanding and remodeling three stores in Paris and the Greater Paris Area, and launching its travel format store format with the opening of six stores in train stations and airports. In 2012, Fnac continued expanding, including:

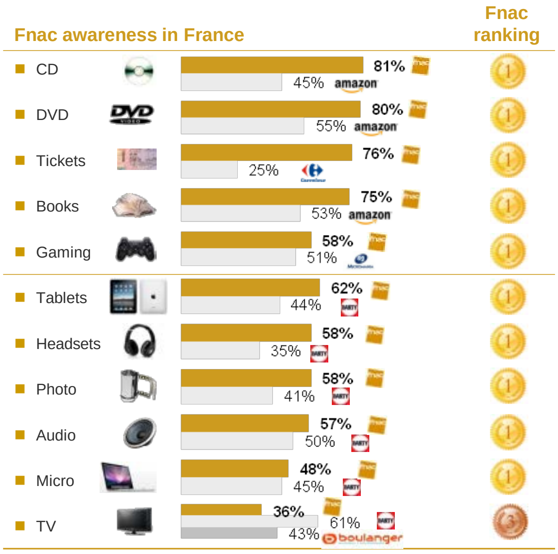
- opening three new stores: in Paris (Bercy), Quimper and Chambourcy;
- expanding and remodeling two stores: Rosny 2 and Metz, both of which included the rolling out of new commercial lines;
- opening the Group's first franchises (excluding the Lagardère Services partnership): La Roche-sur-Yon (suburban format) and Melun (proximity format); and
- opening seven stores in train stations and airports.

During the first quarter of 2013, the Group opened an additional 'travel' store in the Marseille airport.

In France, Fnac is the leading retail distributor of entertainment and leisure products (based on revenues from all sales channels) in terms of the traffic it generates, its sales, and its range of offered products. Fnac is the leading bookseller, and the leading retailer of physical music, video products, IT products, and photography products.[101] (See Section 6.4.1.3 "Consumer Electronics" and Section 6.4.1.4 "Editorial Products".)

Fnac's brand has strong brand recognition, as illustrated in the chart below, which ranks Fnac's spontaneous brand recognition ranking in each retail product segment:

101 Ranking source: Company, based on GfK data

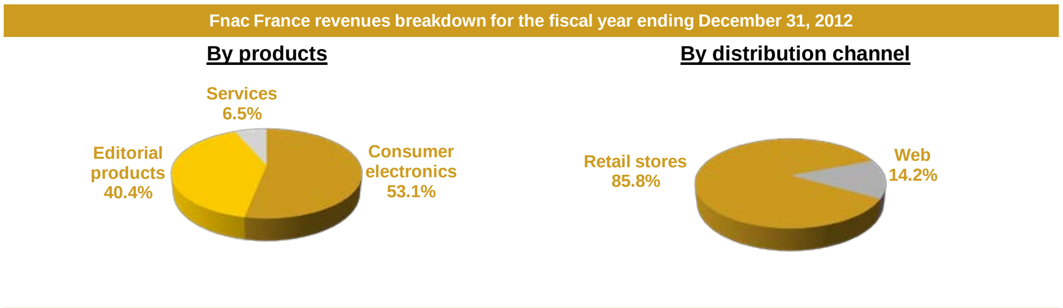


Source: Harris "Baromêtre produits été 2012"

Fnac generated revenues of €2,838.8 million in France in 2012, and current operating income (before Kering management fee) of €55.6 million (across all sales channels). The table below illustrates the breakdown of sales by product and service in 2012.

	2012 revenues (in € million)	As a percentage of total revenues in France
Consumer electronics	1,507.4	53.1%
Editorial Products	1,145.7	40.4%
Services	185.7	7.5%
Total	**2,838.8**	**100.0%**

Revenues generated in France (across all sales channels) were broken down as follows at the end of 2012:

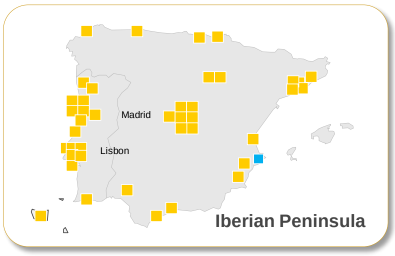


In 2012, Fnac had approximately 20 million customers in France (i.e. the number of people who made at least one purchase).[102] Among Fnac's customers in France, approximately 3.2 million were members of its customer loyalty program.

6.5.1.2 Iberian Peninsula

At year-end 2012, Fnac's retail network in the Iberian Peninsula included 42 stores and generated consolidated revenues of €683.3 million and current operating income (before Kering management fee) of €17.7 million (across all channels).

The following map illustrates the location of Fnac's stores in the Iberian Peninsula at year-end 2012.



6.5.1.2.1 Spain

At year-end 2012, Fnac's retail network in Spain included 25 stores, including one "travel" store located in the Valencia train station. The Spanish stores are designed based on the same concept as those in France and sell the same products as those sold in France, with necessary adjustments to tailor Fnac's offering to Spanish consumer preferences (for example, musical instruments).

Fnac's first Spanish store was opened in Madrid in 1993 and fnac.es was launched in 2000. Over the past few years, Fnac has not only maintained, but has expanded its network in Spain, opening three new stores (two in Madrid and one in Barcelona) in 2011, and one new store in Madrid in 2012.

According to a TNS Sofres study conducted in March 2011, Fnac was the leading Spanish retailer of entertainment and leisure products in terms of "top-of-the mind" popularity (i.e. the

102 Source: BVA Survey, February 2013.

number of times a brand is mentioned in first place in independent awareness surveys) and was tied with El Corte Inglés in terms of spontaneous recognition.

Spain is the second largest contributor to Fnac's global revenues, generating €414.4 million in 2012 (across all channels), or approximately 10.2% of Fnac's consolidated revenues.

In 2012, the majority of Fnac's Spanish revenues were generated in the consumer electronics category (approximately 54%), while editorial products accounted for approximately 43%, and other products and services about 3% of Spanish revenues. The table below provides a breakdown of product and service sales in Spain in 2012.

	2012 revenues (in € million)	**As a percentage of total revenues in Spain**
Consumer electronics	223.5	54%
Editorial products	178.9	43%
Services	11.9	3%
Total	**414.4**	**100%**

In-store sales accounted for 92.8% of the Group's revenues in 2012, as compared with 7.2% for internet sales. The fnac.es website offers 500,000 products and is Spain's seventh most-visited e-commerce site.[103] The fnac.es site generated more than 20 million visitors in 2012.

In 2012, Fnac had 10.5 million customers in Spain (i.e. the number of people who made at least one purchase) out of over 35 million store visitors, around 602,000 of which are members of its customer loyalty program.

6.5.1.2.2 Portugal

Fnac's retail network in Portugal includes 17 stores, which are designed based on the same concept and offer the same catalog of products as the Fnac's French stores, and sell the same products as those sold in France, with necessary adjustments to tailor Fnac's offering to Portuguese consumer preferences. Fnac's first Portuguese store (Colombo Shopping Mall) opened in Lisbon in 1998, and the fnac.pt website was launched in 2002.

Fnac Portugal generated revenues of €268.9 million (across all sales channels) in 2012. Fnac Portugal generated approximately 64% of its revenues from consumer electronics, compared to 34% from editorial products and about 2% from other products and services. The table below provides a breakdown for product and service sales in Portugal in 2012.

	2012 revenues (in € million)	**As a percentage of total revenues in Portugal**
Consumer electronics	173.2	64%
Editorial products	90.6	34%
Services	5.1	2%
Total	**268.9**	**100%**

103 Source: alexa.com

In-store sales accounted for 92.8% of revenues in 2012, as compared with 7.2% for internet sales. The fnac.pt website offers 390,000 products and is Portugal's largest e-commerce site, with a market penetration rate of 27%.[104]

Fnac had 27 million store visitors in Portugal in 2012, including 6.3 million customers (i.e. the number of people who made at least one purchase), 500,000 of which were members of the Fnac customer loyalty program.

6.5.1.3 Brazil

Fnac's retail network in Brazil includes 11 stores, each of which is designed based on the same concept as Fnac's French stores, and a website, Fnac.com.br. Fnac's first Brazilian store opened in São Paulo in 2000. Fnac opened another store in in Goiania in 2012.

The following map illustrates the location of Fnac's stores in Brazil at the end of 2012:

Fnac generated revenues of €227.5 million (across all channels) in Brazil in 2012 and a current operating loss (before Kering management fee) of €5.7 million. Approximately 66% of such revenues were generated in the consumer electronics category, as compared with approximately 31% in editorial products and approximately 3% in services.

The table below provides a breakdown of product sales in Brazil in 2012.

	2012 revenues (in € million)	**As a percentage of total revenues in Brazil**
Consumer electronics	149.7	66%
Editorial products	71.7	31%
Services	6.1	3%
Total	**227.5**	**100%**

In-store purchases accounted for 83.8% of revenues in 2012 compared with 16.2% for online sales. Fnac's Brazilian website (Fnac.com.br) offers around 590,000 products for sale.

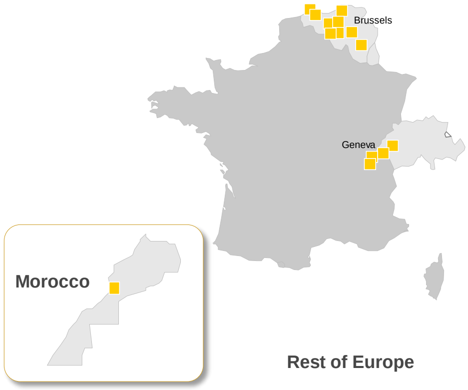
Fnac had 3.0 million customers in Brazil in 2012 (i.e. the number of people who made at least one purchase), approximately 190,000 of which were members of the Fnac loyalty program..

104 Source: Google

6.5.1.4 Other Countries

At year-end 2012, Fnac's Other Countries network included 13 stores and generated consolidated revenues of €311.5 million in 2012 and current operating income (before Kering management fee) of €5.7 million (across all channels).

The following map illustrates the location of Fnac's stores in Other Countries at year-end 2012.



6.5.1.4.1 Belgium

Fnac's retail network in Belgium includes nine stores, each of which is designed on the same concept as and sells the same products as Fnac's French stores, though with adjustments to tailor product offerings to Belgian consumer preferences. Fnac's first Belgian store opened in Brussels in 1981, and the fnac.be website was launched in 2006.

Fnac Belgium generated revenues of €193.4 million in 2012, across all channels. Fnac generated 55% of these revenues from consumer electronics, as compared with 43% from editorial products and 2% from services.

The table below illustrates the breakdown of product sales in Belgium in 2012.

	2012 revenues (in € million)	**As a percentage of total revenues in Belgium**
Consumer electronics	106.0	55%
Editorial products	83.3	43%
Services	4.1	2%
Total	**193.4**	**100%**

In-store purchases accounted for 99% of revenues in 2012 compared with 1% for online purchases. Fnac's Belgian website (fnac.be) has been operated via Fnac.com since April 2012, and sells the full Fnac.com product range, i.e. almost 10 million products.

in 2012, Fnac had 4 million customers in Belgium (i.e. the number of people who made at least one purchase), 318,000 of which were members of the Fnac customer loyalty program.

6.5.1.4.2 Switzerland

Fnac’s retail network in French-speaking Switzerland includes four stores, each of which are designed based on the same concept as the stores in France, and sell the same product lines as those sold in France, with adjustments to tailor to Swiss consumer preferences. Fnac’s first Swiss store was opened on Rue de Rive, Geneva, in 2000.

The fnac.ch website, launched in 2004, has limited functions, and focuses primarily on services such as ticketing and box office services, gift boxes, photo processing and e-books.

In 2012, Fnac generated revenues of €118.2 million in Switzerland, across all sales channels. Fnac generated 46% of its revenues from consumer electronics, 50% from editorial products and 4% from services.

The table below provides a breakdown of product sales in Switzerland in 2012.

	2012 revenues (in € million)	**As a percentage of total revenues in Switzerland**
Consumer electronics	54.1	46%
Editorial products	59.6	50%
Services	4.5	4%
Total	**118.2**	**100%**

Fnac had almost 2 million customers in Switzerland in 2012 (i.e. the number of people who made at least one purchase), almost 187,000 of which were members of the Fnac customer loyalty program.

6.5.1.4.3 Presence in Morocco

Fnac is present in Morocco through a store operated in franchise through a strategic partnership with the Aksal Group. (See Section 6.5.3.1.3 “Franchise Operations.”)

6.5.2 Fnac’s Product Range

Fnac offers its customers a very wide range of entertainment and leisure products, as well as a full range of complementary services.

6.5.2.1 Product Range

Fnac offers a full range of entertainment and leisure products, including:

- in the consumer electronics category: photography, TV-video, audio, and IT products (Section 6.5.2.1.1 “Consumer Electronics”);
- in the editorial products category: music, video, books, and gaming products (Section 6.5.2.1.2 “Editorial Products”);
- new product categories, such as toys & games and small household appliances (Section 6.5.2.1.3 “The New Product Range”); and
- gift boxes and gift cards.

Fnac is positioned as a multi-specialist retailer and aims to offer its customers the widest possible range of products in each of the product categories it carries, and to ensure such products are available both in-store and/or online.

6.5.2.1.1 Consumer Electronics

Consumer electronics includes photography, TV-video, audio, and IT products. In 2012, Fnac generated consolidated revenues of €2,213.9 million from the sale of consumer electronics, representing 54.5% of its consolidated revenues.

(a) Photography

Fnac offers a diverse range of photography products: compact cameras, bridge cameras, hybrid cameras, SLR cameras, lenses, digital photography frames, camcorders and related accessories.

In France, where the Group offers the widest range in this category, Fnac carried nearly 4,000 articles in-store and nearly 250 products were listed on its website at the end of 2012. In 2012, Fnac sold approximately 577,000 digital cameras in France, compared to approximately 647,000 in 2011. This segment has been greatly impacted by the development of smartphones, which offer camera features and many photography applications. As such, the market is refocusing on high-end products with high value added.

Fnac has positioned itself as a benchmark retailer of high-end and professional cameras, such as high-end SLRs by brands like Nikon, Canon and Leica. In addition to its photography product range, Fnac offers its customers an in-store and online photo processing service, which is outsourced to CEWE, the European leader in this field.[105]

(b) TV-video

Fnac offers a wide range of TV and video products, including LCD screens, plasma screens, 3D screens, video projectors, and overhead projectors.

Fnac had nearly 1,100 articles in-store in France at the end of 2012, and over 200 articles listed on its website. Fnac sold approximately 230,000 flat-screen televisions in France in 2012, compared to around 328,000 in 2011. This decline in sales reflects the difficulties facing the TV-video market, which has reached a low point in its innovation cycle.

Fnac has made significant changes to its in-store merchandising in this segment in order to showcase competitively-priced products and exclusive product ranges, and to enhance the customer experience: it now presents products by brand rather than by size.

(c) Audio

Fnac's audio segment includes home equipment products, such as docking stations, multi-room systems, traditional hi-fi systems, radios and CD players, as well as mobile products, such as headphones, MP3 players, portable docking stations, and audio accessories.

In France, where the Group offers the widest range in this segment, Fnac had approximately 1,700 articles in its stores and approximately 700 articles on its website at the end of 2012. On a consolidated basis, the Group sold more than 3.5 million audio-related products in 2012, while the bulk of these revenues were generated from the sale of headphones, accounting for approximately 35% of the segment.

105 Source: www.livrephoto-cewe.fr

This market segment is very sensitive to technological trends and innovations, and the product range offered for sale must be constantly updated. Fnac has recently refocused this segment to respond to such tendencies, for instance by focusing its MP3 range on Apple products in order to halt the cannibalization of these products by smartphones that have portable music player features. Meanwhile, as the market leader, Fnac has benefited significantly from the growth of emerging markets, such as wireless headphones or docking stations using Wi-Fi, Bluetooth or Airplay technologies.

(d) IT Products

Fnac offers a wide range of IT products, including desktop computers, laptops and netbooks, tablets, information technology accessories and software.

In France, where the Group offers the widest product range in this segment, Fnac stocked approximately 4,000 articles in-store and approximately 4,700 articles were listed on its website at the end of 2012. In 2012, Fnac sold approximately 11,195,000 IT-related products on a consolidated basis, the bulk of revenues being generated by laptop and tablet sales.

This segment is characterized by the growing importance of tablets, which are the latest innovation in the field and are partially replacing laptops. Desktop computers now represent only a small share of the market.

In France, Fnac is the leading distributor of Apple products, and has entered into an agreement to set up dedicated Apple ("shop-in-shop") areas in its stores. Under this agreement, Apple provides the merchandising for these areas, and supplies and pays facilitators, who provide demonstrations but do not perform any sales-related tasks. The terms and conditions of the supply agreement entered into with Apple are similar to those found in Fnac's agreements with its other suppliers.

Fnac also collaborates with Microsoft, setting up dedicated areas, in order to promote the sale of the supplier's products. As part of this partnership, Fnac highlights Microsoft products both on the Fnac.com website and in-store, where Microsoft demonstration staff and specific presentation tables showcase the products. Fnac also allows Microsoft to benefit from its customer loyalty program and showcase its products in Fnac's publications.

6.5.2.1.2 Editorial Products

Editorial products include music, video, books, and gaming products. In 2012, Fnac generated consolidated revenues of €1,629.7 million from editorial products sales, representing 40.1% of its consolidated revenues. In France, Fnac is a trendsetter in its markets, with a rich and diverse editorial products catalog.

(a) Music

Fnac stocks 450,000 audio items, of which 200,000 items are marketed in France. CD sales accounted for the bulk of the revenues generated in this segment on a consolidated basis, as Fnac sold 32 million CDs in 2012, of which 14 million CDs were sold in France.

Fnac aims to provide its customers with the widest product range available on the music market, and position itself as a trendsetter through in-store and website product recommendations, such as top 10 "Albums of the month" and the '*Coup de coeur'* sales staff favorites, and the label "*Fnac talents*". Fnac also influences the market through the organization of cultural events, such as concerts, festivals, and meetings. Fnac develops derivative products related to music products, bands and artists, such as posters, figurines, T-shirts, and mugs.

Since 2005, the market for music in physical form has been shrinking in France and in the other countries where it operates. This is due to the development of digital technology, which allows customers to download music electronically, or to stream music (i.e. to listen online without downloading). To adapt to the development of digital technology, Fnac is reducing the surface area in its stores devoted to music, without reducing the range of new releases and best-sellers available in-store. In addition, Fnac entered into an affiliation program with Apple in 2012, pursuant to which the French Fnac website has been redirecting users to the iTunes website since January 1, 2013. Fnac receives a fee in return for this service. Furthermore, Fnac is committed to making iTunes cards more visible and available in its stores. Fnac's goal is to offer its customers the best music range available by relying on the iTunes website.

(b) Video

Fnac has 45,000 video, DVD and Blu-Ray items available for sale in its stores, of which 35,000 items are available in France, and 15,000 items on its Fnac.com website. In 2012, Fnac sold 19.5 million DVDs and Blu-Ray discs in France and DVD sales accounted for nearly 80% of revenues in this segment on a consolidated basis.

Like the music segment, the video segment is experiencing a decline in the sale of physical products due to the development of digital terrestrial television (DTT), satellite packages, video on demand (VOD), and piracy. Fnac is implementing a series of marketing strategies in order to compete with digital competition. Fnac is particularly well-stocked in terms of exclusive new releases, for both films and television series, as well as value-added products containing bonus items marketed as special editions. Fnac also helped popularize so-called "multiple-purchase" offers (for example: one DVD for €10 and four DVDs for €20) and box sets (called multi-packs), which continue to attract consumers and are holding up well against digital competitors. In keeping with its role as a trendsetter, Fnac is also increasingly showcasing its catalog, by stocking an extensive range of DVDs and Blu-Ray discs, offering exclusive Fnac collections of classic films, and maintaining culturally significant films in its product catalog. Over the past few years, Fnac has also expanded its Blu-Ray catalog, along with a range of derivative products based on films, certain television series and cartoons (such as posters, figurines, T-shirts, and mugs). Finally, Fnac organizes cultural events relating to films, such as meetings with filmmakers.

(c) Books and Stationery

Fnac has a catalog of approximately 4.5 million titles available on its Fnac.com website. In 2012, Fnac sold 48 million physical books in France (covering more than 380,000 different titles), approximately 140,000 e-readers (compared with 40,000 in 2011) and approximately 550,000 e-books.

Fnac is the leading bookseller in France,[106] and offers the widest range of products on the market with a catalog covering all sub-segments, including general literature, children's books, comic books, art, history, academic and extracurricular books, entertainment, and how-to books. Approximately half of its revenues come from fiction books, such as novels, thrillers, children's books, and comic books. Fnac has a very strong position in fiction, particularly with respect to books earning literary awards and those released during the Fall publishing season. Fnac has also experienced significant growth in sales of comic books and youth titles. Fnac is also very well positioned in the gift segment, especially in the period at the end of the year, where it was among the leading brands to support cookery-packs, combining cookbooks and cooking utensils.

106 Ranking source: Company, based on GfK data

The physical book market in France and Europe has not yet made the full transition to digital formats. However, the increase in e-readers and tablets is expected to generate growth for e-readers and the e-book segment generally. To be in line with and position itself on a dematerializing market, Fnac entered into a partnership with the Canadian company Kobo in September 2011, and now offers an innovative digital reading solution: *Kobo by Fnac*. Since its launch in November 2011, this partnership has led to the marketing of a wide range of e-readers and tablets in France. These readers, which are efficient and easy to use, have the dual advantage of being touchscreen driven and providing access to a catalog of more than 2 million items, over 200,000 of which are in French. Thanks to this reading solution, Fnac is satisfying both its customers' desire to benefit from the latest innovations, as well as clear market demand. It has seized this economic opportunity by investing in the new sub-segment of e-readers, which do not replace any pre-existing products. This early positioning in the market, in partnership with a globally recognized specialist in the sector has enabled Fnac to prepare for growth in the e-reader market, and to become, within a short timeframe, one of the market leaders in France, alongside Amazon. *Kobo by Fnac* was also launched in Portugal in September 2012.

Kobo's role is to provide and maintain the technology platform, to provide the devices, and to develop applications, while Fnac is responsible for the cost of marketing and advertising in France. Both parties combine their platforms and share the income and costs of adjusting and connecting the Kobo system to the Fnac.com website interfaces.

In addition to its range of books, Fnac also sells stationery products. After an initial successful test in 2009, Fnac created "stationery" areas in 20 stores in 2010 and 2011, and in 11 additional stores in 2012. These areas, which are signposted and easily identifiable as they are showcased in-store, offer a range of stationery products, small leather goods, high-end writing implements, desk accessories and office supplies. Fnac has entered into a sales partnership with the Moleskine brand, which provides the furniture designed to showcase its products in Fnac stores.

(d) Gaming

In the gaming sub-segment, Fnac offers a catalog of 6,900 items in its stores in France, including new and second-hand items (1,800 new), a total of 19,000 articles across all countries, and 45,000 articles (including 2,000 digital gaming articles) on its Fnac.com website. In 2012, Fnac sold nearly 8 million gaming-related products (including 4.6 million products in France) and video game sales accounted for approximately 30% of revenues generated in this sub-segment on a consolidated basis, whereas the sale of consoles accounted for about 40% of revenues.

Three years ago, Fnac launched a line of second-hand video games: the model involves the return of used video games by customers who are part of a dedicated loyalty program. The program had 1.2 million members at the end of 2012 (see section 6.5.4.2.3 "The Fnac Gaming Card"). The return of a game results in the gamer earning store credits that can be spent on any product in Fnac stores. This new marketing strategy has enabled Fnac to increase its share of the gaming market. Second-hand video games accounted for around 4% of Fnac's revenues in the French gaming sub-segment, and for around 12% of revenues in the games and consoles segment alone.

Fnac has also positioned itself through an exclusive partnership with jeuxvideo.com (the leading French website dedicated to video game news[107]), which has begun redirecting all active links on the jeuxvideo.com website to Fnac.com since February 1, 2013. This partnership, which also takes the form of an in-store gaming loyalty program, involves a new

107 Source: AFJV (French Video Games Agency)

database with approximately 600,000 members, that enables new releases to be reserved and members to take part in console or big-hit launch events.

In March 2012, in partnership with Nexway, Fnac also launched a new platform for downloading PC video games. Nexway acts as a white-label technical partner and manages the technical relationship with game publishers.

Fnac's strategy for the gaming sub-segment is based on four pillars: (i) gaining market shares on each major console or game release in order to consolidate its position, (ii) continuing to attract and retain Fnac Gaming customers, (iii) strengthening the synergies between the website and the stores in terms of major launches, and (iv) strengthening the dematerialized range available in-store and on Fnac.com.

6.5.2.1.3 The New Product Range

Building on its leadership in the consumer electronics and editorial products retail sector, Fnac has continued to expand the range of products it offers. In order to find new sources of growth and as part of the "Fnac 2015" strategy plan, Fnac has extended its teams' know-how and expertise to include new product sub-segments (i) in home and design, (ii) in children's products, and (iii) products sold exclusively online.

(a) Home & Design

In 2012, Fnac launched "Home & Design" areas in its stores, which showcase small household appliances such as vacuum-cleaner robots, breakfast products and cooking products that are innovative, technologically sophisticated and well-designed.

Fnac's intends to offer a small, high value-added, household appliances range, based on innovation and design, in keeping with Fnac's overall positioning. Fnac hopes to differentiate itself from other brands in the sector and from premium brands, by showcasing mid-range to high-end trendsetting brands, such as Dyson, Nespresso, Krups, Magimix, Alessi, Kitchenaid, Cuisinart, and Bodum. This positioning is also reflected in the specific lay-out of these areas, which enhance the stores' attractiveness. Products are presented on islands in a self-promoting eco-system that includes books, gift boxes, utensils and accessories.

The introduction of these "Home & Design" areas exemplifies Fnac's desire to expand its product range and find new sources of growth in order to meet the expectations of its high income family-oriented customer base. An advertising campaign accompanied the roll-out of these new areas. The product range available in these areas will continue to be expanded to related products, such as tableware, and microwaves.

At the end of 2012, 35 Fnac stores in France had a "Home & Design" area. An additional 20 stores are expected to include these areas in 2013.

(b) Toys & Games

Since November 2011, Fnac has developed new in-store areas dedicated to children under twelve, called "Fnac Kids", the first of which opened in 2011 at the Parly 2 shopping mall store in the Greater Paris Area and at Fnac Ternes in Paris. These areas were gradually rolled out in stores in France. By late 2012, Fnac had 26 "Fnac Kids" areas in France. Fnac plans to extend the concept to 19 additional stores in 2013 in order to ensure that all stores feature a toys and games corner or department dedicated to children by the end of 2013.

These areas bring together in one area toys, games, books, DVDs, CDs, consumer electronics and gaming for children. They enable children to test, play and experiment with the products being sold. The lighting, furniture and color schemes of these dedicated areas have been tailored to meet the tastes of younger customers, with products available by age range (from infant to twelve year-olds). They also have a layout designed to welcome children and create a space for them to read, listen to music or stories, and play on interactive tablets. Emphasis is also placed on Fnac's technological positioning. From January to October, these areas provide free workshops open to all children twice a week on Wednesday and Saturday afternoons.

In these areas, Fnac prioritizes the presentation of an offer made up of a range of must-have products and best-sellers, as well as a restricted, carefully selected range that is consistent with Fnac's customer base, which primarily consists of educational and hybrid products that are half-way between toys and consumer electronics. In this respect, the model differs from that of *Fnac Eveil & Jeux*, which Fnac sold in July 2010; that business consisted of a network of freestanding 500 m² stores, which stocked primarily Fnac-brand products, but very few audio, video and consumer electronics products.

The stores offer an average of 800 items in this segment, plus 5,000 products in stock and available online, as well as child care products, such as strollers, and car seats. Due to the recent launch of the product range, revenues generated in this segment in 2012 were not representative. However, revenues increased by about 94% in 2012, in line with the Group's objectives.

To consolidate its presence in the toys and games market, Fnac entered into a partnership agreement with the French subsidiary of the Walt Disney Company in October 2012. As part of this agreement, Fnac agreed to reserve a section for Disney items, such as DVDs, books, toys, within the "Fnac Kids" areas and to implement joint promotional efforts. In return, Disney will extend this partnership to all its products, including fashion and furnishings, as well as to the Disney TV channel. It has also agreed to finance or manage workshops for children offered in Fnac Kids areas. This partnership is to be implemented in all stores with a "Fnac Kids" area in France.

(c) Products Sold Exclusively Online

The Fnac.com website provides access to the entire range of products available in stores, as well as to additional lines that are not available in-store. (See section 6.5.5 "The Group's Marketing Policy".) More recently, as part of the MarketPlace, the Fnac.com website has also provided access to product categories that are not available in-store such as nursery items (strollers, and car seats, etc.), large household appliances and musical instruments. These additional product categories were selected to complement the Fnac product range, as outlined in the "Fnac 2015" strategic plan.

6.5.2.2 Services

Fnac offers its customers a wide range of services that are complementary to the products it sells. To develop a service culture and promote the services offered in its stores, Fnac has created dedicated areas, called "Customer Service Points", which are points of contact for after-sales services, home delivery, warranties or at-home training. At the end of 2012, 27 stores in France (including franchises) had a Customer Service Point and Fnac plans to open 10 additional mini-service points in 2013.

6.5.2.2.1 Assistance

- ***After-sales service –*** Fnac offers its customers after-sales service that includes telephone support from technical experts (available 7 days a week), an after-sales service counter and repair services. The Fnac.com website is another link in Fnac customers' after-sales experience. The website provides after-sales service by providing online help in the form of troubleshooting questionnaires for preliminary diagnosis and an in-store appointment booker. Fnac has over 1,000 professionals in its service department (including 400 in-store after-sales receptionists). Fnac's service counters serve approximately 600,000 customers every year, 74,000 products were exchanged in 2012 and 202,000 products were repaired. See Section 6.5.7.2 "Organization of After-Sales Service in France."

- ***Installation support -*** In France, Fnac offers its customers a paid service to assist with the configuration, installation, maintenance and optimization of their computers. Fnac also offers products to configure and optimize high-tech equipment purchased, with the help of a home-visit from an expert. Two packages are offered, which are adapted to the customer's sophistication and objectives: a "configuration" package and an "optimization" package. In 2012, 32,000 customers took advantage of this installation support.

- ***Training -*** In France, Fnac offers its customers paid in-home training, where an expert visits the customer's home. Several options are available to teach both novices and experienced users how to use the information technology products sold by Fnac, from beginner to advanced. 6,000 customers used this service in 2012.

6.5.2.2.2 Fnac Returns

"Fnac Returns", launched in September 2011, allows customers to exchange their working high-tech products for vouchers (with values based on a sliding scale available at Fnac.com). The offer is valid in all stores, and covers all products from gaming consoles to portable music players, to mobile phones. This offer is open to all customers with working consumer electronics. An after-sales receptionist is responsible for testing and ensuring that the product is eligible for the service in the customer's presence. The customer will then receive vouchers that are valid for all Fnac products and services across Fnac's stores in France, based on the current scale. To date, Fnac is the only retail brand in France to offer a return service on some of its high-tech products. This service is performed by MSS. This subsidiary of the Group has an agreement with W1, a British group, to which the used products are automatically sold at the return price minus a margin.

6.5.2.2.3 Warranties and insurance

Fnac offers its customers three types of fee-based extended warranties and insurance in France:

- ***An immediate 100% warranty*** whereby the full value of the product is immediately refunded to the customer in the form of vouchers in the event of a failure, during a period of between two and five years. Fnac is paid to market this product on commission by NES. This warranty replaces all warranty extensions.

- ***An "Apple Care" warranty***, launched in January 2013, whereby all Apple brand products remain under warranty for three years; this offer includes software support and centralized technical assistance. Fnac sells these warranties, which are provided by Apple to its customers. In addition, Fnac is authorized by Apple to provide the services under these warranties at its after-sales-service counters, its hotline, and its IT repair platform

- ***Insurance***: Fnac provides "traditional" theft and breakage insurance, which is managed in partnership with Finaref (Crédit Agricole). Fnac is paid on commission by the insurer. The commission is recognized immediately and varies depending on the service.

6.5.2.2.4 Consumer Credit

Fnac offers its customers a wide range of financing offers in partnership with Finaref (Crédit Agricole). Through a membership card or credit card, Fnac provides a deferred payment service that is free for the first monthly installment (up to 45 days depending on the date of purchase). It also offers installment payment plans, featuring payment in 5 or 10 installments, and permanent installment-based financing offers, based on payments of between €50 and €300 a month. (See 6.7.7 "Regulation of intermediation in consumer credit and insurance transactions".)

6.5.2.3 Other Activities

6.5.2.3.1 Telecommunications - Partnership with SFR

Since the second half of 2011, Fnac stores in France have included new areas that are entirely operated by SFR and offer a comprehensive range of products and services for mobile telecommunications and internet access. These areas are operated by SFR employees under an exclusive agreement signed for a five year term with SFR in June 2011. Thanks to this agreement, Fnac has been able to strengthen its position in the booming mobile telephone market, while Fnac customers are able to benefit from the expertise of SFR vendors in a product segment that is becoming more complex. Under this agreement, Fnac receives a commission on sales made by SFR in its stores, while SFR has undertaken to provide Fnac with a minimum income. Fnac had set up 66 SFR areas in its stores by the end of 2012, covering almost all of the stores where Fnac has planned to roll out such areas. In the context of this partnership, 60% of the sales undertaken by SFR constitute the opening of new mobile phone lines.

6.5.2.3.2 Fnac Ticketing and Box Office Services

Fnac has a ticketing and box office services division, known as "France-Billet", that has a market share of over 50%[108] in France and is the leading ticketing and box office player in the performance and event sub-category. France Billet has the widest network of sales outlets in France (1,155 outlets), two brand-owned sites (fnacspectacles.com and francebillet.com), 375 white-label websites and 5,800 affiliates. This allowed it to sell nearly 13 million tickets in 2012, almost 50% of which were sold online, and to generate revenues of around €496 million.

This service offers the most extensive range of events in France, with almost 58,000 performances in all areas every year, including contemporary music and concerts, theater / comedy, major shows, sporting events, entertainment and amusement parks, arts / museums, classical dance / music, and films. The following table provides a breakdown of Fnac's 2011 and 2012 sales in France by category.

108 Source: Company estimate (based on the box office market).

Category	2012 percentage	2011 percentage
Contemporary music and concerts	45%	40%
Theater and comedy	13%	13%
Tourism, entertainment, and theme parks	11%	12%
Shows	8%	9%
Sport	6%	8%
Arts and museums	9%	8%
Classical dance and music	6%	5.5%
Films	2%	1.6%

The France Billet service operates in both B2C (Business to Customer) mode for end-customers, and B2B (Business to Business) mode via a series of services including sales to works councils, white-label marketing on behalf of producers, website white labels, supplies to retail outlets (supermarkets, and tourist offices, etc.), and via managing marketing schemes (BPCE, Amex).

Fnac's online sales grew by 6% between 2011 and 2012, selling 7 million tickets in 2012. Fnac's two main contributing sites are fnacspectacles.com and francebillet.com.

In June 2012, Fnac entered into a partnership with Groupon to launch a joint discount ticketing and box office service, which is accessible through a single interface, the Groupon Tickets by Fnac website. This website provides offers at so-called one-off prices, along with a catalog of permanent offers. Through this partnership, Fnac has expanded its catalog of promotional pricing, while Groupon has strengthened its box office services. As Groupon has a presence in 80 French cities, the Groupon Tickets by Fnac website benefits from its local presence. France Billet is paid a commission for each ticket sale, with variable commissions depending on whether Fnac or Groupon negotiated the offer, and depending on the network that made the sale.

France Billet also operates white-label box office services websites, i.e., sites that use Fnac's solutions and resources without referring to the Fnac brand name. Specifically, it operates *Showroomprivé*, Toys "R" Us and Pixmania, and has long-term partnerships with Carrefour, Super U and Géant, for which it manages box office services solutions that generated sales of 2.8 million tickets in 2012.

After the acquisition of 100% of Kyro in 2011, France Billet also became the owner of a proprietary software solution, which provides venues and show producers with a complete box office services solution. Kyro provides solutions for over 73 customers (theaters, sports facilities, producers, and events like Marseille 2013, etc.).

6.5.2.3.3 Fnac Voyages

In France, Fnac Voyages is a travel agency that offers a selection of trips, chosen for the breadth of their cultural content, via its website and eleven in-store agencies. In a depressed tourism market (especially with respect to agency sales), Fnac has sought to differentiate itself by offering cultural weekend breaks and a range of cruises and discovery tours. Fnac is negotiating a partnership with an online tourism player to provide a very competitive product line in 2013, which would feature the best prices on the market while benefiting from Fnac's selection process and advice. Fnac plans to overhaul its travel website, in order to make it more attractive to potential travelers and meet the highest standards in the online travel market.

6.5.3 Distribution Channels

Fnac has adapted to changes in consumption patterns by developing an extensive store network that follows an original concept and by being among the first traditional retailers to launch a website, which is available via mobile devices through a dedicated website and applications, making Fnac a "click & mortar" retailer. Fnac's omni-channel strategy is reflected in the increasing integration of its various channels. As an illustration, 21.5% of orders placed on the Fnac.com website in France in value terms in 2012 were ordered online and collected in-store, or ordered via Fnac.com while in-store, twice the level observed in 2011. For the month of December 2012, this proportion amounted to 38%.

6.5.3.1 Stores

6.5.3.1.1 The Fnac Store Concept

Since its foundation in 1954, Fnac has developed an original store design concept, which brings together all the products sold by Fnac in one place. This diverse range of products, the specific layout of the stores, and the expertise of the sales staff are key characteristics the Fnac store concept. However, in contrast to Fnac's initial historical approach, the stores are no longer exclusively multi-specialist stores in city centers. The Fnac concept first evolved when retailing moved to the suburbs. The implementation of the omni-channel strategy, the development of new store formats, and the transformation of the business model planned as part of the "Fnac 2015" strategic plan are driving further changes to the Fnac concept.

Fnac's stores in France and in other countries differ from those of other retailers in their layout, which currently displays the following features, in keeping with Fnac's sales and marketing strategy:

- A customer route organized around a "new releases" area at the store entrance (largely occupied by editorial products) followed by a display of products by category that reflects Fnac's multi-specialist positioning and makes it easier to see the various departments, such as the after-sales service counter, customer loyalty program area, and ticketing and box office services;

- Product displays that showcase the latest innovations and leave enough room for hands-on trials (hands on areas), as well as corners dedicated to certain brands;

- Clear display of (a) sales staff recommendations ("Sales staff's favorites" and "Fnac Talents" labels), (b) the Group's brand expertise and independence thanks to ratings and technical records from the Fnac Lab, and (c) a pricing commitments (such as "green prices (discount)" and "member prices"); and

- Areas dedicated to free cultural events and expression.

Generally speaking, the stores are laid out so as to create a high-quality customer environment and experience where particular attention is paid to comfort, reading areas and neat displays. The stores have been reorganized according to usage category (e.g. a music category, "Fnac Kids" category or "home & design" category). Fnac has renewed its commitment to focusing on the customer and promoting customer discovery of new products, in line with its new business model. Fnac's stores are also changing to support the omni-channel strategy and integration with the Group's websites, with the aim of properly guiding clients through their omni-channel experience.

To analyze the performance of its in-store sales, Fnac monitors foot traffic in stores (which corresponds to the number of visits to each store), the number of checkout transactions and the average checkout value. The assessment of foot traffic in Fnac's stores is achieved through an automated camera-based counting system. Although Fnac adjusts the resulting store-visit data to exclude outlying figures, suspicious changes and specific in-store events, these methods provide useful statistical data with a margin of error.

6.5.3.1.2 Store Formats

At the end of 2012, Fnac had 170 stores in total, including 103 stores in France. Fnac's stores are in one of four formats.

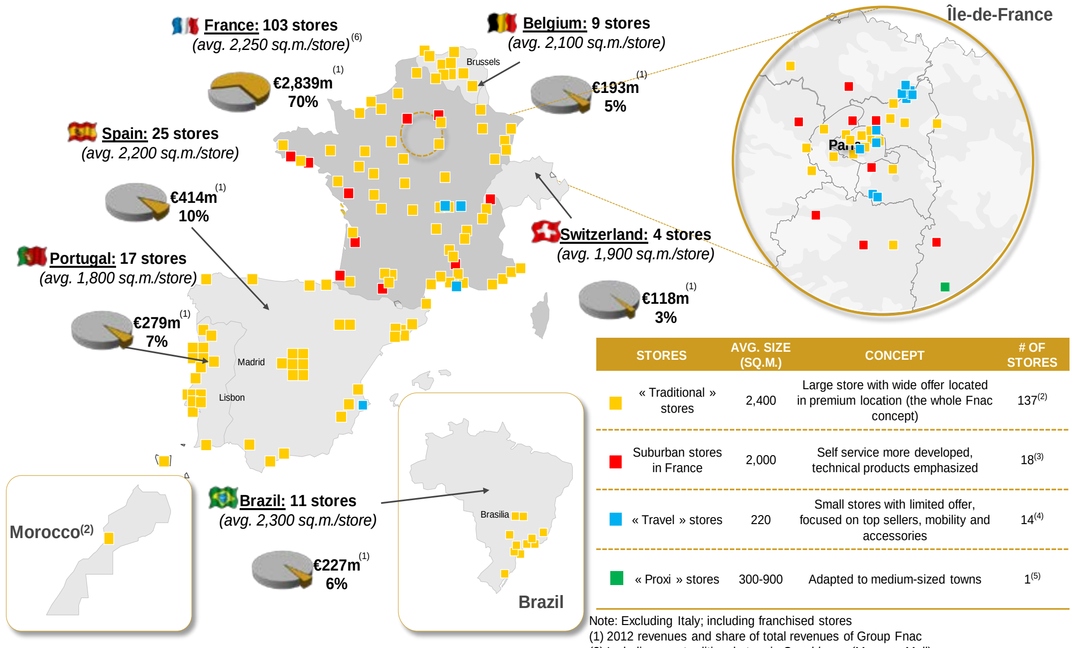
- ***"Traditional" format*** **-** With an average surface area of some 2,400m², these stores include the full Fnac catalog and experience and are mainly located in city centers and in the heart of shopping districts, such as the Forum des Halles and on the Champs Elysées in Paris. At the end of 2012, there were 137 Fnac stores in the traditional format, 71 of which were in France. Fnac plans to continue selectively opening stores in traditional formats as part of the "Fnac 2015" strategic plan.

- ***"Suburban" format*** **-** This store concept, launched in 2006, now includes 18 stores with an average size of about 2,000m². This store format has been adapted to the specific requirements of retailing in suburban areas to include parking access, wider aisles, versatility of teams, and greater use of self-service.

- ***"Proxi" format*** **–** This store format was introduced in 2012, with a surface area of between 300 to 1,000m²; stocking Fnac's full catalog of products and services. This format allows Fnac to open in medium-sized cities (i.e. those with fewer than 100,000 inhabitants) that cannot support "traditional" or "suburban" formats, and also fill in gaps in city coverage. At the end of 2012, Fnac had one store in this format in Melun.

- ***"Travel" formats*** **-** Since summer 2011, through a partnership with Lagardère Services (see Section 6.5.3.1.3 "Franchise Operations"), Fnac has established a presence in train stations and airports with store formats tailored to a surface areas of 60 to 300m². The format is sub-divided into two sub-formats: (i) a 60 to 300m² format in train stations and non-duty free areas in airports, which carry a range of editorial products focused on new releases and best-sellers, and a limited range of consumer electronics and accessories focused on mobile devices, such as the stores at the Gare de l'Est and Orly-Ouest train stations, and (ii) a 60 to 100 m² format in duty-free areas, focusing on consumer electronics and accessories for mobile devices, such as the Roissy T4 and Lyon Saint-Exupéry airport stores. At the end of 2012, Fnac had 14 stores in these areas, which benefited from high traffic and visibility.

The map below shows the network of Fnac stores in France and abroad in late 2012, and indicates the various formats:



	STORES	AVG. SIZE (SQ.M.)	CONCEPT	# OF STORES
Yellow	« Traditional » stores	2,400	Large store with wide offer located in premium location (the whole Fnac concept)	137(2)
Red	Suburban stores in France	2,000	Self service more developed, technical products emphasized	18(3)
Blue	« Travel » stores	220	Small stores with limited offer, focused on top sellers, mobility and accessories	14(4)
Green	« Proxi » stores	300-900	Adapted to medium-sized towns	1(5)

Note: Excluding Italy; including franchised stores
(1) 2012 revenues and share of total revenues of Group Fnac
(2) Including one traditional store in Casablanca (Morocco Mall)
(3) Including one franchised store (La Roche-sur-Yon)
(4) Including one store in Spain (Valencia train station) and 13 franchised stores in France
(5) Franchised store (Melun)
(6) Including travel stores

These formats include a very diverse portfolio of stores in terms of (i) revenues (up to around €119.8 million for the Forum des Halles store in 2012), (ii) number of employees (up to 350 people at the Forum des Halles store in 2012) and (iii) customer flows (up to 6.6 million visitors to the Forum des Halles store in 2012). This diversity illustrates Fnac's ability to adapt to the needs of its customers and to the areas where it operates. Fnac intends to continue to extend its store network in France in order to improve coverage of the areas where Fnac has a presence, to strengthen its proximity to customers, to gain further market share, and to support the development of its websites by increasing the points of contact with Fnac. (See Section 6.3.4 "Build a Denser Retail Store Network in France to be Closer to and Reach More Customers".)

6.5.3.1.3 Franchise Operations

As part of its "Fnac 2015" plan, Fnac has started to diversify its footprint and to continue opening in new areas through the development of stores operated on a franchise basis in new regions in France and abroad. This mode of operation limits investment costs while furthering the goal of increasing Fnac's visibility at a rapid pace. At the end of 2012, this type of operation involved 13 stores.

The strategic partnership agreement signed with Lagardère Services in March 2011 is part of this strategy, and aims to develop a network of small format stores (less than 300 m²) operated on a franchise basis and located in stations and airports where Fnac is established. This partnership enables Fnac to showcase its know-how and to promote its experience in high foot traffic areas in France and abroad, while offering Lagardère Services the opportunity to complement and boost its offering in transport areas by offering travelling customers consumer electronics and entertainment and leisure products from a highly recognized retail brand. This strategic partnership has resulted in the signing of two agreements with subsidiaries of Lagardère Services, Aelia and MRW. For stores opened under this partnership, Lagardère Services (through Aelia and MRW) is specifically entitled to use and exploit some of the distinctive Fnac trademarks, such as brands and logos, and to implement the "Fnac Concept" and offer Fnac's product mix. Lagardère Services (through Aelia and MRW) pays a fee for the use of this distinctive signage, which amounts to a percentage of the revenues for the sales outlet in question.

In December 2011, Fnac opened its first foreign franchise store in Casablanca, Morocco, in Africa's largest shopping mall. This mall, which is located in the suburbs of Casablanca, has about 350 outlets covering more than 70,000m² of retail space over three floors. This store has a total surface area of 2,700m², and Fnac hopes to benefit from the flow of 16 million annual visitors to the mall. This opening follows a partnership agreement with Aksal, one of Morocco's leading specialist retailers, which has also maintained franchise agreements with Zara and Galeries Lafayette since 2003 and 2008, respectively.

The table below shows the types of store format for which the Group intends to promote franchise operations:

Format	**France**			
	Aelia (Lagardère Services)	**MRW (Lagardère Services)**	**Traditional/ Suburban**	**Proxi**
Typical size	70 m²	140 m²	Over 1,000 m²	Between 300 and 1,000 m²
Description	Stores located in duty-free areas of major international airports. The stores are operated by Lagardère Services.	Existing stores located in non-duty free areas in train stations and airports (i.e. before the boarding gates, and accessible to everyone). The stores are operated by Lagardère Services.	Similar to medium-sized stores located in suburban or downtown areas in small and medium-sized cities.	Stores located in suburban or downtown areas in small and medium-sized cities.
Examples	Roissy T4, Lyon St-Exupéry	Gare de l'Est, Orly Ouest	La Roche-sur-Yon	Melun

All new franchisees and locations are subject to review by the Group Investment Committee, which approves the format, sales and marketing plan and financial arrangements. The franchisee selection process is divided into several stages. During the first phase, Fnac targets areas where the Group is not established, then commissions a feasibility study, covering sales potential, operations, and profitability, in order to determine the location and surface area required. Fnac then attracts, selects and approves a candidate for the franchise, who may be an investor, or a trendsetting player who is already established locally in the fields of entertainment and leisure or consumer electronics products.

Fnac has the right to review new product categories that franchisees may wish to develop in their stores. With a view to protecting the network's identity and reputation, the procurement contract entered into with franchisees stipulates that 80% of their range must be common to other Fnac stores, with the remaining 20% involving products that are not stocked, but may be sold by Fnac. However, it should be noted that the purchasing conditions negotiated by Fnac effectively encourage franchisees to order most of their supplies through Fnac. In addition, Fnac assists franchisees with training and with monitoring their operations.

Operating under franchise allows the sharing of brand know-how, such as sales promotion and product selection, marketing, training, e-learning, hiring and IT. But it also allows profits to be shared, because it allows the development of a presence in new markets and regions with less substantial investments. Operating under franchise also has a significant impact on the organization of support functions due to the specific operating models that it requires, primarily in terms of procurement policy, inventory management, information systems, range, and business promotion. The franchisee has financial obligations, particularly in terms of investment, but also obligations to protect Fnac's intellectual property, like Fnac trade names and brands. The franchisee must also respect the layout and arrangement of sales outlets. The franchisee pays Fnac a franchise fee, and contributes to the advertising budget, in each case on a percentage of sales basis.

6.5.3.2 The Website

Fnac has had an online presence in France since 1999 and internationally since 2000. To date, thanks to its Fnac.com website, Fnac is the third largest French e-commerce websites based on average unique visitors per month.[109] In 2012, the Fnac.com website generated total revenues of €403.8 million (including MarketPlace fees). The MarketPlace generated revenues of around €52 million in 2012 (i.e. the sales volume generated via the MarketPlace), while Fnac Direct, the company that operates the Fnac.com website, generated a current operating profit (which is not true of all competitors in this sector).

On the Fnac.com website, users can access not only products stocked by Fnac, but also the MarketPlace (a business to Consumer (B2C) and Customer to Customer (C2C) platform) and downloadable products. In line with the Group's omni-channel strategy, the Group's omni-channel services, the creation of community pages, and direct marketing enable customers to benefit from the complementary nature of its online and offline presence, allowing the Group to increase the Fnac.com audience while building loyalty among its online users. The Fnac.com website allows customers to access information about product availability, offers and news for their local stores, and to access to the services offered by Fnac and the customer loyalty program. (See Section 6.2.1 "A Cutting-Edge Omni-Channel Strategy, Drawing on a Dense Network of Retail Stores and a Powerful Online Presence" and Section 6.3.3 "Developing Omni-Channel Synergies as a Competitive Advantage Over Other Players in the E-Commerce Market that Lack an Offline Presence.")

The Group's "Web Up" program is designed to implement the Fnac.com technology in all countries where Fnac is established and to coordinate know-how. The main aim of the program is to extend the functionalities of the French web platform to websites in other countries where the Group operates. This is being implemented gradually. The migration of foreign websites to the French platform is designed to enable them to benefit from all its new features (MarketPlace, and Myfnac, etc.).

As part of the proposed admission to trading of the Company's shares on Euronext Paris, and its separation from the Kering Group (see Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris"), the Group has signed an agreement with the service provider who currently operates the internet information management platform to continue services under the existing contract signed in 2011 after the spin-off. The legacy agreement was initially signed as a framework agreement between Kering and the service provider.

109 Source: Médiamétrie/Netratings, December 2012 (excluding travel websites)

6.5.3.2.1 Direct Sales on Fnac.com

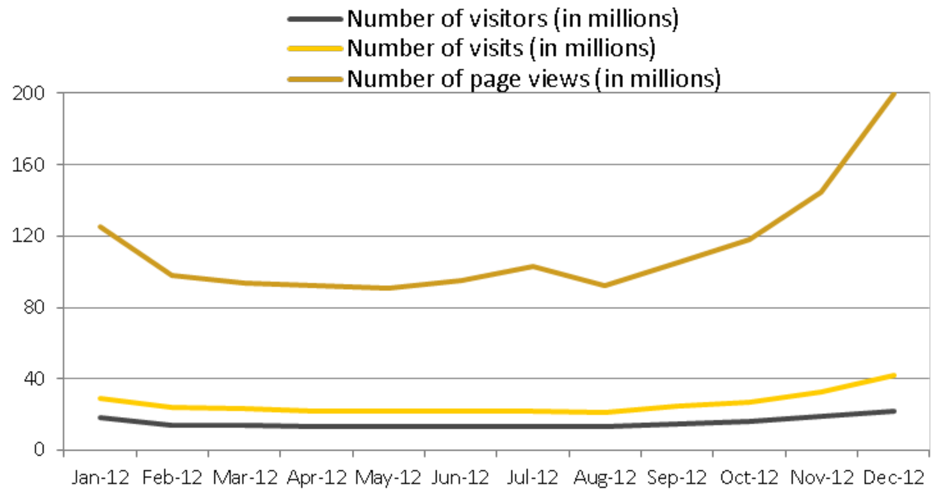
The first version of the Fnac.com website was launched in 1999. The site provides access not only to a wider range of products from product categories offered in stores, but also access to products sold exclusively online, such as nursery items and large appliances, for example. The website offers products that are sold either under the Fnac logo or via the MarketPlace. The Fnac.com website offers approximately 9.2 million new and second-hand articles in France, in a format that can be accessed by both online customers and customers in the Group's stores.

Products purchased at Fnac.com can be delivered to metropolitan France, the French Overseas Territories and to some European countries, including Belgium, Switzerland, Sweden, Denmark, Ireland, Finland, Greece, Hungary, the Czech Republic, Poland, Luxembourg, Portugal, the Netherlands, Austria and Monaco.

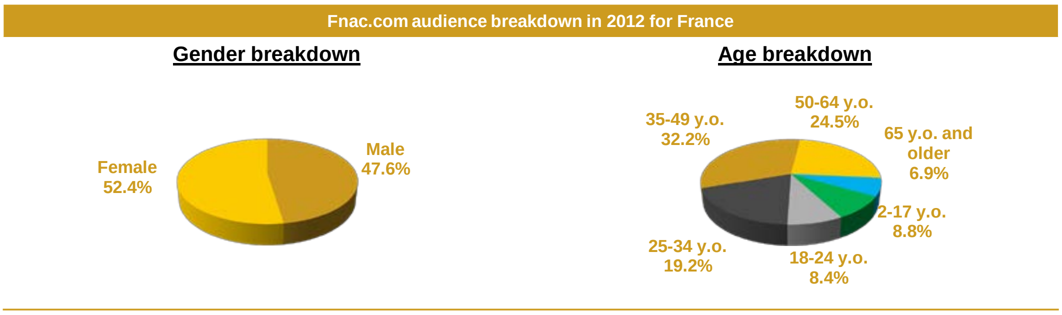
The Fnac.com website attracted an average of around 13.9 million unique visitors per month in 2012, and generated an average of around 112 million page views on the Fnac.com website per month. The number of page views was close to 200 million for December 2012 alone[110].

110 Source: Omniture/Discover

The chart below shows the trend in the number of page views, visits and visitors between January and December 2012[111].



The chart below provides a breakdown of the Fnac.com website audience in France in 2012[112].



To make the most of the development of m-commerce, a mobile version of the Fnac.com website and applications on Android and iOS have been available since late 2010. Nearly two million of these applications have been downloaded since their launch, including Fnac.com, Tick & Live, Membership, MarketPlace and Fnac Lab. This new sales channel is growing quickly. In France, brand revenues from m-commerce (excluding MarketPlace) rose by 179% in 2011 and by 115% in 2012.

6.5.3.2.2 The MarketPlace

The MarketPlace is a platform for accessible from the Fnac.com website that is designed to bring buyers and sellers together. The platform allows more than 1,500 professional sellers and several hundred thousand private sellers that meet Fnac's service quality criteria and managed by a dedicated Fnac team, to be listed and to use the Fnac.com site as a sales interface, making the most of Fnac's visibility, reputation and transaction security. Any seller may offer to sell a new, refurbished or second-hand product on the Fnac.com website by

111 Source: Omniture/Discover
112 Source: Médiamétrie/Netratings

entering the reference for the product in question and setting its price. Sales listings are free and unlimited, and their posting has been available via iPhone since 2010. Once a customer has made a purchase on the platform, the seller packs and dispatches the product according to the delivery terms agreed. Fnac then remits the proceeds of the sale to the seller, less the Fnac fee, either in the form of gift certificates or via bank transfer. The fee charged by Fnac varies according to the product and the seller, and ranges between 8% and 14% of the sale price including tax and shipping.

The MarketPlace supports Fnac's online strategy by increasing the choice available on the Fnac.com website and the number of items available to online users, which helps increase the website's traffic and visibility and contributes to customer loyalty. Fnac acts as a trusted third party for customers contracting with a MarketPlace seller, and can intervene to facilitate dialogue and conflict resolution when there are problems.

At launch in 2009, the MarketPlace enabled customers to purchase and sell books, CDs and DVDs, video games and musical instruments. The MarketPlace range was then gradually extended to include toys (October 2009), consumer electronics (cameras and camcorders, television-video, audio, telephones and GPS devices in March 2010), major household appliances (April 2012) and nursery items (June 2012). With approximately 19 million online offers, the MarketPlace generated sales volume (i.e. the sales volume generated via the MarketPlace) of around €52 million in 2012.

6.5.3.2.3 Community Pages

The Fnac Direct team has pooled content generated by "Fnac enthusiasts", such as advice and comments, since July 2010, and makes this content available to all online customers on the Fnac.com website, on social networks, on mobile applications and in stores. Twelve "Fnac communities" (Comics, Movies and Series, Classic, Cookery, High-Tech, Jazz, Kids, Manga, Photo, Pop & Rock, Rap & Soul and World), and five gaming community websites (PlayFrance, XboxFrance, WiiDSFrance, PCActu and WikiAstuces) have been set up, establishing a community of hundreds of thousands of enthusiastic "gamers".

6.5.3.2.4 Affiliate, Partnership and Advertising Programs

To help generate traffic, the Fnac.com website offers an affiliate program that enables affiliate websites to receive a fee on purchases made on Fnac.com by online users who are redirected from their websites. Affiliate sites adhere to a standard contract based around one of three affiliate programs: (i) Fnac.com, (ii) Fnac *Spectacles* (performances) and (iii) Fnac *Coffrets-Cadeaux* (gift boxes).

Under the Fnac.com affiliate program, only the following product sales attract a fee: books, CDs, DVDs, video games, software, high-tech products (computers, telephones, MP3, GPS, televisions, video, hi-fi systems, cameras, camcorders, and small household appliances), MarketPlace products (instruments, games, and toys) and products from the Fnac Photo range (photograph prints, enlargements, photography books, calendars and gifts). The fee percentage received depends on the nature of the products sold and the fee segment to which the affiliate site belongs, and depends on the content and nature of each site.

To increase traffic, the website has also entered into strategic content and traffic partnerships with leaders in their fields (e.g. with allocine.fr for DVDs and Blu-ray discs, evene.fr for books, and jeuxvideo.com for video games and consoles). These partnerships enable visitors to partner websites to purchase the showcased products on Fnac.com, and the partner websites receive a purchase fee in return.

The Fnac.com website also enables advertisers to advertise in different areas (banners, one-off transactions, mail-order inserts, database rentals and partnerships) and to insert flyers into parcels sent to customers.

6.5.4 Fnac's Customers

6.5.4.1 Characteristic of the Customer Base

6.5.4.1.1 Retail Customers

In France, Fnac's retail customers are evenly divided between men and women, more likely to be urban-dwellers (60%) and regular users of the internet (79%).[113]

The table below provides a breakdown of Fnac customers and members in France.

	% Men	Average Age	% Family(1)	% Urban(2)	% CSP+	Student	Paris Region	Daily web visitors
Members[114]	47 %	45	30 %	68 %	42 %	10 %	39 %	85 %(3)
Customers[115]	46 %	44	33 %	60 %	38 %	13 %	30 %	79 %
French Average[116]	48 %	47	30 %	47 %	27 %	8 %	19 %	63 %(4)

(1) Including at least one child under 15 years of age
(2) Residing in cities with more than 100,000 inhabitants
(3) 64% of members utilize at least one social network[117]
(3) 77% of internet users utilize at least one social network and 54% of internet users utilize social networks for obtaining information of products and brands[118]

Fnac's priority customer targets are (i) existing customers, especially its loyalty members, (ii) families in the upper socio-professional category (CSP+) with children at home, and (iii) young people, especially students.

6.5.4.1.2 Business Customers

Aside from retail consumers, Fnac also caters to business customers via its "B2B" business, which has two components:

- The "Major Accounts" business, which targets large companies that place large orders and wish to use Fnac's logistics and services. This business is headed by a team of dedicated salespeople, and fulfills two main needs: (i) organizing incentive programs (loyalty programs, and sales-force/retail network support) and (ii) supplying equipment (e.g. purchasing tablets for a whole sales force or televisions for hotels).

- The "Fnac Pro" business targets small businesses, craftspeople and the professions, who have a strong need for personal attention and require specific products and

113 Source: BVA survey, February 2013
114 Source : BVA Report, February 2013
115 Source : BVA Report, February 2013
116 Source : INSEE
117 Source: Fnac Study, September 2012.
118 Source: Fnac Study, September 2012.

services. These customers are generally loyal and, compared to retail customers, have higher purchasing power and attachment rate (i.e., have higher purchases of ancillary services with goods). Fnac provides these customers with tailored products and services through a dedicated website, fnacpro.com, which was launched in September 2011, and via an exclusive call center. Aside from advice and promotions for professionals, the website includes tailored services reserved to professionals, including online estimates, leasing and other specific payment methods, installation services and warranties.

Although they remain less significant than the Group's retail customer base, business customers offer Fnac good prospects for profitability, and allow it to serve a customer base outside its traditional area of operations.

6.5.4.2 Members and the Customer Loyalty Program

Since its foundation, Fnac has established a special relationship with its customers through its customer loyalty program, which aims to build a web of special relationships with them. Through this fee-based program, Fnac's loyalty program offers discounts, dedicated private sales, gift certificates and exclusive offers.

6.5.4.2.1 The Fnac Loyalty Members

At the end of 2012, Fnac had five million members of its loyalty program, including 3.2 million members in France. These members generated 55% of the Group's consolidated revenues in 2012. The number of members and their share of Fnac's revenues increased significantly during the 2010-2012 period (an increase of more than 22.2% in the number of members).

Fnac offers its members one of the most attractive loyalty programs in the retail sector, which includes regular exclusive promotions, permanent discounts and exclusive events. Customers can join in-store at all contact points or online at Fnac.com. They can also view their "member" account on the website along with offers reserved for them.

- The advantages of the Fnac membership card are as follows:
  - a 5% instant discount on high-tech products, small household appliances, and related accessories and services (for members with the three-year card);
  - reductions of up to 25% on a selection of member offers every month;
  - reductions of up to 50% off on box office services;
  - exclusive private sales in-store and online at Fnac.com;
  - gift certificates to reward loyalty (by building up Fnac points for every CD, DVD, consumable or video game purchase);
  - the *Contact* Magazine;
  - exclusive advantages from Fnac's retail partners (Avis, Ligne Roset, Vision Plus etc.); and
  - payment facilities, like deferred or installment-based payments.

Fnac's customer loyalty program members are an asset that sets the Company apart from its peers. Members visit the store four times more often than the average customer (based on all customers of the Group) and spend on average double the amount of a non-member on each visit. The Group has also observed that the average yearly expenditure of a customer loyalty program member is eight times higher than that of a non-member.

6.5.4.2.2 The *One* Card

The *One* membership card, which was launched in France in 2009, is a program dedicated to Fnac's most loyal members. In late 2012, there were more than 124,000 members (approximately 4% of members in France) who benefited from the *One* program, which provides exclusive services and an optimal service quality, including a dedicated a help-desk, priority check-out lines in stores, a dedicated telephone line available seven days a week, exclusive pre-ordering privileges for products and events, a dedicated after-sales service helpline, and the availability of a personal appointment with a Fnac sales clerk, if needed. They also received exclusive sales promotions and free shipping on all orders placed on Fnac.com.

Fnac has observed that *One* members make seventeen times more purchases than a non-member customers, on average, and that such members purchase on average 1.6 times more than non-members at each store visit. In addition, a *One* member's average annual expenditures at Fnac is about twenty-seven times that of a non-member customer.

6.5.4.2.3 The Fnac Gaming Card

Fnac has set up a specific loyalty program in order to develop a second-hand resale structure to accompany its gaming product line. The Fnac Gaming Card, launched in late 2009, makes it easy for customers to buy and sell second-hand games and to enjoy many benefits, including discounts on new games or accessories, the ability to view their purchases and returns vouchers in a dedicated area on Fnac.com, and priority reservations for new games. This loyalty program had 1.2 million members at the end of 2012, compared with 900,000 members at the end of 2011.

6.5.5 The Group's Marketing Policy

The Group's marketing policy is one of the drivers of its strategy and positioning, and is centered on Fnac's three key values: expertise, independence and cultural promotion.

6.5.5.1 Overview

Fnac pursues a centralized sales and marketing strategy within its network and between its various channels. The aim of this strategy, which is implemented by the Marketing Department, is to sell a maximum number of products that correspond to customer requirements, while maintaining the right profit margin.

As part of its "Fnac 2015" plan, Fnac has undertaken to renew its sales and marketing policy, based on four areas: (i) making members the focus of its marketing policy, (ii) improving Fnac's pricing image, (iii) building up omni-channel ranges, and (iv) ensuring cross-selling. (See Section 6.3.1.2 "A Recentered Sales and Marketing Strategy".)

In the case of consumer electronics, Fnac's product selection aims to offer the widest range possible, in order to meet customers' expectations. This range is listed in full at Fnac.com and partially displayed in-store, with the remainder of the range accessible in-store via the omni-channel routes offered to customers. The reduction of the ranges available in-store is designed to enhance the customer experience by creating more space. The range of products on offer is determined by country and, where necessary, by store type (e.g. smaller stores located in train stations and airports). Due to the development of new store formats, Fnac uses a "nested" approach to product ranges, where ranges are defined first for the largest sales areas, and more limited versions are available in smaller sales areas. This technique makes procurement, logistics and the consistency of the product ranges displayed in-store easier.

In the case of editorial products, Fnac's sales strategy consists in offering the broadest product range possible, and in making it available to customers in-store and on Fnac.com via omni-channel routes. The range of editorial products displayed in-store are generally determined locally based on preferences in the local areas; Fnac nonetheless harmonizes product ranges, while taking the specific features of each store into account.

Fnac's three main product-positioning guidelines are to offer (i) innovative products through exclusive arrangements or as a joint exclusive with concept stores like Colette or the Conran Shop in Paris, (ii) the core range, by displaying the full range and competitive prices in comparison with other market players, and (iii) competitively priced products and promotions, providing entry-level products to customers and sales promotions reserved to loyalty program members.

In an environment characterized by intense price competition (with the exception of the book market, which is subject to the fixed-price rule, see Section 6.7.3 "Regulations Applicable to Book Prices"), determining Fnac's pricing policy is a key aspect of its marketing policy, in order to gain further market share while maintaining profitability. Fnac's pricing policy is determined for each product category and, where applicable, within each product segment (e.g. gaming, where games consoles are not subject to the same pricing policy as video games or accessories). As part of Fnac's new marketing policy, Fnac's pricing policy has been re-engineered and several drivers have been identified, including: (i) displaying competitively-priced products at the front of the aisle, in order to increase traffic, with high-end and higher margin products being placed towards the back of the aisle, (ii) selectively aligning online pricing of certain products (new products, and best-sellers, etc.) with those of pure internet players so as not to appear out of touch with the market, and (iii) coordinating pricing policy across the various channels before setting prices.

6.5.5.2 The Fnac Sales Model

Fnac is recognized for the know-how and expertise of its sales clerks. Because suppliers or product brands are not permitted to pay direct incentives to sales clerks, the Group's sales clerks are able to advise customers in a fully independent and objective manner. Fnac's sales clerks are experts in their product areas and able to provide tailored assistance to all types of customers, from novices to connoisseurs. Recommendations made by sales clerks are supported by in-store access to tests results for consumer electronics by the Fnac Lab. (See Section 6.5.5.3 "The Fnac Lab").

In 2012, Fnac launched the "*Making the customer experience come alive*" program, which aims to improve customer relations management (reception, listening to customers, sales and support services). All Fnac store employees will have received training related to the program by the end of 2013.

6.5.5.3 The Fnac Lab

For almost 40 years, the Fnac Lab has provided an independent assessment of the performance of consumer electronics sold by Fnac. The first tests were initially dedicated to stereo and photography equipment. These tests were subsequently extended to a large number of products like televisions and computers. At first, the results were published in the form of comparative fact sheets in *Contact*, the Fnac members' magazine,' and then in "technical reports" from the 1980s onwards, with a print run of millions of copies. Today, they are available online from the Fnac.com website and via a smartphone application.

There is no equivalent to the Fnac Lab in any other retail chain. The Fnac Lab has a team of highly qualified technicians, who test over 1,500 products using a range of sophisticated, high-performance measuring devices every year. All the measurements are assessed in detail, in order to compare products and award them "Fnac stars". This information is summarized by an assessment "radar" system, which enables customers to obtain more information about products' performance, a factor that is sometimes hard to assess at the point of sale.

6.5.5.4 Cultural Promotion

Fnac is a major cultural player that is committed as a company to artists, not just through its extensive range of cultural products, but also through the events organized in-store or externally:

- In the literary field, the *Prix Goncourt des Lycéens*, the *Prix du Roman Fnac,* and the launch of the *Prix de la BD Fnac* in 2013;

- In the music field, the "*Fnac Live*" free music festival at the Hôtel de Ville in Paris (formerly the *Fnac Indétendances* festival);

- In the photography and film field, photography marathons, photography exhibitions in-store or elsewhere, and master classes with well-known directors;

- In the video game field, gaming awards and attendance at benchmark tradeshows.

Since 1974, Fnac has also created in-store areas that are entirely devoted to cultural events and to meetings with artists such as concerts, autograph signings and discussions.

All of the above illustrate Fnac's demonstrated and ongoing commitment to promoting modern culture, both in terms of substance and accessibility. Fnac organized over 12,000 cultural events in France and abroad in 2012, both in-store and at external locations.

6.5.6 Purchasing Policy

The Group's purchasing policy is determined and centralized by the Group Purchasing Department (also known as the *DAG* in France), which is in charge of purchasing consumer electronics for all the stores in France and for the Fnac.com website.

The Group Purchasing Department, which was set up in 2007, negotiates with consumer electronics suppliers to set annual terms, product purchase prices, and promotional offers. It also sets out the Group's strategy for each product category with the sales and marketing departments in each European country. Conversely, the Group's sales and marketing department is responsible for purchasing editorial products. Several factors explain this difference, including the fact that editorial products cannot usually be substituted, and that book prices are regulated. These factors make the purchase of consumer electronics and the purchase of editorial products two very different businesses.

The Group adopts a strong, centralized purchasing strategy, which aims to generate large volumes and optimize the purchase price. Relations with suppliers are set down in framework agreements with a legal duration of one year. Returns clauses are systematically included in book purchasing agreements, and to a lesser extent, in audio and video disc purchasing agreements.

The Group Purchasing Department negotiates with a view to ensuring the broadest possible product range, which will be accessible to customers in Fnac stores or via Fnac.com. Fnac's purchasing policy is designed to serve customers in accordance with the aims of the marketing policy, which is focused on customer choice, rather than on suppliers. The purchasing policy is drawn up for each product category, while the buyers adopt a multi-channel and, where appropriate, multi-country approach for each product category.

The Group Purchasing Department's policy is to negotiate directly with brands without using intermediaries, such as wholesalers, traders, or brokers. However the Group may make purchases from brokers on an opportunistic basis, primarily in the case of end-of-line stock products that have been withdrawn from catalogs.

In all the countries where Fnac operates, only one supplier (Apple) accounts for more than 10% of the products sold by Fnac in terms of value. In 2012, the top ten suppliers accounted for approximately 32% of the Group's total purchases, and the top five for approximately 22%. Generally speaking, however, percentage of a supplier's revenues in a given country is always greater than the contribution made by the supplier to Fnac's revenues.

To improve business conditions and margins in the countries where Fnac operates, the Group Purchasing Department negotiates European agreements with brands in addition to local agreements. Fnac classifies its suppliers into three groups: (i) "preferred partners", who are the most profitable brands to be developed at a Europe-wide level, and who enjoy preferential handling in all countries, (ii) "partners", who are less profitable for Fnac, and (iii) non-cooperative suppliers, who refuse a Europe-wide approach.

In 2011, Fnac launched a program aimed at centralizing and managing as many purchases as possible from France, thereby generating synergies between countries where Fnac operates and taking advantage of economies of scale, optimizing logistics functions, and reducing costs. The first stage of this program was completed in 2011 with the inclusion of Belgium within the scope of the Group Purchasing Department's negotiations. This means that the range of small consumer electronics items, particularly accessories and consumables, is selected jointly for France and Belgium. The consolidated volumes for both countries enable purchase prices to be improved for products ordered from the same supplier. These products are stored in a French warehouse and are distributed to the various channels in France and Belgium. For large consumer electronics items, the Belgian range is drawn up by the Belgian teams and purchases are negotiated with local suppliers by the Group Purchasing Department on a centralized basis, although supply logistics are managed locally. This pattern was replicated for small consumer electronics items and editorial products in Switzerland in 2012, before being rolled out to other products in 2013.

The benefits from transforming the system of Group purchases are (i) increased profitability by improving the Group's performance, (ii) improved competitiveness in response to Fnac's competitors at the European level, and (iii) the professionalization of the organizational structure, with the specialization of marketing functions on the one hand and of purchasing functions on the other.

6.5.7 Organization of Logistics and Transportation

6.5.7.1 Logistics in France

In France, logistical support for the Group's business is managed by the Operations Department, and is organized around three logistics warehouses, which are all located in the Essonne Department in the Paris Region. This includes one warehouse in Massy, opened in 1998, and two warehouses in Wissous, Wissous 1, opened in 2005 and Wissous 2, which has been operational since 2012. The opening of this third warehouse enabled Fnac to reconfigure its logistics in order to support the "Fnac 2015" strategy plan.

These three facilities are located very close to one another, allowing great flexibility in terms of delivery, thanks to the creation of inter-facility shuttles to cater for the omni-channel routes offered to customers. This means that Fnac is able to deliver to customers at the location of their choice (at home, in-store or at a pick-up point) regardless of where they place their order. The proximity of the warehouses to each other, and their location at the epicenter of Fnac's sales outlets in France, also optimizes transport costs by consolidating goods before shipment.

The Massy logistics warehouse, which covers 65,000 m², handles several categories of products bound for stores: books from around 3,000 suppliers, and products from the audio disc, video and gaming segments from around 250 suppliers, as well as products from new categories (stationery, and toys and games, etc.). This logistics warehouse also handles small consumer electronics bound for stores and the Fnac.com website. By the end of 2012, 12,000 m² of this warehouse space was devoted to Fnac.com. In 2012, this warehouse handled 105 million items for dispatch and 11 million returns. The opening of the Wissous 2 warehouse effectively freed up space at the Massy facility, and enabled the Group to support the opening of franchise stores.

The Wissous 1 warehouse, which has a surface area of 31,000 m², handles editorial products available from the Fnac.com website and manages specific services offered by the website (gift wrapping, and personalized messages, etc.). This warehouse plays an important role in providing Fnac's omni-channel range, by grouping orders from customers who have opted for home delivery or collection from a Fnac store (*click & mag*). In 2012, the Wissous 1 warehouse handled 13 million items for dispatch and 140,000 returns. The first section of this warehouse was mechanized in 2012, in order to adapt Fnac's procedures to the logistics of e-commerce, i.e. to be more qualitative, more productive, and closer to the zero-defect level. By the end of 2013, this warehouse will be fully dedicated to editorial products for the Fnac.com website. In addition, the second section of this warehouse will be mechanized, effectively increasing the storage capacity dedicated to the website and to the range available immediately. These alterations meet the demands of e-commerce, which requires high order-processing speeds.

The Wissous 2 warehouse, which has a surface area of 22,000 m², is mainly dedicated to "large consumer electronics" items including televisions, stereo audio systems, computers, and video game consoles, as well as to new product categories like small household appliances, and large toys and games, which are bound for stores and the Fnac.com website. The warehouse, which was opened in 2012, is fully omni-channel, and enables Fnac to offer new product categories.

The flexibility and scalability of Fnac's logistics system are fundamental to the Group's future. A plan to build mezzanine floors in Wissous 1 and to expand Wissous 2 by 5,000 m² is accordingly under consideration. These extensions would effectively increase the storage capacity available for the Fnac.com website.

The Group's warehouses in France manage orders and the automatic replenishment of stores based on their stock levels. To effectively manage flows and storage areas, the Group favors the use of cross-docking, whereby goods are received in the warehouse, and are then checked, labeled, sorted and prepared (which includes the attachment of anti-theft devices) before being dispatched to their destination on the same day or as soon as possible. This means that the goods are not stored in the warehouse at any time. This operating method essentially covers editorial products, where inventories are primarily located in-store. As such, logistics handling costs are optimized and editorial products can, where appropriate, be returned to suppliers in the event of overstocking in-store.

In the case of storage capacity, priority is given to Fnac.com. As such, 90% of products available in 2012 for sale on the website (excluding MarketPlace items) were stocked by Fnac, in order to provide customers with the widest possible range available immediately. Consumer electronics and new-release editorial products sold in-store are also stored in warehouses for procurement reasons. Recent logistics investments by the Group have allowed for a 94% increase in number of products stocked.

To date, the total surface area of Fnac's warehouses in France corresponds to its requirements outside the end-of-year period (mainly November and December). Because Fnac's business is very seasonal, it may use external logistics services over the end-of-year period, in order to have access to additional capacity. During this period, warehouses may operate up to 24 hours a day, 7 days a week.

6.5.7.2 Organization of After-Sales Service in France

In France, the Group's after-sales service is also managed by the Operations Department and is based on four divisions:

- A centralized service center. This is a logistics hub, which was transferred to the Massy facility in March 2013, via which all consumer electronics (except personal computers) that are in need of repair or were malfunctioning upon initial use passes after being returned by Fnac.com customers and stores. Defects are checked and the products are then sent for repair or exchange to various sub-contractors according to product categories. The service center ensures that products are properly repaired within the agreed timeframe.

- An information technology service center. The center is hosted within MSS (a Group subsidiary), which is located in Noisy-le-Grand, Greater Paris. This center has been approved by all suppliers to repair the personal computers produced under each brand, and employs around 120 staff.

- A technical hotline. This hotline is provided by Attitude (a Company subsidiary) in Gagny, Greater Paris. The hotline has around 100 employees.

- A service for the provision of at-home services. This service covers two product categories: information technology, where services are provided by the Form@Home company (previously a Group subsidiary), and televisions, where services are provided by Fnac for some products sold in Paris and the Paris Region, and by external service providers for other products.

6.5.7.3 Transportation in France

The transportation of Group products is outsourced to reputable carriers. These services are covered by agreements that set out the business and operating terms and conditions, which cover timeframes, quality, and security for product transportation.

In 2012, Fnac introduced a new schedule for deliveries to stores, which occur between three and five times per week depending on their size, and up to six times per week during the end-of-year holiday season. This new schedule reduced the Group's transport costs and CO_2 emissions.

In the upstream segment, i.e. the transportation of goods to Fnac's warehouses, transportation is organized by the suppliers, subject to specific exceptions. Upstream transportation of books is partly managed by Fnac. Downstream transport is entirely organized by Fnac.

The products sold on the Fnac.com website are delivered according to the timeframes chosen by the customer when ordering. Several types of delivery are available: (i) fast delivery (product delivered no later than five days after the order), (ii) express delivery (product delivered within 24 hours), and (iii) delivery by courier (product delivered on the same day in Paris and Greater Paris).

La Poste, Colis Privé, Chronopost and Relais Colis are the main operators who work with Fnac. Fnac also has a number of drivers responsible for the delivery and installation of televisions for customers located in Greater Paris.

As part of the proposed admission to trading of the Company's shares on Euronext Paris, and its spin-off from the Kering Group (see Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris"), the Group has signed agreements with its main logistics partners in order to maintain existing relationships and commercial terms during a transitional period.

6.5.7.4 Logistics and Transportation Outside France

Outside France, Fnac tries to adopt the best logistics model, depending on local operating conditions:

- ***Iberian Peninsula*** **-** In Spain, Fnac has a single integrated warehouse of 15,000 m², which handles all its business activities and all the channels (stores and website). In Portugal, Fnac has a single integrated warehouse of approximately 7,000 m², which handles all business activities and all the channels. Transportation is entrusted to an external provider in both these countries. The Group intends to strengthen the logistics links between France and the Iberian Peninsula countries, specifically via common handling of small consumer electronics.

- ***Brazil*** **-** In Brazil, Fnac uses an external provider with a warehouse of 3,600 m², which handles all its business activities and all the channels. Transportation is also entrusted to an external provider.

- ***Other countries*** **-** Logistics in Belgium and Switzerland were outsourced to DHL in 2012. In these countries, products that are shared with France (i.e. small consumer electronics and in Switzerland only, audio discs) are gradually being handled from France. In 2013, Fnac also intends to handle large consumer electronics items offered in Switzerland and Belgium from France, as well as French-language books for Belgium.

6.5.8 Information Systems

6.5.8.1 Information Systems Overview

The Group's information systems include various IT applications, which specifically cover purchasing, procurement, logistics, inventory management, business management and accounting, along with the IT management for the Group's websites and support functions (human resources etc.).

Information systems are key technical resources for the Group in terms of implementing its omni-channel strategy, promoting the accessibility of the product range, and the interconnection between the various channels, regardless of how the order is placed (online, in-store with a sales assistant or from a terminal), the location where the product is available (in-store reserves, self-service, warehouse or MarketPlace sellers) and the delivery location (store, home or Relais-Colis collection).

The Group's information systems are structured and managed to meet high targets in terms of (i) reliability, (ii) availability (particularly in terms of responsiveness), (iii) flexibility (in terms of Fnac's business and marketing model), (iv) convergence between information systems, (v) innovation (competitive intelligence, and adoption of best practices) and (vi) security (control of access to information systems).

The Group is committed to a strategy of gradual convergence between its information systems (i) for all countries, in the case of the internet, and (ii) for all countries except France, in the case of the remaining information systems. Within the same country, all the Group's stores and facilities are equipped with the same information system, with the exception of the airport stores operated by Aelia, which use their operator's information system.

With the exception of France and the Group's websites, Fnac has developed and begun to roll out a modular, low-cost and overall IT system (known as "FIB" or "*Fnac-In-a-Box*"). This system has already been rolled out in Switzerland and Belgium, and its roll-out is planned for Brazil. The Group also plans to examine rolling out FIB in Portugal and Spain. At the time, both these countries, along with Brazil, were equipped with specific systems and managed locally.

In France, Fnac advocates the "best of breed" approach, whereby the Group uses a selection of the best solutions available on the market as well as specific developments designed by the Fnac teams.

Management of the network, which connects the various French and international websites (data centers and stores), is provided by Verizon under an agreement entered into with the Kering Group. (See Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".) Fnac uses external service providers to manage and operate its servers, which it leases.

With the exception of the specific systems used in Spain, Portugal and Brazil, Fnac's information systems employ 120 people internally, while around 170 people are employed by external service providers, across all sales channels.

6.5.8.2 The Website

With the exception of the Brazilian website (Fnac.com.br), all the Group's websites are managed by a team of over 100 people located in France from an IT standpoint. Website development and maintenance are both managed internally. However, Verizon manages the website's connection with the outside world. The content of the websites is managed by Fnac's business teams, or by partner vendors in the case of the MarketPlace. The most developed website is the French website, which Fnac intends to roll out to the other countries where Fnac is established, in order to harmonize all the Group's websites.

6.5.8.3 Secure Payments

Management and security of payments via the Fnac.com website have been partially provided by Ogone, the payment operator, since July 2012. In 2012, the French Commission for Data Protection and Liberties (CNIL), which is France's supervisory authority for the protection of personal data, issued a public warning to Fnac regarding certain failings in the way its Fnac.com website stored customers' bank details. Fnac has noted these comments and outsourced payment security to an external service provider. In addition, since 2010, Fnac has completed the switch to the PCI DSS security standard, which is the highest in the market.

6.6 INSURANCE

6.6.1 Overview

At the date of this prospectus, the Group is covered by insurance policies subscribed directly, and by Kering Group insurance policies to which it had adhered.

As a replacement for certain policies that it benefited from while part of the Kering Group, the Group has taken out new transport and civil liability insurance policies. These new policies took effect on January 1, 2013, and will remain in effect after the admission of the Company's shares to trading on Euronext Paris.

In the event of admission to trading of the Company's shares on Euronext Paris, the Group will benefit from new insurance policies covering (i) damage and operating losses, and (ii) its corporate officers' civil liability. These policies will take effect on the date of admission to trading of the Company's shares on Euronext Paris. The Group will continue to benefit from the Kering's insurance coverage in these areas up until such date.

All of the new insurance policies, regardless of whether they enter into effect on January 1, 2013 or on the date of admission to trading of the Group's shares on Euronext Paris, have been or will be taken out on conditions that have been adjusted for the size and type of the Group's risks.

The Group's insurance policy is coordinated by the Group's Legal and Insurance Department, whose role is to identify risks, quantify their impact and reduce such risks:

- either by recommending preventive measures for risks that can be eliminated or reduced by these means;
- or by scheduling financing arrangements, specifically transfer to the insurance company of risks of an exceptional nature, where the potential impact is high and the frequency is low.

Each Group subsidiary must provide the Group Legal and Insurance Department with information aimed at identifying and quantifying risks, and implement appropriate resources to ensure business continuity in the event of an incident. Based on this information, the Group Legal and Insurance Department negotiates with the major players in the insurance and reinsurance industry in order to find the cover that is best-suited to the Group's risk coverage requirements.

6.6.2 Risk Prevention Policy

The aim of the risk prevention, precaution and protection policy, which is implemented at the subsidiary level, is to identify, assess and reduce the exposure, occurrence and intensity of incidents, through:

- audits of the main operational facilities;
- appraisals of value-at-risk;
- monitoring of recommendations from security professionals;

– internal control procedures;

– staff training, and

– implementation of appropriate emergency plans.

6.6.3 The Group's Insurance Policy

The Group's policy of transferring significant risks to insurance companies turns on:

– the economic balance between risk cover, premiums and excess levels, and

– the offer and constraints in the insurance market, and applicable local regulations.

Under its insurance policy, the Group favors the "all risks except" approach determined by assessing the financial consequences for the Group of possible claims, specifically in terms of:

– civil liability, including bodily harm or property damage to third parties due to its products, facilities and equipment;

– damage resulting from fire, explosions, water damage, riots, terrorism, war or other, and

– operating losses following direct damage.

The setting up of insurance coverage is based on determining the level of coverage required to cope with the reasonably estimated occurrence of a the risk of liability, damage or other risks for each facility and Group company concerned. This appraisal takes into account assessments made by insurers, as underwriters of the Group's risks.

Uninsured risks are those for which no coverage is offered on the insurance market or where insurance is offered at a cost that is disproportionate to the potential benefits of such insurance.

Risks are managed as part of the Group's general risk management policy in a way the Group believes to be similar to the practices in effect in French or foreign groups of a comparable size that are exposed to risks comparable to those incurred in connection with the Group's activities.

The main insurance programs to which the Group subscribes pool the purchase of insurance coverage, to which all of the Group's subsidiaries adhere. This coverage is underwritten by international insurance brokers, who specialize in the coverage of major risks with reputable insurers. The insurance premiums are paid by the Group's subsidiaries on the basis of criteria like the amount of capital insured, or in proportion to the subsidiaries' contribution to total Group revenues.

6.6.4 Main Insurance Programs

The main insurance programs taken out by the Group to cover the risks it faces in its operations are described below:

- ***Operating loss and damage***: to replace the coverage it currently benefits from as part of the Kering Group until admission of the Group's shares to trading on Euronext Paris, the Group will take out a new operating loss and damage insurance policy, which will take effect as soon as the Group's shares are admitted to trading on

Euronext Paris. This policy insures the Group against risks including fire damage, explosions, water damage, theft, damage to private property (buildings, furniture, equipment, goods or computer facilities) from natural disasters, and damage for which the Group is held liable, and against losses following such damage, for any period deemed necessary to enable the resumption of normal business. The total amount of the damage covered under these policies varies according to the risk and the geographical area under consideration. The amount is therefore capped at €370 million per claim as a result of fire, an explosion, or water damage.

- ***Civil liability***: the Group has taken out a new general liability insurance policy to replace the coverage it received as part of the Kering Group. This new policy took effect on January 1, 2013. The policy specifically covers risks or operational risks following delivery or the provision of a service including bodily harm or property damage caused to third parties arising out of the operations of all of the Group's subsidiaries or to the products the Group sells. The amount of the damages covered in this context is capped at €75 million per claim for an insurance period of two years.

- ***Transportation of goods:*** the Group has taken out new insurance policies covering the transportation of and damage to goods to replace the coverage it received as part of the Kering Group. These new policies took effect on January 1, 2013, and cover the business activities in-store and online at Fnac.com. The policies specifically cover the risk of damage, theft, loss or major incidents (excluding acts of war) during transportation performed by the Group's subsidiaries, from the point where the goods are delivered to the stores by suppliers or until delivery is taken by the recipient. The amount of the damage covered under this policy is capped at €10 million per claim for goods transported to the stores.

6.7 REGULATIONS

The Group is not subject to specific regulations targeted at its business as such. However, the Group is subject to various regulations as a result of its in-store and online retail business. Some of these regulations are summarized below.

6.7.1 Consumer Law

As a retailer, Fnac is subject to a set of binding rules governing sales and the relationship between retailers and consumers (labeling, terms and conditions of sale, regulation of unfair agreement terms, and regulation of unfair practices by Articles L. 120-1 *et seq.* of the French Consumer Code, etc.) and, more generally, governing the operation of its stores (days of business, sales periods, administrative opening authorizations, and regulation of public buildings, accessibility, safety, etc.). French law is increasingly focused on consumer protection. As an illustration, pursuant to Articles L. 211-4 *et seq.* of the Consumer Code resulting from Order No. 2005-136 of February 17, 2005, a professional vendor must respect a conformity obligation, which requires them to deliver goods to the consumer in conformity with the applicable contract, to address any lack of conformity that may exist upon delivery to the consumer, and to address any lack of conformity resulting from the packaging, assembly instructions or installation where this is stipulated in the agreement or is performed under its responsibility. In the event of a lack of conformity, the consumer can choose between repair and replacement of the goods. In addition, for defaults during the first six months following delivery to the consumer, there is a rebuttable presumption of lack of conformity at said delivery to the consumer. (See also Section 6.7.6, "Liability for Products" below.)

6.7.2 Regulations Applicable to E-Commerce

As part of the retail activities originating from its Fnac.com website, Fnac must also comply with all the rules that apply to e-commerce, and specifically those protecting consumers.

Under the terms of Articles L. 121-16 *et seq.* of the French Consumer Code, service providers and remote sellers are required to inform the consumer of a number of details upon making a contractual offer. This information specifically relates to the seller, delivery charges, terms of payment, delivery or performance, the existence of a cancellation right, the offer's validity period and price, as well as the timeframe within which the seller agrees to deliver the goods. This information must allow consumers to compare the various offers available online. The law requires that said information, the commercial nature of which must be made abundantly clear, be disclosed to the consumer in a clear and understandable manner. This information must also be confirmed in writing or in electronic format, no later than at the time of delivery.

Cancellation rights allow the consumer to cancel the agreement entered into with a seller, and to be reimbursed. Such right must be exercised within seven days of receipt of the goods or acceptance of the offer for services. It may be exercised without giving any justification or paying any penalty, except to cover return shipping costs. If the information required by law is not provided at the time of delivery, then the period for exercising the cancellation right is extended to three months. In the event that the cancellation right is exercised, the retailer must reimburse the consumer for the full amount paid as soon as possible, and no later than thirty days after the date when the right was exercised.

In addition, all remote sellers must set up a remote communication service, so as to enable consumers to monitor the execution of the order, to exercise their right to cancel, or to use their guarantee so as to ensure that they only pay for communication costs, to the exclusion of any other additional costs.

In its provisions resulting from Law No. 2004-575 of June 21, 2004 regarding Trust in the Digital Economy (known as the "LCEN"), the French Consumer Code also stipulates that a professional vendor cannot invoke the liability of other participants in the marketing chain, where the consumer is concerned. Therefore, even if the disputed services were to be performed by providers other than the vendor, it is the vendor who is fully liable towards the purchaser for the proper execution of the obligations outlined in the agreement.

Finally, the LCEN incorporated a uniform online purchasing procedure known as the "double click" procedure into the French Civil Code, which is intended to protect consumers, namely the consumer must be able to check the details of their order and the total price prior to confirming an order, and be able to correct any errors. In addition to this procedure, the vendor is obliged to confirm the order placed with the consumer.

6.7.3 Regulations Applicable to Book Prices

Law No. 81-766 of August 10, 1981 on book prices (the so-called "Lang Law") established a system for uniform book prices in France, meaning that any person who publishes or imports a book is obliged to set a public retail price for that book. Regardless of the time of year, this price must be respected by all retailers (specialized large-scale retailers, hypermarkets, and traditional and online bookstores etc.), including Fnac. Retailers have the option of offering discounts of up to 5% on the price determined by the publisher. However, they can charge prices lower than the public retail price for books published or imported more than two years ago, where the last delivery was made more than six months ago. Like the Lang Law, Law No. 2011-590 of May 26, 2011 regarding the price of digital books requires e-book publishers to set a single public retail price that applies to all vendors serving purchasers located in France.

6.7.4 Regulations Applicable to the Processing of Personal Data

In the context of its operations, the Group's companies will necessarily acquire personal data relating to store customers, website users and members as part of their activities.

Law No. 78-17 of January 6,1978 regarding information technology, files and liberties known as the "French Data Protection Act" (as amended) applies to all automated and non-automated processing of personal data held or intended for inclusion in files where the processing is incumbent on Group companies.

The French Data Protection Act sets out a number of obligations, including an obligation to report or request authorization from the French Commission for Data protection (CNIL) for all automated or non-automated processing of personal data held or intended for inclusion in Group company files. It also imposes a range of customer information requirements, which are specifically related to methods for implementing the right to access, rectify and remove data contained in the files. In particular, bank details provided by customers when buying online are of a nature to justify strict retention conditions, reinforced by heightened security measures. The collection and retention of such data is subject to compliance with the requirements of the French Data Protection Act. Following a transaction, the retention of this data is therefore subject to the customer's consent, and may only be used for a limited time.

The CNIL has the power to control, investigate, and issue injunctions and administrative penalties. In addition, non-compliance with the provisions of the French Data Protection Act may lead to criminal penalties (Articles 226-16 to 226-24 of the French Criminal Code).

6.7.5 Regulations Applicable to Retail Distribution

As a retailer, the Group is subject to various regulations in its relations with suppliers.

The Group's operations in France are primarily subject to the 2008 Economic Modernization Act (known as the "LME") which specifically regulates payment terms. Therefore, with some exceptions, (e.g. books), under the terms of Article L441-6 of the French Commercial Code, the payment terms may not exceed 45 days from month-end or 60 days from the invoice issue date in the event of an agreement between the parties. In the absence of an agreement between the parties, the terms cannot exceed 30 days from receipt of the goods or performance of the services.

The Group is also subject to competition regulation at both the French and European level, which prohibits concerted actions, agreements, and express or implied understandings, specifically when these tend to restrict market access or the free exercise of corporate competition, prevent the setting of a price via the free market by artificially encouraging a price increase or decrease, restrict or control manufacturing, outlets, investment or technical progress, or allocate markets or procurement sources. As parties to distribution agreements with suppliers, the Group companies are responsible for their compliance.

Suppliers are free to organize the mode of distribution for their products, choose their business partners, and negotiate the terms and conditions of sale with them. However, certain kinds of contractual provisions are likely to restrict competition, such as differentiation in pricing and delivery conditions or the operating procedures of selective retail networks. In particular, there are situations where the discriminatory nature of price reductions or delivery conditions granted to certain retailers could amount to abuse of a dominant position or an anti-competitive agreement. Likewise, although manufacturers have the right to require members of their selective retail network to possess a physical sales outlet or to fulfill various quality or behavior criteria, the manufacturer's right to organize the selective retailing of its products and to select the criteria for approval subject to compliance with such predefined criteria may be called into question if the resulting retail restriction undermines market competition. Such practices could specifically exist if the market power of the supplier and/or retailer in their respective markets, or the attractiveness of the products in question are so significant that the discrimination carried out is likely to distort competition and, specifically, to put some retailers out of business. In the absence of justification under the terms of the Treaty on the Functioning of the European Union or of the French Commercial Code, such practices may be prohibited and/or penalized.

6.7.6 Liability for Products

As a retailer, the Group could be held liable as a result of the products it distributes, even though such products are covered by the manufacturer's warranty in principle. In the case of contractual warranties granted to its customers by the Group, where applicable, these warranties are usually identical in nature, level and scope to those provided by the manufacturer. In addition, the contracts entered into between the Group and its suppliers generally include provisions relating to compliance with applicable standards and regulations, compensation mechanisms, guarantees relating to supplier qualification (reputation, financial soundness, existence of adequate insurance policies, compliance with applicable standards and regulations, etc.), and "product return" provisions, under which the supplier agrees to take back products under certain conditions.

French regulations (in particular Articles L. 221-1 *et seq*. of the French Consumer Code) impose a general obligation of safety and absence of harm to human health for any product brought to the market that is intended for consumers or liable to be used by them. As a retailer, i.e. a marketing chain professional whose business has no impact on a product's safety features, the Group, like the manufacturers, must take all appropriate measures in order to contribute to compliance with all safety requirements and to the absence of harm to human health provided for by law. A safe product is one that presents no risk, or only reduced levels of risk (compatible with use of the product), which are acceptable in that they provide a high level of protection for the health and safety of persons. Where a retailer is informed that products intended for consumers that it has brought to market do not meet health and safety requirements, they must immediately inform the appropriate administrative authorities, and specify the actions that they will undertake to prevent risks to consumers. Retailers must also refrain from supplying products that they know do not meet the safety requirements laid down by law, based on information in their possession and pertaining to their professional capacity. Lastly, retailers must participate in monitoring the safety of products brought to market via the disclosure of information about the risks relating to these products, through retaining and supplying the documentation required to ensure traceability, as well as collaborating in the risk-prevention initiatives launched by manufacturers and the appropriate administrative authorities.

Lastly, under Articles 1386-1 *et seq.* of the French Civil Code, the Group is responsible for any damage amounting to over €500 caused to individuals or property by products that do not provide the safety which the Group's customers have a legitimate right to expect, and for which the Group presented itself as the manufacturer by attaching its name, trademark or other distinctive mark, or which the Group imported into the European Union with a view to their sale, lease or any other form of distribution. Excepting misconduct, its liability is extinguished ten years after the release of the product that caused the damage unless the victim has commenced legal proceedings during this period. Any application for damages will lapse after three years. Any provisions aimed at excluding or restricting liability due to defective products where consumers are concerned are prohibited and deemed unwritten.

6.7.7 Regulation of Insurance and Consumer Credit Operations

The Group has signed an exclusive mandate for banking and payment services with CA Consumer Finance, which operates under the FINAREF brand (Crédit Agricole Group). In this context and under its responsibility, Fnac commits to present its customers to FINAREF in connection with financing applications for which FINAREF has been approved.

This activity is governed by a set of specific and binding rules, a non-exhaustive summary of which is set out below, including (i) Articles L. 519-1 *et seq.* of the French Monetary and Financial Code regarding intermediaries in the banking and payment services sector, (ii) Articles L. 311-1 *et seq.* of the French Consumer Code regarding consumer credit, (iii) Articles L. 121-20-8 *et seq.* of the Consumer Code regarding the remote marketing of financial services, and (iv) Articles L 511-1 *et seq.* of the French Insurance Code regarding insurance intermediation.

Specifically, pursuant to these regulations, an intermediary must present themselves to the customer as a banking transactions intermediary, when entering into a relationship with that customer. They must provide specific information regarding the intermediary and the credit institutions with which they work, on an exclusive basis, where applicable, as well as on redress and complaint procedures. The intermediary must also agree any charges with the customer or potential customer and, if applicable, any remuneration payable to the intermediary, and remind the customer of the provisions of Article L. 519-6 of the French Monetary and Financial Code whereby the intermediary is forbidden from collecting any amounts whatsoever from the customer in respect of a provision, fee, research costs, representation costs, arrangement fees or middleman costs prior to the actual release of the funds loaned, under penalty of criminal proceedings. The intermediary must also provide the customer with pre-contractual information, and the explanations required to understand the financing transaction properly, thereby ensuring that the customer understands the extent of their commitment, and that the offer is appropriate for their financial situation and requirements, as well as for their experience of banking transactions, and must draw the customer’s attention to the essential features of the service, transaction or agreement proposed and to the consequences that signing the agreement may entail for their financial situation, including in the event that they default on their payments. To this end, the persons responsible for providing the borrower with said consumer credit explanations and for gathering information regarding their solvency must be trained in consumer lending and the prevention of over-indebtedness. It should be noted that other restrictions apply to pre-contractual customer information where the intermediary is operating remotely.

In accordance with the provisions of Article L. 311-12 of the French Consumer Code, the consumer has a period of fourteen calendar days to exercise their right to cancel a given consumer credit agreement, without providing any justification or paying any compensation. In the event that the customer exercises his or her right to cancel, the consumer is no longer bound by any service agreement incidental to the credit agreement. No payment can change hands between the parties for a period of seven days from the date of acceptance of the agreement by the consumer.

In the case of the sale of financial services as part of a remote sale or service provision system, a cancellation period of fourteen days also applies. However, exercising the right to cancellation only implies full termination of the sale or service provision agreement if such exercise occurs within seven days of the conclusion of the credit agreement, or within three days of the conclusion of the credit agreement where the consumer expressly requests the immediate delivery or provision of the goods or services. No implementation is possible by the parties prior to the expiry of this cancellation period, without the consumer’s consent. Where a consumer exercises their right to cancellation, they are only required to pay for the proportion of the financial service actually provided, excluding any penalties.

Lastly, additional obligations are incumbent on the intermediary in the case of a revolving loan, which consists in providing the borrower with a cash reserve that may be used as they see fit. Every time the intermediary proposes a revolving credit agreement to finance the purchase of specific goods or services in excess of €1,000, at the point of sale or by means of remote selling, the customer must be given the opportunity to enter into a repayment credit agreement rather than a revolving credit agreement.

The insurance intermediary business is also regulated, particularly where information is concerned, and requires registration and training from approved organizations. Specifically, the intermediary must provide prospective purchasers with their name or company name, business address and registration number and specify the means that enable this registration to be verified. The intermediary must also indicate any direct or indirect interest that they hold amounting to over 10% of the voting rights or share capital of an insurance company. Lastly, with a view to dealing with potential disputes, the intermediary must provide the contact details and address of its complaints department when one exists, as well as those of the Prudential Control Authority.

6.7.8 Legal Framework Governing the Film Release Timetable

Pursuant to the "film release timetable", the release of films via any means of dissemination may only occur upon expiry of specific time periods, as from their theatrical release. Under the Act of June 12, 2009 promoting the dissemination and protection of creative works on the internet, a professional agreement dated July 6, 2009 establishes the timeframes to be complied with to for all means of dissemination, with the exception of video recordings (namely DVDs and Blu-Ray discs in particular).

The dissemination of video recordings is governed by Article L. 231-1 of the French Moving Image and Cinema Code (CCIA), pursuant to which a film may be shown in the form of a video recording intended for sale or rental for private use by the general public upon expiry of a four-month period from the date of its theatrical release. However, an exemption from the statutory period can be obtained via the specification of a different term in the rights acquisition agreement for the release of the film in question in the form of a video recording. The setting of a shorter period is then subject to the issuance of an exemption by the French Moving Image and Cinema Center (CNC), which may only be granted if the film sold less than 200 seats in its fourth week on release. This exemption may not reduce the release timeframe by more than four weeks. Moreover, for the purpose of controlling operating revenues for cinematographic or audiovisual works in the form of video recordings, video recording publishers must keep up-to-date records in order to identify the origin and the operating conditions, as well as the operating revenues for the video recordings that they issue, and send these records to the CNC every six months.

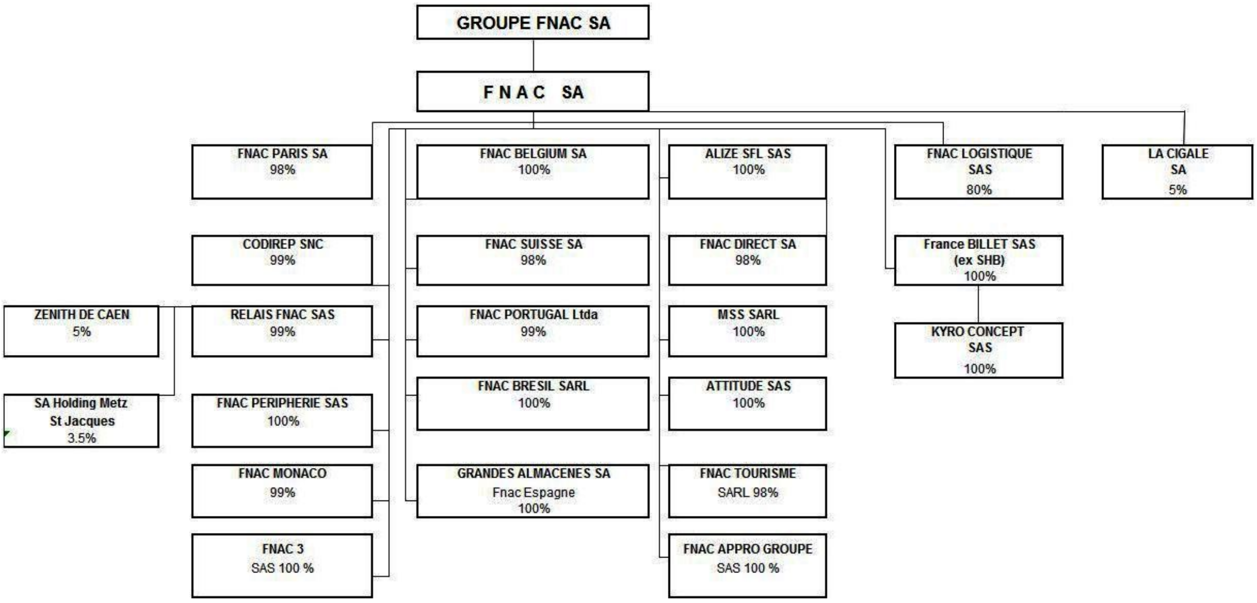
In the case of video on demand ("VOD"), the following timeframes apply: (i) for pay-per-view VOD services, the timetable is in line with that in effect for video recordings (with the exception of rent-per-view VOD, whereby a television service benefits from exclusive usage within its operating window via contractual agreement), (ii) for subscription VOD, the release timeframe is 36 months from the date of theatrical release, and (iii) for free VOD, the release timeframe is set at 48 months from the date of theatrical release.

In the case of pay-tv film services, two broadcast windows are specified. For the first broadcast window, the release timeframe is set at ten months from the date of theatrical release when an agreement is reached with the professional film organizations or at twelve months in the absence of such an agreement. For the second broadcast window, the release timeframe is 22 months if agreed, and 24 months in the absence of an agreement. This dual timeframe was established to encourage television channels to participate in the financing of French films. Lastly, in the case of television services other than pay-tv film services and unencrypted television services, the release timeframe is set at 22 months from the date of theatrical release where this service applies to a coproduction commitment amounting to a minimum of 3.2% of the film’s revenues, or at 30 months in the absence of such a commitment.

7. ORGANIZATIONAL CHART

7.1 SIMPLIFIED GROUP ORGANIZATIONAL CHART

The following organizational chart illustrates the Group's ownership structure as of the date of the visa on this prospectus, taking into account certain reorganization transactions that are currently underway (and subject to the completion of such transactions).



7.2 SUBSIDIARIES AND EQUITY INVESTMENTS

7.2.1 Overview

The Company is the parent company of a group of companies including, as of March 31, 2013, 25 consolidated subsidiaries (20 in France and five abroad). The Company is also the parent of a tax consolidation group including 15 French subsidiaries as of January 1, 2013.

The Company is a holding company with no operations in its own right. Its main asset is a nearly 100% interest in Fnac S.A.[119] The simplified organizational chart in Section 7.1 "Simplified Group Organizational Chart" includes all of the Company's direct or indirect investments as of the date of the visa on this prospectus. These investments are also listed in Note 36 "List of consolidated subsidiaries at December 31, 2012" of the Company's 2012 consolidated financial statements. (See Section 20.1 "Group Consolidated Financial Statements".)

For a description of the main transactions occurring within the Group see Section 19.2 "Major Intragroup Transactions".

7.2.2 Major Subsidiaries

Groupe FNAC's main direct and indirect subsidiaries are described below:

- Fnac S.A. is a French limited company (*société anonyme)* with a share capital of €6,928,971. Its registered office is located at ZAC Port d'Ivry, 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the

119 Not including shares held by members of the Company's group or by administrators in order to form the requisite number of shareholders.

Créteil Trade and Companies Registry under Number 775 661 390. Groupe Fnac holds close to 100% of the share capital and voting rights of Fnac SA. Fnac S.A. is the parent company of all Fnac's direct or indirect subsidiaries, and includes most of Fnac's management and support functions, including the Operations Department, the Information Systems Department, the Marketing Department, the General Secretariat (placed under the responsibility of the Group's Finance Director), the Group Purchasing Department (DAG), Operational Management, the Communications Department, the Marketing and Brand Department, the Finance Department and the Human Resources Department.

- Fnac Paris is a French *société anonyme* with capital of €10,102,452. Its registered office is located at ZAC Port d'Ivry 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 350 127 460. Groupe Fnac holds an indirect 100% interest in Fnac Paris' share capital and voting rights. Fnac Paris' main business activity is the operation of Fnac's stores located in Paris.

- Fnac Direct is a French limited company (*société anonyme)* with a share capital of €384,615. Its registered office is located at ZAC Port d'Ivry 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 377 853 536. Groupe Fnac holds an indirect 100% interest in Fnac Direct's share capital and voting rights. FNAC Direct's main business activity is the operation of the Fnac.com website.

- Relais Fnac is a simplified joint stock company incorporated under French law with a share capital of €74,070. Its registered office is located at ZAC Port d'Ivry, 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 334 473 352. Groupe Fnac has an indirect 100% interest in Relais Fnac's share capital and voting rights. Relais Fnac includes most of Fnac's regional departments and operates Fnac stores located in major French cities outside Paris.

- France Billet is a simplified single shareholder joint stock company incorporated under French law with a share capital of €352,512. Its registered office is located at ZAC Port d'Ivry, 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 414 948 695. FNAC Group holds an indirect 100% interest in France Billet's share capital and voting rights. France Billet's main business activity is the marketing and retailing of tickets for sporting, artistic, cultural, tourism and entertainment events via a network of local sales outlets, as well as on the Fnac.com and francebillet.com websites.

- CODIREP is a general partnership company incorporated under French law with a share capital of €3,060. Its registered office is located at ZAC Port d'Ivry, 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 343 282 380. Groupe Fnac holds an indirect 100% interest in CODIREP's share capital and voting rights. CODIREP's main business is the operation of Fnac's stores located in the Paris suburbs.

- Alize – SFL (*Société Française du Livre*) is a simplified single shareholder joint stock company incorporated under French law with a share capital of €25,750,000. Its registered office is located at 4, rue Charles Christofle, 93200 Saint Denis (France) and it is registered with the Bobigny Trade and Companies Registry under Number 349 014 472. Groupe Fnac holds an indirect 100%

interest in Alize – SFL's share capital and voting rights. Alize – SFL's main business activity is the operation of a bookstore located at 11, rue Rottembourg in Paris' 12th District, and the provision of services to municipalities, businesses and bookselling professionals for their book acquisitions.

- Fnac Périphérie is a simplified single shareholder joint stock company incorporated under French law with a share capital of €45,039,000. Its registered office is located at ZAC Port d'Ivry, 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 434 001 954. Groupe Fnac holds an indirect 100% interest in Fnac Périphérie's share capital and voting rights. Fnac Périphérie's main business activity is the operation of Fnac's stores in shopping malls or retail parks on the outskirts of cities.

- Fnac Logistique is a simplified joint stock company incorporated under French law with a share capital of €1,537,500. Its registered office is located at ZAC Port d'Ivry, 9, rue des Bateaux-Lavoirs, 94200 Ivry-sur-Seine (France) and it is registered with the Créteil Trade and Companies Registry under Number 414 702 506. Groupe FNAC holds an indirect 100% interest in Fnac Logistique's share capital and voting rights. Fnac Logistique's main business activity is the operation of the Fnac's warehouses.

- Grandes Almacenes Fnac Espana is a single shareholder limited joint stock company incorporated under Spanish law with a share capital of €1,202,000. Its registered office is located at Paseo de la Finca 1, Edificio 11 – 2ª planta 28223 Pozuelo de Alarcón, Madrid (Spain) and it is registered with the Madrid Trade Registry under Number A-80/500200 (CIF number). Groupe Fnac holds an indirect 100% interest in Grandes Almacenes Fnac Espana's share capital and voting rights. Grandes Almacenes Fnac Espana's main business activity is the operation of Fnac's Spanish stores and website.

- Fnac Portugal is a limited liability company (*Sociedade por Quotas de Responsabilidade Limitada*) incorporated under Portuguese law with a share capital of €250,000. Its registered office is located at Edifício Amoreiras Plaza, Rua Professor Carlos Alberto Mota Pinto, No. 9–6B, 1070 374 Lisbon (Portugal) and it is registered with the Lisbon Trade Registry (*Conservatoria do Registo Comercial*) under Number 503 952 230. Groupe Fnac holds an indirect 100% interest in FNAC Portugal's share capital and voting rights. Fnac Portugal's main business activity is the operation of Fnac's Portuguese stores and website.

- Fnac Brasil is a limited liability company (*Sociedade empresaria limitada*) incorporated under Brazilian law with share capital of BRL 175,664,186. Its registered office is located at Praça dos Omaguas, No. 34, Pinheiros, CEP 05419-020, São Paulo, São Paulo State (Brazil) and it is registered with the Trade Registry (*Cadatro Nacional de Pessoas Jurídicas do Ministerio da Fazenda (CNPJ/MF*)) under Number 02.634.926/0001- 64. Groupe Fnac holds an indirect 100% interest in FNAC Brazil's share capital and voting rights. FNAC Brazil's main business activity is the operation of Fnac's Brazilian stores and website.

- Fnac Belgium is a *société anonyme* incorporated under Belgian law with a share capital of €3,072,000. Its registered office is located at 142 Avenue Jules Bordet, 1140 Evere, Brussels (Belgium) and it is registered with the Brussels Registry of Legal Entities under Number 0421 506 570. Groupe Fnac holds an indirect 100% interest in FNAC Belgium's share capital and voting rights. Fnac Belgium's main business activity is the operation of Fnac's Belgian stores.

- Fnac Suisse is a *société anonyme* incorporated under Swiss law with a share capital of CHF 100,000. Its registered office is located at 5 Route Moulires, 1242 Satigny (Switzerland) and it is registered with the Canton of Geneva Trade Registry under Federal Number CH-660.0.404.000-9. Groupe Fnac holds an indirect 100% interest in Fnac Suisse's share capital and voting rights. Fnac Suisse's main business activity is the operation of Fnac's Swiss activities.

7.2.3 Recent Acquisitions and Disposals

The main acquisitions and sales performed by the Group during the period covered by the financial statements are described in Section 9.1.3.1 "Changes in the Scope of Consolidation", and in Note 3.1 "Changes in the Scope of Consolidation" in the financial statements included in Section 20.1," Group Consolidated Financial Statements".

8. PROPERTY, PLANT AND EQUIPMENT

8.1 SIGNIFICANT EXISTING OR PLANNED PROPERTY, PLANT AND EQUIPMENT

All of the Group's properties (offices, stores, warehouses, etc.) for the purposes of its operations are leased, primarily through operating leases.

The following table summarizes the areas occupied by the Group's directly owned stores (i.e. excluding franchises) as at December 31, 2012 in the various countries where the Group maintains operations (excluding discontinued operations). The Group's operations in each geographical zone are described in more detail in Section 6.5.1 "Geographical Breakdown".

Stores	**Number of sites**	**Customer retail area (in m²)**
France	88	227,221
Belgium	9	18,885
Brazil	11	25,581
Switzerland	4	7,683
Spain	25	56,015
Portugal	17	30,648
Total	**154**	**366,033**
Warehouses/Offices	**Number of sites**	**Total area occupied (in m²)**
France		
Warehouses	5	124,218
Offices	9	26,099
Belgium		
Warehouses	–	–
Offices(1)	1	1,322
Brazil		
Offices	1	1,400
Switzerland		
Stores and warehouses	1	5,406
Offices	1	1,535
Spain		
Warehouses	1	14,984
Offices	1	3,024
Portugal		
Warehouses	1	9,262
Offices	1	1,876
Total	**22**	**189,126**

(1) Including Fnac Lab, the Fnac Tourism agency's call center and the MSS repair premises

The Group considers that the utilization rate of its property, plant & equipment is consistent with its operations, its development plan, and its ongoing and planned investments.

The Group's main investments, including those that are planned and those that are in progress, as of the date of the visa on this prospectus are detailed in Sections 5.2.2 "Main Investments in Progress" and 5.2.3 "Main Investments Planned".

8.2 ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Given the Group's current operations and its property, plant & equipment, the Group believes that there are no environmental issues that may materially influence the utilization rate of its property, plant & equipment. Nevertheless, the Group pays particular attention to the environmental impact of its operations and the products it sells. It aims to implement a strategy of profitable, sustainable and socially responsible growth, in social, environmental and corporate terms. See Section 6.3.7 "Sustainable Development" and the information contained in Annex 2.

9. REVIEW OF THE GROUP'S FINANCIAL POSITION AND RESULTS

The following discussion of the Group's financial condition and results of operations should be read together with the Group's consolidated annual financial statements for the years ended December 31, 2010, 2011 and 2012 and the notes thereto, attached as Section 20.1 "Group Consolidated Financial Statements ").

The Group's consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union. The Company's consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 have been audited. The Statutory Auditor's report on these consolidated financial statements can be found in Section 20.1 "Consolidated Group financial statements".

9.1 OVERVIEW

9.1.1 Introduction

The Group believes that it is the leading retailer of entertainment and leisure products (including consumer electronics) in France, and a major player in the other markets in which it is present. The Group organizes its business around four geographical regions: France, the Iberian Peninsula (including Spain and Portugal), Brazil, and Other Countries (including Belgium and Switzerland). The Group also has a franchise location in Morocco, for which the related earnings are accounted for under the "France" region. The Group maintains e-commerce websites in all the countries where it has a directly-owned store network. This online and offline presence ("click & mortar") enables the Group to take advantage of the synergies between its store network and its internet presence, and to implement its omni-channel strategy. The Group generated revenues of €4,061.1 million in 2012, of which €492.5 million (or 12.1% of revenues) came from the Group's internet businesses, an increase of 9.4% compared to 2011 (10.2% at constant exchange rates). The Group sells three categories of products and services (consumer electronics, editorial products and services) through two retail channels (retail stores and online).

The following table provides a breakdown of revenues and current operating income by geographical region for 2010, 2011, and 2012. The Kering management fee is described in Section 9.1.4.5 "Current Operating Income Before Kering Management Fee and Current Operating Income After Kering Management Fee".

	For the fiscal year ended December 31					
	2010		**2011**		**2012**	
	(€ million)	*(as a % of the total)*	*(€ million)*	*(as a % of the total)*	*(€ million)*	*(as a % of the total)*
Revenues						
France	3,015.5	70.0%	2,884.9	69.3%	2,838.8	69.9%
Iberian Peninsula	732.3	17.0%	707.3	17.0%	683.3	16.8%
Brazil	232.1	5.4%	240.7	5.8%	227.5	5.6%
Other countries	325.2	7.6%	329.6	7.9%	311.5	7.7%
Total	**4,305.1**	**100.0%**	**4,162.5**	**100.0%**	**4,061.1**	**100.0%**
Current operating income						
France	144.2	76.5%	62.1	67.8%	55.6	75.9%
Iberian Peninsula	39.2	20.8%	27.9	30.5%	17.7	24.1%
Brazil	0.9	0.5%	(5.8)	(6.3)%	(5.7)	(7.8)%
Other Countries	4.1	2.2%	7.4	8.0%	5.7	7.8%
Current operating income before Kering management fee	**188.4**	**100.0%**	**91.6**	**100.0%**	**73.3**	**100.0%**
Kering management fee	(11.1)		(10.8)		(10.0)	
Current operating income after Kering management fee	**177.3**		**80.8**		**63.3**	

The following table provides a breakdown of the Group's 2012 revenues by geographical region and category of products and services.

	Fiscal year ended December 31, 2012							
	Consumer electronics		**Editorial Products**		**Services**		**Total**	
	(€ million)	*(as a % of region's revenues)*	*(€ million)*	*(as a % of region's revenues)*	*(€ million)*	*(as a % of the region's revenues)*	*(€ million)*	*(as a % of revenues from all regions)*
France	1,507.4	53.1 %	1,145.7	40.4%	185.7	6.5%	**2,838.8**	**69.9%**
Iberian Peninsula	396.7	58.1 %	269.5	39.4%	17.1	2.5%	**683.3**	**16.8%**
Brazil	149.7	65.8 %	71.7	31.5%	6.1	2.7%	**227.5**	**5.6%**
Other Countries	160.1	51.4 %	142.8	45.8%	8.6	2.8%	**311.5**	**7.7%**
Total	**2,213.9**	**54.5 %**	**1,629.7**	**40.1%**	**217.5**	**5.4%**	**4,061.1**	**100.0%**

- **Operating segments**

The Group manages its operations based on four geographical segments:

- **France** *(69.9% of Group revenues in 2012, and 75.9% of Group current operating income in 2012)* The "France" region is the largest contributor to Group revenues, with revenues of €2,838.8 million in 2012. The Group conducts its business in France primarily through its 88 (as of the end of 2012) directly-owned stores and through online sales, primarily through Fnac.com. Revenues from goods sold to the Group's 16 franchise locations is accounted for under the "France" region, as are royalties on the sales generated by franchise locations. The Group's internet operations generated 14.2% of revenues in France in 2012.

- **Iberian Peninsula** *(16.8% of Group revenues in 2012, and 24.1% of Group current operating income in 2012)* The Group conducts its business in the Iberian Peninsula through its directly-owned store network (25 stores in Spain and 17 in Portugal at the end of 2012), and the operations of fnac.es and fnac.pt. The Iberian Peninsula was the second largest contributor to Group revenues in 2012, representing 16.8% of Group revenues. The operations of fnac.es and fnac.pt accounted for 7.2% of revenues in the Iberian Peninsula in 2012.

- **Brazil** *(5.6% of Group revenues in 2012, and (7.8%) of Group current operating income in 2012)* The Group conducts its business in Brazil through 11 directly-owned stores (at the end of 2012) and Fnac.com.br. The Group generated revenues of €227.5 million in Brazil in 2012, which represented 5.6% of Group revenues. Revenues from internet operations in Brazil accounted for 16.2% of the Group's revenues in that country in 2012.

- **Other countries** *(7.7 % of Group revenues in 2012, and 7.8 % of Group current operating income in 2012)* The "other countries" zone includes the Group's operations in Belgium and Switzerland, where the Group operated 9 and 4 directly-owned stores, respectively, at the end of 2012. The Group has a website in Belgium (fnac.be), which is operated from the Fnac.com platform in France.

- **Product and service categories:**

In each geographical region where it operates, the Group analyzes its sales by category of products and services. This analysis focuses on three main categories.

- **Consumer electronics** *(54.5% of Group revenues in 2012).* The consumer electronics product category generated revenues of €2,213.9 million in 2012. It is the largest contributor to consolidated revenues. It includes two product sub-categories:

  - *IT products,* which includes sales of the following products: desktop computers, laptops, tablets, software, printers, e-readers (including *Kobo by FNAC*) and office computer products and accessories. Until December 31, 2012, this sub-category also included small household appliances ("Home & Design"), which will be included in the "retail electronics" category from January 1, 2013. IT products accounted for 62.6% of the consumer electronics category's revenues in 2012.

  - *Retail Electronics,* which includes sales of the following products**:** cameras and photography accessories, televisions and video accessories (DVD players, Blu-Ray players and other accessories (home cinema)) and audio items and accessories (MP3 players, headphones, docking stations and related accessories). The retail electronics sub-category generated 37.4% of consumer electronics revenues in 2012.

- **Editorial Products** *(40.1 % of Group revenues in 2012).* The editorial products category generated revenues of €1,629.7 million in 2012. It includes two product sub-categories:

  - *Books, toys and games, and stationery,* which is a sub-category that includes physical books, digital books, and stationery-related products. This sub-category also includes the toys and games offered in "FNAC Kids" areas since November 2011. The books, toys and games, and stationery sub-category accounted for 50.6% of editorial products revenues in 2012.

- *Discs and Gaming*, which is a sub-category that includes music (CDs and, up until December 31, 2012, online music), videos (DVDs and Blu-Ray discs), and gaming (which includes video games and consoles), as well as derivative products. This sub-category accounted for 49.4% of Editorial Products revenues in 2012.

- **Services** *(5.4% of Group revenues in 2012)*. The services category, which includes the "services" and "other income" line items, generated revenues of €217.5 million in 2012, and primarily includes the following items:

    - services relating to the sale of goods, like the sale of extended warranties, after-sales service, and deliveries and installations;
    - ticketing and box office services and gift-boxes;
    - sales of membership cards for the Group's loyalty program;
    - the invoicing of shipping costs to internet customers;
    - commissions received as part of the MarketPlace, and partnerships with suppliers; and
    - royalties from stores operated under franchise.

9.1.2 Key Factors affecting the Group's business

9.1.2.1 General economic conditions in the countries where the Group operates

Demand for the products and services sold by the Group can be heavily affected, either positively or negatively, by general economic conditions in the regions and countries in which it operates, given the extent to which economic conditions influence consumer spending.

Generally speaking, since 2010, consumers in Europe have been affected by a difficult economic environment and higher tax burdens, which have reduced the disposable income available to purchase products and services such as those offered by the Group. This trend, together with changes in the Group's markets (see Section 6.4 "Market Overview") has resulted in lower revenues for the Group in Europe. Of the various markets served by the Group, the economic crisis has been most acute in Spain and Portugal.

Unlike the European economy, the Brazilian economy expanded over the period between 2010 and 2012. Although the Brazilian economy's growth rate slowed in 2011, the Group believes that Brazil remains a country with strong economic potential.

9.1.2.2 Competitive environment

In its markets, the Group encounters competition not only from traditional retail brands, some of whom are developing internet offers under their core brand names, but also from internet pure players that have emerged from the growth in e-commerce and compete on the basis of price and an increasingly broad offering of products. Over the last several years, the Group has also seen new forms of competition emerge, such as competition from manufacturers, ISPs or digital platforms, which are fueling a phenomenon of disintermediation in the sector (see Section 6.4 "Market Overview").

Although the market share of the internet pure players remains relatively low in the Group's markets (82.4% of consumer electronics sales in France were generated in stores in 2012, compared with 17.6% for internet sales[120]), pure players are the source of intense competitive pressure in the Group's markets. This pressure has intensified price competition in the Group's markets, which may adversely affect the Group's revenue growth, but may also offer opportunities to the extent the pricing pressure affects all players in the market. Thus, in 2012, the Group continued to gain market share in France and abroad (see Section 6.4 "Market Overview"). The Group has also strengthened its omni-channel presence. In France, the value of orders placed on the Fnac.com website that were initiated or picked up in the Group's retail stores nearly doubled to reach 21.5% in 2012. (For the month of December 2012 alone, this proportion was 38%).

9.1.2.3 Number of stores

The number of stores operated by the Group directly affects the level of its revenues. Excluding discontinued operations, the Group has opened 29 stores since December 31, 2010, of which 13 are directly owned and 16 are under franchise.

In the context of its FNAC 2015 strategic plan, the Group intends to further build out its network of stores in France to be closer to its customers and improve its coverage of the market. This network buildout will be carried out by opening new directly-owned stores but also and principally by opening new franchise stores. Franchising will be the preferred approach in medium size towns, with a focus on the "proximity" store format, and in high traffic areas such as train stations and airports, which will be addressed using the "travel" store format. The Group also plans to accelerate its expansion to new countries it believes have high potential by using the franchise approach.

The following table shows the growth in the number of stores over the period:

	Year ended December 31				
	2010	2011		2012	
Number of stores	**Directly-owned**	**Directly-owned**	**Under franchise**	**Directly-owned**	**Under franchise**
France(1)					
Traditional format	69	70	1(1)	71	1(1)
Suburban format	11	15	-	17	1
Proxi format	-	-	-	-	1
Travel format	-	-	6	-	10
Total	**80**	**85**	**7**	**88**	**13**
Iberian Peninsula					
Traditional format	37	40	-	41	-
Travel format	1	1	-	1	-
Total	**38**	**41**	**-**	**42**	**-**
Brazil					
Traditional format	10	10	-	11	-
Other countries					
Traditional format	13	13	-	13	-
Total	**141**	**149**	**7**	**154**	**13**

(1) Includes or corresponds to a store operated as a franchise in Morocco, which opened in 2011.

120 Source: GfK.

The financial results of directly owned stores are fully consolidated in the Group's financial statements. The Group analyzes its financial results on both an actual basis including all stores, but also on a same store basis, i.e., the revenues generated by stores that, as of January 1 in fiscal year N, were in operation for the full twelve months of fiscal year N-1.

For stores operated on a franchise basis, the Group generates revenues by selling products to franchise stores. These revenues are recorded as product sales. The Group also generates revenues from royalties paid by franchise stores based on the level of sales generated by the franchise stores. These royalties are accounted for as services revenues in the Group's financial statements.

Unless otherwise indicated, all financial data in this Chapter include revenues from all stores and are presented on a current exchange rate basis.

9.1.2.4 Traffic, average checkout value, checkout transactions and number of loyalty program members

The Group's revenues are a function of the number of checkout transactions and average checkout values. Checkout transactions are a function of customer traffic (visits to a store or website) and the sales conversion rate.

In France, customers that are members of the Group's loyalty program make purchases more often and generate higher checkout values than non-members. Members of the loyalty program benefit from promotional offers that create a strong incentive to make purchases from the Group. The number of loyalty program members (5.0 million in total at the end of 2012) and their share of the Group's revenues increased significantly over the period between 2010 and 2012 (the number of members increased by 22.2%), which partially offset the impact of a decline in overall traffic in the Group's stores over the same period.

The Group generates its revenues through two sales channels:

- *Retail store sales*. The Group's retail stores generate the bulk of the Group's revenues. Over the last three fiscal years, in-store revenues increased primarily as a result of higher checkout values, despite lower store traffic. Over the last several years, the significant growth in e-commerce has significantly modified consumer spending habits. The Group's markets have seen a significant increase in online sales, which has an impact on the level of traffic seen in offline stores. Despite this trend, the sales conversion rate has remained relatively stable and at a high level.

- *Online sales.* The revenues generated online and the traffic on the Group's websites increased sharply over the period between 2010 and 2012. Although online websites generate much higher traffic than offline retail stores, the sales conversion rate online is generally much lower than that of offline retail stores. A portion of the Group's internet revenues are generated by commissions earned on sales of products in the Group's MarketPlace program.

Beyond the distinction between online and offline sales channels, the Group believes that its revenues are increasingly linked to its omni-channel presence. Certain customers prefer to make purchases online, but come to the Group's stores to pick up their products. When a customer picks up a product ordered online at one of the Group's retail stores, the customer can save on delivery charges and in many cases can obtain the product sooner than if they had purchased the product from an internet pure player. When a customer comes to a Group store to pick up a product ordered online, it creates an opportunity for the customer to make additional purchases at the store. On the other hand, when customers come to the Group's stores to find a particular product and it is not in stock, they can order the product online with the help of a sales clerk. In 2012, 21.5% of the total value of orders on Fnac.com were either picked up in stores or initiated in stores, almost twice as high as the level recorded in 2011. (For the month of December 2012 alone, this proportion was 38%).

9.1.2.5 Seasonality

The Group's business is highly seasonal and is characterized by a substantial increase in store traffic and website traffic as the end-of-year holidays draw near. Over the past three fiscal years, the Group generated around 35% of its consolidated revenues during the fourth quarter, on average.

The breakdown of the Group's sales over the other three quarters of the year depends primarily on the timing of new releases of editorial products, releases of new consumer electronics products and as special events affecting the given fiscal year. These factors can differ significantly from year to year and from country to country. As a general matter, the release of a new editorial product (e.g., a new album, film, novel or video game) or a new consumer electronics product (e.g., due to new technology) renews the range of products available and drives additional sales. The release of a new video game console, for example, will frequently lead to higher sales of gaming products. In the same way, special events during the year may lead to higher demand for certain products, such as increased demand for televisions resulting from the transition to digital broadcast television or major sporting events. Sales promotions, often reserved to loyalty program members, also promote higher sales. In the same way, an important concert can draw many customers to the store to pick up their tickets, generating extra revenues while they are there. Given this range of factors, the respective proportions of annual sales represented by each of the first three quarters may vary from one fiscal year to the next.

9.1.2.6 Fluctuations in foreign exchange rates

The impact of fluctuations in foreign exchange rates on the Group's results is limited, and primarily consists of the impact of exchange rate fluctuations on Group results resulting from the translation of local currency results of the Group's subsidiaries in Switzerland and Brazil into euros.

The table below shows average ECB exchange rates for the Swiss franc and the Brazilian real against the euro for the periods indicated.

	2010				**2011**				**2012**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Swiss francs per euro	1.46	1.41	1.33	1.32	1.29	1.25	1.16	1.23	1.21	1.20	1.20	1.21
Brazilian real per euro	2.50	2.28	2.26	2.30	2.28	2.30	2.31	2.42	2.32	2.52	2.54	2.67

Source: European Central Bank

The Group saw its revenues decrease by 3.3% in 2011 and by 2.4% in 2012, at current exchange rates. At constant exchange rates, the decline in revenues would have been 3.7% in 2011 and 2.1% in 2012.

The foreign exchange risk incurred in connection with the purchases made by the Group is relatively low, as the Group's subsidiaries make the vast bulk of their sales, and generate the vast bulk of their costs in the local currency, i.e. primarily in euros.

9.1.3 Significant events over the past three fiscal years

9.1.3.1 Changes in the scope of consolidation

Although the Group has not made any large acquisitions during the period since 2010, it has made a number of targeted acquisitions, like the acquisition of SplitGames, a community website dedicated to the exchange of video games, which contributes to the MarketPlace's offer, and of Kyro Concept, which makes ticketing software that has helped strengthen the Group's offer in the ticketing and box office market. The Group has also made a certain number of significant disposals (such as the Group's Italian operations in 2012), which generated a net gain of €38.8 million in 2010, nothing in 2011, and a net loss of €10.7 million in 2012. (See Note 3.1 "Changes in the scope of consolidation" in the financial statements included in Section 20.1 "Group Consolidated Financial Statements".) Pursuant to IFRS 5, net income from operations ceased, sold or held as available for sale are presented on a separate line in the income statement, i.e., "net income from discontinued operations".

9.1.3.2 Implementation of the "FNAC 2015" plan, and cost-cutting efforts

In 2011, the Group's new management team began an initiative to significantly redefine the Group's business model, while capitalizing on the Group's historic strengths. This strategic plan, which is known as "FNAC 2015", has five main components:

- renewing the Group's business model by expanding the Group's offer of products and services to include new categories of products with high growth potential directed at families (toys & games and small household appliances), making greater use of partnerships (in particular for e-readers and mobile phones), and centering its sales and marketing efforts on loyalty program members in order to strengthen the Group's reputation for competitive prices while safeguarding margins;

- accelerating the omni-channel strategy in France and abroad to encourage the Group's store customers that make online purchases but are not yet customers of the Group's websites (i.e. 7 million customers in France) to make online purchases through the Group's websites;

- a renewed focus on the customer, and in particular on loyalty program members;

- expanding the brand to new areas, including high-traffic areas in Europe (train stations and airports), medium-sized towns (i.e. with less than 100,000 inhabitants), and in foreign markets with high potential, an effort that has led to the creation of new store formats, primarily deployed using a franchising model in order to limit the capital invested;

- improving operating efficiency, by making greater use of centralized purchasing, an enduring commitment to increasing productivity and optimizing the Group's organizational structure.

In January 2012, the Group put into place cost reduction measures aimed at generating €80 million in cost-savings on a full-year basis, in order to boost its competitiveness. These measures include a significant effort to reduce overhead costs through: (i) a substantial reduction in ongoing expenses, (ii) the renegotiation of rents across the store network, and (iii) reviewing the terms of technical service agreements, regardless of whether they involve the head office, the stores, or the Group's logistics platform, in order to optimize their conditions. This project also involves a hiring freeze in all countries, a policy of moderating salary increases, and the reduction of 310 jobs in France and of 200 jobs abroad.

(For further information relating to the "FNAC 2015" strategic plan, readers are invited to refer to Section 6.3.6 "Optimizing Operating Efficiency and Profitability".)

9.1.3.3 Opening of Stores on a Franchise Basis

In December 2011, the Group opened its first franchise store with the group Aksal in Casablanca (Morocco). Since 2012, the Group has opened several more stores on a franchise basis in "non-duty free" areas of several airports and train stations in France under its partnership with Lagardère Services, as well as two franchise stores: one in the "suburban" format and one in the "proximity" format. See Section 6.5.3.1.3 "Franchise Operations".

9.1.3.4 Preparation of the Admission to Trading of the Company's Shares

On October 9, 2012, Kering announced plans to request the admission of the Company's shares to trading on the stock exchange. In this context, Kering proceeded with the recapitalization of the Group on December 27, 2012 for total amount of €539 587 048, of which €291.3 million was used to offset outstanding payables and of which €248.3 million was remitted in cash. See Section 21.1.7 "History of the Share Capital over the Past Three Fiscal Years".

9.1.4 Income Statement Line Items

9.1.4.1 Revenues

The Group generates its revenues primarily from the sale of goods and services through its retail stores (including new stores opened during a given fiscal year) and its internet e-commerce websites. The Group's revenues are primarily a function of the factors discussed above (see Section 9.1.2.4 "Traffic, average checkout value, checkout transactions and number of loyalty program members"). The Group's revenues also depend on volume, pricing and the mix of products and services sold.

The Group generates some of its services revenues from commissions charged on the sale of products (in the context of the MarketPlace, for instance) and on the sale of services (as part of the ticketing business, for instance) as well as royalties payable by the stores operated under franchise arrangements.

9.1.4.2 Gross margin and gross profit margin

Gross margin corresponds to revenues minus cost of sales. The gross profit margin ratio is the gross margin expressed as a percentage of the revenues for the corresponding period.

The level of the Group's gross profit margin is a function of a number of factors, including:

- The average cost of goods purchased from suppliers, which represents the largest component of cost of sales. To optimize its costs in this area, since 2011, the Group has introduced pooled purchasing arrangements under which purchases of some products sold in the "other countries" region are pooled with purchases for the Group's stores in France;

- The Group's pricing policy, which may result in lower margins on certain products in order to offer lower prices or discounts to customers, whether in response to competition, to drive traffic by offering popular products at attractive prices or in the context of promotional offers for loyalty program members or the entire customer base. The Group's pricing policy is in some cases affected by the regulatory framework. Thus, the higher gross profit margins in the "books, toys and games, and stationery" sub-category primarily reflects the impact of regulated book prices in France, which restrict price-based competition (see Section 6.7.3 "Regulations Applicable to Book Prices");

- The relative contributions of different product and service categories, some of which generate higher gross profit margins than others. For example, editorial products generally benefit from higher gross profit margins than consumer electronics. In the consumer electronics segment, the sale of accessories allows the Group to partially compensate for the lower gross profit margins earned on its main products;

- The relative contribution of the Group's different geographical regions, some of which generate higher margins than others, as purchasing terms are primarily a function of sales volumes. France generated the highest gross profit margin in 2012, followed by the "other countries" region, and then the Iberian Peninsula, and lastly, Brazil;

- The mix between products and services, because the gross profit margin for services is generally higher than that for products. For most services, the Group acts as an agent and records the full commission in both revenues and gross margin;

- The relative contribution of the Group's two main sales channels. Over the period under review, the gross profit margin of the Group's internet business was lower than the gross profit margin of its stores. This primarily reflects the nature of products offered in the two sales channels and the higher level of competition online.

9.1.4.3 Personnel Expenses

Personnel expenses include expenses relating to the Group's employees (fixed and variable remuneration, social security expenses, provisions and retirement expenses, profit-sharing and incentives, and the cost of training, etc.), as well as external staff expenses, primarily those for temporary staff. Personnel expenses also include the cost resulting from the application of IFRS 2 to share based compensation based on Kering shares. (See Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris" for an explanation of the treatment of share-based compensation based on Kering shares after the admission of the Company's shares to trading on Euronext Paris). Personnel expenses are primarily a function of headcount and average compensation levels. All of the Group's head office expenses are borne by the "France" region.

In 2012, the Group reduced its headcount in France and abroad as part of its "FNAC 2015" plan. (See Section 6.3.6.2 "Continued Improvement in Productivity and Optimizing Organizational Structures", Section 9.2.4, "Personnel Expenses" and Section 9.2.8, "Other Non-Current Operating Income and Expense".)

9.1.4.4 Other Current Operating Income and Expense

Other current operating income and expense primarily includes overhead expenses and depreciation and amortization charges. This item includes:

- communication and marketing expenses;

- property costs (rents, rental charges and maintenance costs);

- depreciation and amortization; and

- overhead costs, including IT expenditures, fees paid, the cost of travel and business trips, telecommunications and similar expenses (water, and electricity, etc.), insurance, supplies and other taxes, together with expenses outsourced to third parties (cleaning, caretaking and logistics), and the expenses relating to the means of payment used by customers.

9.1.4.5 Current operating income before Kering management fee, and current operating income after Kering management fee

Current operating income is an intermediate line item shown to facilitate analysis of the Group's operating performance. This line item is the main indicator the Group tracks in monitoring its operating performance. It is calculated as revenues, minus the cost of sales, personnel expenses, and other current operating income and expense. The Group shows its current operating income before and after the deduction of the annual fee payable to Kering, its main shareholder.

The Kering management fee is paid annually in accordance with an assistance agreement executed on November 10, 1994. This fee is paid for advisory and technical assistance and support in carrying out complex transactions and expansion. (See Section 19.1 "Transactions with the Kering Group".) This fee is fixed each year as a percentage of revenues (0.25% of revenues, calculated on the basis of budgeted revenues). The management fee paid to Kering Group amounts to 10,0 million euros in 2012, 10.8 million euros in 2011 and 11.1 million euros in 2010. Upon admission of the Company's shares to trading on Euronext Paris, no further management fee will be paid to Kering for the period post-listing. However, the Group will be subject to an increase in its external costs of an amount which may be equal to or greater than the Kering management fee. (For details of the consequences of admission of the Company's shares to trading on Euronext Paris, including the termination of this fee, see Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris").

9.1.4.6 Other non-current operating income and expense

Other non-current operating income and expense, which is not included in current operating income, includes:

- unusual or infrequent items that would distort the review of the Group's economic performance;

- impairment of goodwill and intangible assets;

- the disposal of and gains or losses on disposals of property, plant and equipment and intangible assets, operating assets or investments; and

- restructuring costs and costs relating to headcount reductions.

9.1.4.7 Operating income

Operating income reflects current operating income, net of other non-current operating income and expense.

9.1.4.8 Net financial expense

Net financial expense primarily includes:

- ***the cost of net financial debt***, which is primarily a function of the level of debt and average interest rates. Historically, this cost has mainly involved financial expense for borrowings from the Group's current account with Kering. FNAC S.A. has negotiated a revolving credit facility with a maximum principal amount of €250 million to meet its financing needs following admission of the Company's shares to trading on Euronext Paris. (See Sections 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris" and 10.2.2.2 "Financing of the Group After Admission of the Company's Shares to Trading on Euronext Paris"); and

- ***other financial income and expense***, of which the most important component is the cost of the consumer credit offered to customers, when the Group bears a portion of such cost. The other major component of this item is the "impact of discounting assets and liabilities" (€2.5 million in 2012), which primarily includes the impact of certain charges relating to retirement plan commitments under IAS 19.

9.1.4.9 Income tax

Income tax includes income tax calculated on the basis of the profits generated by the Group, as well as the CVAE tax (*contribution sur la valeur ajoutée des entreprises)*, and excludes other levies or taxes paid by the Group, such as property tax, or regional business tax, which are shown in other current operating income and expense. It also includes deferred tax. The effective tax rate is defined as income tax expense as a percentage of pre-tax income.

Until December 31, 2012, none of the Group's subsidiaries was consolidated at the Company level for tax purposes. All of the Group's French subsidiaries were part of the Kering tax consolidation group. Since January 1, 2013, some of these companies are included in the Company's tax consolidation group. (See Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".)

9.1.4.10 Discontinued Operations

Pursuant to IFRS 5, the Group ceases to amortize assets once they have been classified as held for sale or are discontinued, disposed of or are in the process of being disposed of. The net income from these operations is shown on a separate "discontinued operations" line in the income statement. These activities primarily include primarily include FNAC Italy (sold to Groupe PPR in November 2012 in connection with its sale to Orlando Italy) and FNAC Eveil & Jeux (sold in July 2010).

9.2 COMPARISON OF THE GROUP'S ANNUAL RESULTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2012

The table below shows the Group's consolidated income statement for the fiscal years ended December 31, 2011 and 2012, in millions of euros and as a percentage of revenues for the periods in question.

	Year ended December 31, 2011		Year ended December 31, 2012		
	(€ million)	*(as a % of revenues)*	*(€ million)*	*(as a % of revenues)*	*Change*
Revenues	**4,162.5**	**100.0%**	**4,061.1**	**100.0%**	**(2.4)%**
Gross margin	**1,271.0**	**30.5%**	**1,219.3**	**30.0%**	**(4.1)%**
Personnel expenses	(607.3)	(14.6)%	(591.4)	(14.6)%	(2.6)%
Other current operating income and expense	(572.1)	(13.7)%	(554.6)	(13.7)%	(3.1)%
Current operating income before Kering management fee	**91.6**	**2.2%**	**73.3**	**1.8%**	**(20.0)%**
Kering management fee	(10.8)	(0.26)%	(10.0)	(0.25)%	(7.4)%
Current operating income after Kering management fee	**80.8**	**1.9%**	**63.3**	**1.6%**	**(21.7)%**
Other non-current operating income and expense	(38.5)	(0.9)%	(130.2)	(3.2)%	238.2%
Operating income	**42.3**	**1.0%**	**(66.9)**	**(1.6)%**	**(258.2)%**
(Net) financial expense	(18.0)	(0.4)%	(15.0)	(0.4)%	16.7%
Income tax	(43.7)	(1.0)%	(33.7)	(0.8)%	22.9%
Net income for the fiscal year from continuing operations	**(19.4)**		**(115.6)**		**(495.9)%**
Net income from discontinued operations	(8.8)		(26.1)		(196.6)%
Net income	**(28.2)**		**(141.7)**		**(402.5)%**

9.2.1 Impact of the “FNAC 2015” strategic plan

The initial impact of the “FNAC 2015” strategic plan was visible at the end of 2012:

- The launch of new product categories helped limit the overall decline in revenues in 2012. As of December 31, 2012, 26 stores in France had a “FNAC Kids” department, showcasing the full children’s offer and specifically games and toys. Small household appliances were added to “Home & Design” areas in 35 stores in France during 2012. The initial results of this strategy are encouraging, since the revenues generated by toys and games and small household appliances in 2012 enabled the Group to offset the decline in music sales in France, even though these two new product categories were only offered for sale in one- third of the Group’s stores in France.

- Driven by the Group’s omni-channel strategy, internet sales grew by of 9.4% in 2012 (10.2% at constant exchange rates). These activities accounted for 12.1% of Group sales. In France, the portion of omni-channel orders almost doubled during the year in value terms, and amounted to 21.5% of the total.

- Due to effective promotional offers, the number of loyalty program members in France rose from 2.9 million at the end of 2011 to 3.2 million at the end of 2012, an increase of 10.0%.

- The Group continued to build out its network, opening five directly-owned stores (out of a total of 154 directly-owned stores at the end of 2012), and nine stores under franchise arrangements (out of a total of 16 franchise stores at the end of 2012).

- The rapid execution of the Group’s cost-cutting measures helped limit the impact of the difficult economic environment on operating income in 2012. At the end of 2012, the Group observed the first effects of these efforts, with savings estimated at approximately €60 million, or €80 million on an annual basis.

9.2.2 Revenues

Despite an unfavorable consumer demand environment in its main geographical regions and the decline of its main markets, both for editorial products and for consumer electronics, the Group limited the decrease in its revenues to 2.4% (and to 1.6% in France, its main market) in 2012. This revenue decline compares to a 4.1% decrease in 2011. Foreign exchange rates had a negative impact of 0.3%, primarily due to the fall in the Brazilian real against the euro. At constant exchange rates, the decline in the Group's revenues was 2.1%. The opening of five new directly-owned stores also had a positive 2.2% impact on 2012 revenues. At constant exchange rates, and on a same-store basis, the Group's revenues declined by 4.3%.

Against this backdrop, the good performance of the internet sales channel enabled the Group to offset part of the decline (on a same-store basis) in store revenues.

This slowdown in the decline in revenues in part reflects an acceleration of market share gains both in France and in the Group's other geographical regions (see Section 6.4 "Market Overview"). These results also reflect the Group's strong resilience and the initial impact of the Group's strategy to renew its business model. During the period, the Group witnessed good initial results from its new franchise stores and new product categories, as well as an increase in omni-channel orders.

The table below provides a breakdown of revenues for the fiscal years ended December 31, 2011 and 2012 by geographical region.

	Year ended December 31					
	2011		**2012**			
	(€ million)	*(as a % of total revenues)*	*(€ million)*	*(as a % of total revenues)*	*Change at current exchange rates*	*Change at constant exchange rates*
Revenues by geographical region						
France	2,884.9	69.3%	2,838.8	69.9%	(1.6)%	(1.6)%
Iberian Peninsula	707.3	17.0%	683.3	16.8%	(3.4)%	(3.4)%
Brazil	240.7	5.8%	227.5	5.6%	(5.5)%	2.0%
Other countries	329.6	7.9%	311.5	7.7%	(5.5)%	(6.3)%
Total	**4,162.5**	**100.0%**	**4,061.1**	**100.0%**	**(2.4)%**	**(2.1)%**

Revenues declined in each of the four geographical regions on constant exchange rate basis. France held up best, posting a decrease in revenues of only 1.6%, followed by the Iberian Peninsula with a decrease of 3.4%. The results were affected by fluctuations in exchange rates: the Group recorded a 5.5% decrease in revenues in Brazil (an increase of 2.0% at constant exchange rates) and a decrease of 5.5% in the "other countries" region (a decrease of 6.3% at constant exchange rates). (See Section 9.3 "Analysis of Revenues and Current Operating Income by Geographical Region for the 2011 and 2012 Fiscal Years".)

The table below provides a breakdown of revenues for the fiscal years ended December 31, 2011 and December 31, 2012 by product and service category.

	Year ended December 31					
	2011		2012			
	(€ million)	*(as a % of total revenues)*	*(€ million)*	*(as a % of total revenues)*	*Change in revenues on a current exchange rate basis*	*Change in revenues on a constant exchange rate basis*
Revenues for each product and service category						
Consumer electronics	2,238.0	53.8%	2,213.9	54.5%	(1.1)%	(0.6)%
Editorial Products	1,708.5	41.0%	1,629.7	40.1%	(4.6)%	(4.4)%
Services	216.0	5.2%	217.5	5.4%	0.7%	0.8%
Total	**4,162.5**	**100.0%**	**4,061.1**	**100.0%**	**(2.4)%**	**(2.1)%**

Analyzed by category, the decline in revenues was primarily driven by a 4.6% decrease in revenues from Editorial Products, and to a lesser extent, by a 1.1% decrease in revenues from consumer electronics. The steep fall in revenues from Editorial Products was primarily due to the lower revenues from the "discs and gaming" sub-category, which continued to suffer the effects of the transition from physical to digital media (see Section 6.4.1.4 "Editorial"). The decline in consumer electronics revenues was driven primarily by lower revenues from the "retail electronics" sub-category, reflecting a decline in sales in the TV & video segment that was partly offset by higher sales of IT products driven by tablet sales, with a strong performance from Kobo e-readers. The slight increase in services revenues reflects the strong performance of ticketing and box office service, as well as the broadening of the range of services, including the favorable impact of commissions from SFR and MarketPlace, and to a lesser extent, initial income from franchises These effects partially offset the adverse effect of the lower sales of services related to consumer electronics.

9.2.3 Gross margin and gross profit margin

The Group generated a gross margin of €1,219.3 million for the 2012 fiscal year, compared with €1,271.0 million for the 2011 fiscal year, a decrease of 4.1%. The lower gross margin primarily reflects the decrease in consolidated revenues, together with a decline in the gross profit margin, which fell from 30.5% in the 2011 fiscal year to 30.0% in the 2012 fiscal year. This decrease was primarily related to the competitive pressure observed across all the Group's regions, except for the "other countries" region, where the gross profit margin increased. The improvement in the gross margin in the "other countries" region was primarily due to the initial impact of the program aimed at pooling purchases for France, Switzerland and Belgium (see Section 6.5.6 "Purchasing Policy"). The fall in the gross profit margin was partially contained by the favorable trend in the product and services mix, as the proportion of services in the Group's revenues increased during the fiscal year.

9.2.4 Personnel expenses

Personnel expenses amounted to €591.4 million (14.6% of revenues) for the 2012 fiscal year, compared with €607.3 million (14.6% of revenues) for the 2011 fiscal year, i.e. a decrease of 2.6%. This decrease primarily reflects a 3.0% reduction in the Group's average headcount compared with 2011. The reduction in personnel charges was largest in France (decrease of €8.7 million, or 1.9%), followed by the "other countries" region (decrease of €4.2 million, or 8.0%). In France and the "other countries", this decrease primarily reflects the impact of the implementation of the "FNAC 2015" strategic plan and initiatives aimed at improving operating efficiency. The only geographical region that saw its average headcount increase over the period was Brazil, where the increase in average headcount was linked to the opening of a new store.

9.2.5 Other current operating income and expense

Other current operating income and expense amounted to a net expense of €554.6 million (13.7% of revenues) for the 2012 fiscal year, compared with €572.1 million (13.7% of revenues) for the 2011 fiscal year, a decrease of 3.1%. The lower net expense reflects the optimization of all cost categories, as well as a reduction in overhead costs, in accordance with the "FNAC 2015" strategic plan.

Rental expenses increased by 4.0% in 2012 compared with 2011, rising from €133.0 million in 2011 to €138.2 million in 2012. This increase reflects the opening of five new stores in 2012. Property costs fell slightly on a same-store basis, as the rent renegotiation efforts allowed the Group to offset the adverse effect of rent indexation. Depreciation and amortization charges declined by 6.6% in 2012 compared with 2011, falling from €75.4 million in 2011 to €70.3 million in 2012, reflecting lower operating investments, and, among other things, the rate of opening stores.

9.2.6 Current operating income

Current operating income before the Kering management fee amounted to €73.3 million for the 2012 fiscal year, compared with €91.6 million in 2011, or a decrease of 20.0%. The "current operating income margin", i.e. current operating income before the Kering management fee divided by revenues, amounted to 1.8% in 2012 compared with 2.2% in 2011. The fall in the current operating income margin resulted primarily from the deterioration in the gross profit margin, as all other expenses remained roughly stable as a proportion of revenues between 2011 and 2012. The fee paid to the Kering Group amounted to €10,0 million in 2012, compared with €10.8 million in 2011.

	Year ended December 31			
	2011		**2012**	
	(€ million)	*(as a % of revenues)*	*(€ million)*	*(as a % of revenues)*
Current operating income before Kering management fee				
France	62.1	2.2%	55.6	2.0%
Iberian Peninsula	27.9	3.9%	17.7	2.6%
Brazil	(5.8)	(2.4)%	(5.7)	(2.5)%
Other countries	7.4	2.2%	5.7	1.8%
Current operating income before Kering management fee	**91.6**	**2.2%**	**73.3**	**1.8%**
Kering management fee	(10.8)	(0.26)%	(10.0)	(0.26)%
Current operating income after Kering management fee	**80.8**	**1.9%**	**63.3**	**1.6%**

9.2.7 EBITDA and EBITDAR

The Group presents, in addition to its reported results, additional performance measures that, in the case of EBITDA, exclude from current operating income before and after the Kering management fee the impact of net depreciation and amortization charges and provisions on non-current assets that are recognized in current operating income, and for EBITDAR, further exclude rental expense (excluding ancillary charges). The Group believes investors may find these measures useful in analyzing the performance of the Group. These measures are used in connection with the financial covenants that apply under the Loan Agreement. EBITDA and EBITDAR are not indicators specified by IFRS, and are not included in the Group's consolidated financial statements. There is no standard definition for EBITDA and EBITDAR; as a result, the definition used by the Group may not correspond to the definitions provided for such measures by other companies. In the event the Company's shares are admitted to trading on Euronext Paris, the Group will no longer be required to pay a management fee to Kering. (See Section 19.3, "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".)

The following table shows the changes in EBITDA and EBITDAR over the period.

	Year ended December 31			
	2011		2012	
	(€ million)	*As a % of revenues*	*(€ million)*	*As a % of revenues*
Current operating income before Kering management fee	**91.6**	**2.2%**	**73.3**	**1.8%**
Net depreciation and amortization charges[(1)]	75.4		70.3	
EBITDA before Kering management fee..	**167.0**	**4.0%**	**143.6**	**3.5%**
Rents [(2)]...	133.0		138.2	
EBITDAR before Kering management fee..	**300.0**	**7.2%**	**281.8**	**6.9%**
Current operating income after Kering management fee	**80.8**	**1.9%**	**63.3**	**1.6%**
Net depreciation and amortization charges[(1)]	75.4		70.3	
EBITDA after Kering management fee	**156.2**	**3.8%**	**133.6**	**3.3%**
Rents [(2)]...	133.0		138.2	
EBITDAR after Kering management fee..	**289.2**	**6.9%**	**271.8**	**6.7%**

(1) Net depreciation and amortization charges correspond to the net depreciation and amortization charges and provisions on non-current assets recognized in current operating income.

(2) Rents correspond to rental expense excluding ancillary costs and expenses incurred in connection with such operating leases.

9.2.8 Other non-current operating income and expense

This line item represented an expense of €130.2 million in 2012 compared with an expense of €38.5 million in 2011. The following table summarizes the breakdown of this item in 2012 and 2011.

	Year ended December 31	
	2011	2012
	(€ million)	*(€ million)*
Non-current operating expense	(38.6)	(138.5)
Restructuring costs.....................................	(7.1)	(36.6)
Impairment of assets	(4.6)	(93.4)
Litigation and disputes...............................	(18.5)	(0.1)
Other risks	(8.4)	(8.4)
Non-current operating income	0.1	8.3
Gains on asset disposals.............................	0.1	-
Other..	-	8.3
Total	**(38.5)**	**(130.2)**

The total expense of €130.2 million in 2012 consisted mainly of the following:

- restructuring costs of €36.6 million in France and abroad, as part of the "FNAC 2015" strategic plan;

- asset impairment charges, following the asset impairment tests performed in 2012, which resulted in the Group recognizing a €75.4 million goodwill impairment charge in France, and a €16.7 million asset impairment charge in Brazil, of which €5.5 million was specifically allocated to the residual value of goodwill, while the remaining €11.2 million was allocated to intangible assets and property, plant, and equipment. The goodwill impairment in France primarily resulted from changes to financial assumptions, including the discount rate, to reflect a weaker consumer spending environment as a result of the economic downturn. The slowdown in the growth rate of the Brazilian economy seen in 2012 led the Group to review its growth rate assumptions for its operations in Brazil; and

- income of €8.3 million from the reversal of provisions for litigation and disputes, primarily resulting from the transfer to Kering of certain rights to pursue certain litigation.

The total expense of €38.5 million in 2011 consisted mainly of the following:

- restructuring costs (€7.1 million) relating to a certain departures at the Group's head office and in its stores;

- provisions for litigation and disputes with third parties amounting to €18.5 million; and

- provisions for other contingencies amounting to €8.4 million.

9.2.9 Operating income

The Group generated an operating loss of €66.9 million for the 2012 fiscal year compared with operating income of €42.3 million for the 2011 fiscal year. The operating loss is primarily explained by the substantial increase in the net charge from other non-current operating income and expense during the 2012 fiscal year.

9.2.10 Net financial expense

The composition of the Group's net financial expense in 2011 and 2012 was as follows:

	Year ended December 31		
	2011	**2012**	**Change**
	(€ million)	*(€ million)*	*(%)*
Cost of net financial debt	(10.0)	(5.1)	(49.0)%
Other financial income and expense	(8.0)	(9.9)	23.8%
Net financial expense	**(18.0)**	**(15.0)**	**(16.6)%**

The cost of net financial debt fell by €4.9 million in 2012, i.e. by 49.0% compared with 2011. This reduction is primarily explained by the decrease in the one-month EURIBOR rate over the 2011-2012 period, partly offset by an increase in average debt outstanding. The net charge from other financial income and expense increased by €1.9 million in 2012 compared with 2011.

9.2.11 Income tax

Income tax includes income tax paid, or for which a provision is recorded for the fiscal year, together with any potential tax re-assessments paid or provisioned during the fiscal year. The Group recognized an income tax charge of €33.7 million for the 2012 fiscal year, compared with €43.7 million in 2011, a decrease of 22.9%. A tax charge was recognized despite the Group's negative pre-tax income, primarily reflecting the non-deductibility of the asset impairment charges recorded in 2012.

9.2.12 Net income

The Group recorded a net loss from continuing operations of €115.6 million for the 2012 fiscal year compared with a net loss from continuing operations of €19.4 million for the 2011 fiscal year. The Group recorded a total consolidated net loss of €141.7 million in 2012, compared with a net loss of €28.2 million in 2011, after taking into account a net loss from discontinued operations of €26.1 million in 2012, compared with a net loss from discontinued operations of €8.8 million in 2011. The €26.1 million loss from discontinued operations in 2012 was primarily related to losses on the disposal of the Group's operations in Italy.

9.3 ANALYSIS OF REVENUES AND CURRENT OPERATING INCOME BY GEOGRAPHICAL REGION FOR THE 2011 AND 2012 FISCAL YEARS

9.3.1 Comparison of the results for the fiscal years ended December 31, 2011 and December 31, 2012 in France

The following table shows the key items in the income statement for France for the fiscal years ended December 31, 2011 and December 31, 2012.

	Year ended December 31		
(€ million)	**2011**	**2012**	**% change**
Revenues	2,884.9	2,838.8	(1.6)%
Current operating income before Kering management fee	62.1	55.6	(10.5)%

9.3.1.1 Revenues in France

In France, in 2012 as in 2011, the Group was faced with declining markets across all its product sub-categories, and with a difficult overall consumer spending environment.. Revenues amounted to €2,838.8 million for the 2012 fiscal year compared with €2,884.9 million for the 2011 fiscal year, a decrease of 1.6%. The Group opened three directly-owned stores in 2012. On a same-store basis, revenue declined by 3.6%. The Group gained 0.5 points of market share in Editorial Products (excluding digital media)[121], and 0.9 points in consumer electronics[122]. In addition, the number of members of the Group's loyalty program increased sharply in 2012, rising from 2.9 million at the end of 2011 to 3.2 million at the end

121 Calculated on the basis of the revenues generated by the Group in France in the audio, video, books and gaming segments, excluding stationery, BtoB sales and French online sales delivered to countries outside France, and after restatement for timing differences. Source: Accuracy. See Section 6.4.1.4.1 "Overview of the Editorial Products Retail Market", and Section 6.4.5 "Sources for Certain Information Included in Sections 6.4.1 and 6.4.2".

122 Calculated on the basis of the revenues generated by the Group in France in the photography, TV & video, audio and IT products segments, excluding telephony, BtoB sales and French online sales delivered to countries outside France, and after restatement for timing differences. Source: Accuracy. See Section 6.4.1.3.1(b) " Recent Developments in the Consumer Electronics Market", and Section 6.4.5 "Source for Certain Information Included in Sections 6.4.1 and 6.4.2".

of 2012, an increase of 10.0%. This performance reflects the Group's resilience in France in 2012, as well as the initial results of its efforts to renew its business model.

The following table provides a breakdown of the revenues generated in France by category of products and services:

	Year ended December 31				
	2011		2012		
	(€ million)	%	(€ million)	%	Change
Consumer electronics	1,518.7	52.6%	1,507.4	53.1%	(0.7)%
Editorial Products	1,183.7	41.0%	1,145.7	40.4%	(3.2)%
Services	182.4	6.3%	185.7	6.5%	1.8%
Total	**2,884.9**	**100.0%**	**2,838.8**	**100.0%**	**(1.6)%**

The decrease in the Group's revenues in France was driven primarily by a decline in editorial products revenues (-3.2%). The decline in this product category was driven primarily by the downturn in the "discs and gaming" sub-category, due to the contraction of the audio CD market, which was partly offset by the good resistance of the "books, toys and games, and stationery" sub-category. This good resistance reflected the satisfactory launch of FNAC Kids areas and the strong growth in revenues from e-books, which offset virtually all the decline in physical book sales. Consumer electronics revenues declined by 0.7% over the period. This decline was due to lower revenues from the "retail consumer electronics" sub-category, driven by a decline in TV & video sales an increase in sales in the audio and photography segments did not manage to fully offset. The fall in the "retail consumer electronics" segment was offset by the increase in the "IT products" sub-category, which was boosted by the strong performance of tablets and e-readers and the launch of small household appliances ("Home & Design"). The "Services" category posted an increase of 1.8% over the period, boosted by a strong performance from ticketing sales and by an increase in commissions (SFR and MarketPlace), which more than offset lower extended warranty sales as a result of lower sales of retail consumer electronics products.

Internet sales increased by 10% in 2012 compared with 2011, and were mainly driven by an increase in traffic, a stable sales conversion rate, and a slight fall in the average checkout basket. Internet activities, which generated revenues of €403.8 million, accounted for over 14% of the Group's revenues in France. The Group's omni-channel strategy led to the near doubling, in value terms, of the share of orders placed on the Fnac.com website that are collected or initiated in-store. This share amounted to 21.5% in 2012. This demonstrates the growth in new purchasing channels customers and evidences the key competitive advantages of having both a dense offline network of stores and a powerful website. In-store revenues declined, due mainly to the decrease in traffic, and the resulting reduction in checkout transactions.

9.3.1.2 Gross margin in France

The gross margin in France declined in 2012 compared with 2011 due to the revenue decline in France and a fall in the gross profit margin. The fall in the gross profit margin primarily reflected a targeted price-cutting policy in a competitive environment, which was partly offset by the increased share of total revenues generated by services.

9.3.1.3 Personnel expenses in France

Personnel expenses were €448.5 million for the 2012 fiscal year (15.8% of revenues) compared with €457.2 million (15.8% of revenues) for the 2011 fiscal year, a decrease of 1.9%. The lower personnel expenses in 2012 reflect the implementation of the Group's "FNAC 2015" strategic plan and by initiatives aimed at improving operating efficiency (see

Section 6.3.6.2 "Continued Improvements in Productivity and Optimizing Organizational Structures").

9.3.1.4 Current operating income before the Kering management fee in France

Current operating income before the Kering management fee in France amounted to €55.6 million for the 2012 fiscal year compared with €62.1 million for the 2011 fiscal year. This decrease reflects the fall in the gross margin, which was partly offset by the rapid execution of the cost-cutting measures, which resulted in lower personnel expenses, and by a reduction of other current expenses and costs. The current operating income margin amounted to 2.0% in 2012 compared with 2.2% in 2011. The decrease in the current operating income margin was primarily due to the reduction in the gross profit margin, as described above, as expenses remained relatively stable as a percentage of revenues overall.

9.3.1.5 Operating income in France

The Group generated an operating loss in France of €57.5 million for the 2012 fiscal year, compared with operating profit of €20.7 million for the 2011 fiscal year.

9.3.2 Comparison of the results for the fiscal years ended December 31, 2011 and December 31, 2012 for the Iberian Peninsula

9.3.2.1 Revenues in the Iberian Peninsula

Revenues in the Iberian Peninsula amounted to €683.3 million for the 2012 fiscal year compared with €707.3 million for the 2011 fiscal year, a decrease of 3.4%. On a same store basis, revenues declined by 6.3%. This decrease in revenues reflects the ongoing economic recession in the region. The impact of the recession on secondary consumption was aggravated by an increase in the tax burden, and by reductions in public expenditure. The VAT rate in Spain increased by 3 points in September 2012, while Portugal experienced an increase in VAT and in other taxes in 2012, as well as the abolition of holiday and Christmas bonuses, and of the thirteenth-month bonus for civil servants. The Group's revenues fell against this tough economic backdrop, but by less than the market, which led to an increase in the Group's market share in editorial products and consumer electronics. (See Section 6.4 "Market Overview".)

The following table provides a breakdown of the revenues generated in the Iberian Peninsula by category of products and services:

	Year ended December 31				
	2011		**2012**		
	(€ million)	**%**	**(€ million)**	**%**	**Change**
Consumer electronics	394.9	55.8%	396.7	58.1%	0.5%
Editorial Products	293.2	41.5%	269.5	39.4%	(8.1)%
Services	19.2	2.7%	17.1	2.5%	(10.9)%
Total	**707.3**	**100.0%**	**683.3**	**100.0%**	**(3.4)%**

The increase in the consumer electronics revenues primarily reflected the strong performance of the "IT products" sub-category, which was boosted by tablets and e-readers; this performance was partially offset by a marked decline in the "retail consumer electronics" sub-category. The decrease in the revenues generated on editorial products sales driven primarily by lower revenues from the "discs and gaming" sub-category, which affected both music and gaming, driven by the ongoing impact of dematerialization. Revenues in the "books, toys and games, and stationery" sub-category also decreased, driven by lower revenues from books, and despite a strong performance from stationery. Revenues in the services category declined due to lower commissions on gift boxes (which were down 35%), due mainly to the withdrawal of Smartbox, a supplier, from the Portuguese market in 2012.

The internet sales channel expanded sharply in 2012, posting a 30.8% increase in revenues, driven primarily by improvements in the functionality and ergonomics of both websites. In-store revenues declined, due to the impact of a marked decrease in checkout transactions, both in Spain and Portugal, which was mainly due to lower traffic.

9.3.2.2 Gross margin in the Iberian Peninsula

The gross margin in the Iberian Peninsula declined due to reduction in revenues and a lower gross profit margin. The decline in the gross profit margin was due to increased competitive pressure and to an unfavorable mix effect resulting from lower editorial products sales and to online sales' increasing share of revenues.

9.3.2.3 Personnel expenses in the Iberian Peninsula

Personnel expenses in the Iberian Peninsula amounted to €73.7 million in 2012 compared with €76.4 million for the 2011 fiscal year, a decrease of 3.6%, driven primarily by lower average headcount in Portugal due to the implementation of the "FNAC 2015" strategic plan. Personnel expenses were relatively stable, and amounted to 10.8% of revenues in both 2012 and 2011.

9.3.2.4 Current operating income before the Kering management fee in the Iberian Peninsula

Current operating income before the Kering management fee in the Iberian Peninsula amounted to €17.7 million for the 2012 fiscal year compared with €27.9 million for the 2011 fiscal year. The current operating income margin fell from 3.9% in 2011 to 2.6% in 2012. This decrease was due to the lower gross margin, which was partly offset by productivity efforts on other costs as a result of the implementation of the "FNAC 2015" strategic plan.

9.3.2.5 Operating income in the Iberian Peninsula

Operating income in the Iberian Peninsula was €15.6 million for the 2012 fiscal year, compared to €27.9 million for the 2011 fiscal year.

9.3.3 Comparison of the results for the fiscal years ended December 31, 2011 and December 31, 2012 for Brazil

9.3.3.1 Revenues in Brazil

Revenues in Brazil amounted to €227.5 million for the 2012 fiscal year compared with €240.7 million for the 2011 fiscal year, a decrease of 5.5%. Revenues increased by 2.0% at constant exchange rates.

The following table provides a breakdown of the revenues generated in Brazil by category of products and services:

	Year ended December 31					
	2011		2012			
	(€ million)	%	(€ million)	%	Change at current exchange rates	Change at constant exchange rates
Consumer electronics	161.2	67.0%	149.7	65.8%	(7.2)%	0.2%
Editorial Products..........	73.6	30.6%	71.7	31.5%	(2.7)%	5.1%
Services	5.9	2.4%	6.1	2.7%	4.3%	12.6%
Total................................	**240.7**	**100.0%**	**227.5**	**100.0%**	**(5.5)%**	**2.0%**

Consumer electronics sales in local currency were stable in 2012, primarily as a result of higher tablet sales, which offset a significant decline in television sales. Television sales volumes are particularly sensitive to suppliers' promotion policies, which were less attractive in 2012 than in 2011. Total revenues increased by 2.0% in local currency terms, due to the favorable trend in editorial products (+5.1%), which primarily resulted from the strong performance of gaming (X-box) and books.

The increase in Editorial Products sales in local currency terms was primarily due to the strong performance of gaming (X-box) and books.

Internet sales declined in 2012, due mainly to a significant fall in sales of televisions, as the product's relative importance for this sales channel is particularly high. Revenues from the Group's store network increased in local currency terms. One store was opened in 2012. On a same-store basis and at constant exchange rates, revenues decreased by 2%.

9.3.3.2 Gross margin in Brazil

The gross margin in Brazil declined in both current exchange rate and local currency terms, due to an erosion of the gross profit margin. This erosion was primarily due to increased competitive pressure, particularly on sales of televisions, and to the unfavorable effect of higher Internet sales partially offset by a favorable product mix due to higher editorial products sales.

9.3.3.3 Personnel expenses in Brazil

Personnel expenses were €21.1 million (9.3% of revenues) for the 2012 fiscal year compared with €21.4 million (8.9% of revenues) for the 2011 fiscal year, a decrease of 1.4% at current exchange rates.

9.3.3.4 Current operating income before Kering management fee in Brazil

Current operating income before the Kering management fee in Brazil amounted to a loss of €5.7 million for the 2012 fiscal year, compared with a loss of €5.8 million for the 2011 fiscal year. On a constant exchange rate basis, the decrease was 11.8%. As a percentage of revenues, current operating income before the Kering management fee remained relatively stable, as the erosion of the gross margin was mostly offset by a decrease in other costs.

9.3.3.5 Operating income in Brazil

The Group generated an operating loss of €22.6 million in Brazil for the 2012 fiscal year, compared with an operating loss of €13.8 million for the 2011 fiscal year.

9.3.4 Comparison of the results for the fiscal years ended December 31, 2011 and December 31, 2012 in the other countries region

9.3.4.1 Revenues in the other countries region

Revenues in the other countries region, i.e. Belgium and Switzerland, amounted to €311.5 million for the 2012 fiscal year compared with €329.6 million for the 2011 fiscal year, a decrease of 5.5%. On a constant exchange rate basis, the decrease was 6.3%. The Group did not open any new stores in the other countries region in 2012.

The decrease in revenues was driven by lower revenues in both countries, as a result of the economic downturn. The decrease in revenues was particularly pronounced in Switzerland, due to the substantial appreciation of the Swiss franc against the euro, which encouraged Swiss customers in border areas to come and make their purchases in France.

The following table provides a breakdown of the revenues generated in the other countries by category of products and services:

	Year ended December 31					
	2011		**2012**			
	(€ million)	**%**	**(€ million)**	**%**	**Change at current exchange rates**	**Change at constant exchange rates**
Consumer electronics	163.1	49.5%	160.1	51.4%	(1.8)%	(2.7)%
Editorial Products..........	158.0	47.9%	142.8	45.8%	(9.6)%	(10.4)%
Services	8.5	2.6%	8.6	2.8%	1.2%	(0.4)%
Total..................	**329.6**	**100.0%**	**311.5**	**100.0%**	**(5.5)%**	**(6.3)%**

The decrease in revenues in 2012 was driven primarily by lower Editorial Products sales due to lower sales in the "discs and gaming" sub-category, and lower book sales. Consumer electronics revenues decreased by 2.7% at constant exchange rates, due to a fall in the "retail consumer electronics" sub-category due to lower TV and audio sales. This decrease was partly offset by higher revenues in the "IT products" sub-category, which was boosted by tablets. Services revenues declined by 0.4% at constant exchange rates.

9.3.4.2 Gross margin in the other countries

The gross margin in the "other countries" region declined due to the lower revenues, partially offset by a slight increase in the gross profit margin in 2012 compared with 2011. The improvement in the gross profit margin was mainly due to the initial impact of pooling of purchases with France.

9.3.4.3 Personnel expenses in the other countries

Personnel expenses in the other countries amounted to €48.1 million for the 2012 fiscal year (15.4% of revenues) compared with €52.3 million (15.9% of revenues) for the 2011 fiscal year, a decrease of 8.0%. This reduction resulted primarily from a reduction in headcount in 2012 compared with 2011, primarily in support functions in Switzerland at the head office and in stores, together with the outsourcing of logistics in Belgium, where the expenses are now shown under the line item "other current operating income and expense".

9.3.4.4 Current operating income before the Kering management fee in the other countries region

Current operating income before the Kering management fee amounted to €5.7 million in the other countries region for the 2012 fiscal year compared with €7.4 million for the 2011 fiscal year. The current operating income margin declined, falling from 2.2% in 2011 to 1.8% in 2012, as the decrease in sales volume was only partially offset by the cost-savings on personnel expenses.

9.3.4.5 Operating income in the other countries

The other countries region generated an operating loss of €2.4 million for the 2012 fiscal year, compared with a profit of €7.5 million for the 2011 fiscal year.

9.4 COMPARISON OF THE GROUP'S ANNUAL RESULTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2011

The table below shows the Group's consolidated income statement for the fiscal years ended December 31, 2010 and December 31, 2011, in millions of euros and as a percentage of consolidated revenues for the periods in question.

	Year ended December 31, 2010		Year ended December 31, 2011		
	(€ million)	*As a % of Rev.*	*(€ million)*	*As a % of Rev.*	*Change*
Revenues	**4,305.1**	**100.0%**	**4,162.5**	**100.0%**	**(3.3)%**
Gross margin	**1,316.9**	**30.6%**	**1,271.0**	**30.5%**	**(3.5)%**
Personnel expenses	(599.1)	(13.9)%	(607.3)	(14.6)%	1.4%
Other current operating income and expense	(529.4)	(12.3)%	(572.1)	(13.7)%	8.1%
Current operating income before Kering management fee	**188.4**	**4.4%**	**91.6**	**2.2%**	**(51.4)%**
Kering management fee	(11.1)	(0.26)%	(10.8)	(0.26)%	(2.7)%
Current operating income after Kering management fee	**177.3**	**4.1%**	**80.8**	**1.9%**	(54.4)%
Other non-current operating income and expense	8.0	0.2%	(38.5)	(0.9)%	381.5%
Operating income	**185.3**	**4.3%**	**42.3**	**1.0%**	**(77.2)%**
(Net) financial expense	(15.1)	(0.3)%	(18.0)	(0.4)%	19.2%
Income tax	(61.8)	(1.4)%	(43.7)	(1.0)%	(29.3)%
Net income from continuing operations for the fiscal year	**108.4**	**2.5%**	**(19.4)**		**(117.9)%**
Net income from discontinued operations	(33.7)		(8.8)		(73.9)%
Net income	**74.7**	**1.7%**	**(28.2)**		**(137.8)%**

9.4.1 Revenues

The Group faced a very fragile consumer spending environment in 2011 both in France and in Southern Europe and more difficult market conditions for both editorial products and consumer electronics. Despite this difficult context, the Group generated revenues of €4,162.5 million compared with €4,305.1 million for the 2010 fiscal year, down 3.3% at current exchange rates, and 3.7% at constant exchange rates. Internet sales increased by 17.9% in 2011 compared with 2010, and amounted to 10.8% of revenues. The Group opened eight directly-owned stores in 2011. On a constant exchange rate and same-store basis, revenues declined by 5.3%.

The table below provides a breakdown of revenues for the fiscal years ended December 31, 2010 and December 31, 2011 by geographical region.

	Year ended December 31					
	2010		2011			
	(€ million)	*(As a % of revenues)*	*(€ million)*	*(As a % of revenues)*	*Change at current exchange rates*	*Change at constant exchange rates*
Revenues for each geographical region						
France	3,015.5	70.0%	2,884.9	69.3%	(4.3)%	(4.3)%
Iberian Peninsula	732.3	17.0%	707.3	17.0%	(3.4)%	(3.4)%
Brazil	232.1	5.4%	240.7	5.8%	3.7%	3.4%
Other countries	325.2	7.6%	329.6	7.9%	1.4%	(3.1)%
Total	**4,305.1**	**100.0%**	**4,162.5**	**100.0%**	**(3.3)%**	**(3.7)%**

On a constant exchange rate basis, revenues declined in all geographical regions, with the exception of Brazil.

The table below provides a breakdown of revenues for the fiscal years ended December 31, 2010 and December 31, 2011 by category of products and services.

	Year ended December 31					
	2010		2011			
	(€ million)	*(As a % of revenues)*	*(€ million)*	*(As a % of revenues)*	*Change at current exchange rates*	*Change at constant exchange rates*
Revenues for each category of products and services						
Consumer electronics.............	2,279.1	52.9%	2,238.0	53.8%	(1.8)%	(2,1) %
Editorial Products ..	1,807.9	42.0%	1,708.5	41.0%	(5.5)%	(5,9) %
Services.................	218.1	5.1%	216.0	5.2%	(1.0)%	(1,2) %
Total......................	**4,305.1**	**100.0%**	**4,162.5**	**100.0%**	**(3.3)%**	**(3,7) %**

On a products and services basis, the decrease in revenues in 2011 was driven primarily by lower sales of editorial products. This decline largely reflects the impact of the transition to digital media, which has changed the way consumers consume editorial products. (See Section 6.4 "Market Overview"). The decrease in revenues from editorial products was more pronounced in the "discs and gaming" sub-category, and especially in the CDs and DVDs. The decline in consumer electronics revenues was driven primarily by lower revenues from the "retail consumer electronics" sub-category, despite an increase in revenues from the "IT products" sub-category, which was driven by tablet sales.

9.4.2 Gross margin and gross profit margin

The Group's gross margin amounted to €1,271.0 million for the 2011 fiscal year, compared with €1,316.9 million for the 2010 fiscal year, a decrease of 3.5%, which was in line with the fall in revenues. The gross profit margin remained stable, falling from 30.6% in the 2010 fiscal year to 30.5% in the 2011 fiscal year.

9.4.3 Personnel expenses

Personnel expenses amounted to €607.3 million for the 2011 fiscal year, compared with €599.1 million for the 2010 fiscal year, an increase of 1.4%. Personnel expenses increased in all geographical regions. The increase was driven by a 2.0% increase in the Group's average headcount compared with 2010 linked to the opening of new stores.

9.4.4 Other current operating income and expense

Other current operating income and expense amounted to a net expense of €572.1 million (13.7% of revenues) for the 2011 fiscal year, compared with €529.4 million (12.3% of revenues) for the 2010 fiscal year, i.e. an increase of 8.1%. This increase primarily reflects the impact of the eight new store openings in 2011. As a percentage of revenues, this item increased from 12.6% in 2010 to 14.0% in 2011.

Rental expenses increased by 5.6% in 2011 compared with 2010, rising from €125.9 million in 2010 to €133.0 million in 2011. This increase reflects the opening of eight new stores in 2011, in addition to rent indexation. Depreciation and amortization charges increased by 14.2% in 2011 compared with 2010, from €66.0 million in 2010 to €75.4 million in 2011, due to the increase in operating investments (new stores, internet, and logistics).

9.4.5 Group current operating income

Current operating income before the Kering management fee amounted to €91.6 million for the 2011 fiscal year, compared with €188.4 million in 2010, or a decrease of 51.4%. This sharp fall resulted from the decline in gross margin, combined with the increase in overall costs. The current operating income margin was 2.2% in 2011 compared with 4.4% in 2010. The fee paid by the Group to Kering, its main shareholder, amounted to €10.8 million in 2011 compared with €11.1 million in 2010.

	Year ended December 31			
	2010		**2011**	
	(€ million)	*(as a % of revenues)*	*(€ million)*	*(as a % of revenues)*
Current operating income before Kering management fee				
France	144.2	4.8%	62.1	2.2%
Iberian Peninsula	39.2	5.4%	27.9	3.9%
Brazil	0.9	0.4%	(5.8)	(2.4)%
Other countries	4.1	1.3%	7.4	2.2%
Current operating income before Kering management fee	**188.4**	**4.4%**	**91.6**	**2.2%**
Kering management fee	(11.1)	(0.26)%	(10.8)	(0.25)%
Current operating income after Kering management fee	**177.3**	**4.1%**	**80.8**	**1.9%**

9.4.6 EBITDA and EBITDAR

The following table shows the trend in EBITDA and EBITDAR over the period.

	Year ended December 31			
	2010		2011	
	(€ million)	*As a % of revenues*	*(€ million)*	*As a % of revenues*
Current operating income before Kering management fee..............	**188.4**	**4.4%**	**91.6**	**2.2%**
Net depreciation and amortization charges(1)	65.9		75.4	
EBITDA before Kering management fee	**254.3**	**5.9%**	**167.0**	**4.0%**
Rents(2)......................................	125.9		133.0	
EBITDAR before Kering management fee...........................	**380.2**	**8.8%**	**300.0**	**7.2%**
Current operating income after Kering management fee..............	**177.3**	**4.8%**	**80.8**	**2.2%**
Net depreciation and amortization charges(1)	65.9		75.4	
EBITDA after Kering management fee	**243.2**	**5.6%**	**156.2**	**3.8%**
Rents(2)......................................	125.9		133.0	
EBITDAR after Kering management fee	**369.1**	**8.6%**	**289.2**	**6.9%**

(1) Net depreciation and amortization charges correspond to the net depreciation and amortization charges and provisions on non-current assets recognized in current operating income.
(2) Rents correspond to rental expense excluding ancillary costs and expenses incurred in connection with such operating leases.

9.4.7 Other non-current operating income and expense

This line item amounted to an expense of €38.5 million in 2011 compared with income of €8.0 million in 2010. The following table summarizes the breakdown of this line item in 2011 and 2010.

	Year ended December 31	
	2010	2011
	(€ million)	*(€ million)*
Non-current operating expense......	(21.7)	(38.6)
Restructuring costs	3.9	(7.1)
Impairment of assets.....................	(3.3)	(4.6)
Litigation and disputes..................	(5.3)	(18.5)
Other risks	(17.0)	(8.4)
Non-current operating income	29.7	0.1
Gains on asset disposals................	29.7	0.1
Total...	**8.0**	**(38.5)**

The total expense of €38.5 million in 2011 consisted mainly of the following items:

- restructuring costs of €7.1 million relating to certain departures at the head office and in the stores;
- asset impairment charges of €4.6 million;
- provisions for litigation and disputes amounting to €18.5 million; and
- provisions for other contingencies amounting to €8.4 million.

The total income of €8.0 million in 2010 consisted mainly of the following items:

- a €3.9 million gain that was primarily due to a reversal of restructuring provisions in Spain;
- a net €29.7 million gain on the disposal of assets, which primarily involved the disposal of the Group's interest in Conforama and FNAC Greece;
- asset impairment charges of €3.3 million;
- provisions for litigation and disputes amounting to €5.3 million; and
- provisions for other contingencies amounting to €17.0 million.

9.4.8 Operating income

The Group’s operating income amounted to €42.3 million for the 2011 fiscal year, compared with €185.3 million for the 2010 fiscal year, a decrease of 77.2%. Operating income amounted to 1,0% of revenues in 2011 compared with 4.3% in 2010.

9.4.9 Net financial expense

The composition of the Group’s net financial expense in 2010 and 2011 was as follows:

	Year ended December 31		
	2010	**2011**	**Change**
	(€ million)	*(€ million)*	
Cost of net financial debt	(5.0)	(10.0)	(100.0)%
Other financial income and expense ...	(10.1)	(8.0)	20.8%
Net financial expense	**(15.1)**	**(18.0)**	**(19.2)%**

The cost of net financial debt increased by €5 million, doubling compared to 2010. This increase was due to a combination of higher interest rates and the higher debt outstanding. Other financial income and expense decreased by €2.1 million in 2011 compared with 2010.

9.4.10 Income tax

The Group recognized corporate income tax expense of €43.7 million for the 2011 fiscal year, compared with €61.8 million for the 2010 fiscal year, a decrease of 29.3%. The overall effective tax rate rose from 36.3% in 2010 to 179.8% in 2011, primarily as a result of the restrictions on recognizing deferred tax assets relating to the tax losses generated over the fiscal year.

9.4.11 Net income

As a result of the above, the Group generated a net loss of €28.2 million for the 2011 fiscal year compared with net income of €74.7 million for the 2010 fiscal year. These amounts include the impact of the net loss from discontinued operations, which amounted to a loss of €8.8 million in 2011 compared with a loss of €33.7 million in 2010.

9.5 ANALYSIS OF REVENUES AND CURRENT OPERATING INCOME BY GEOGRAPHICAL REGION FOR THE 2010 AND 2011 FISCAL YEARS

9.5.1 Comparison of the results for the fiscal years ended December 31, 2010 and December 31, 2011 for France

The following table shows the key items in the income statement for France for the fiscal years ended December 31, 2010 and December 31, 2011.

	Year ended December 31		
(€ million)	**2010**	**2011**	**% Change**
Revenues	3,015.5	2,884.9	(4.3)%
Current operating income before Kering management fee	144.2	62.1	(56.9)%

9.5.1.1 Revenues in France

In France, the Group was faced with declining markets across all its product categories in 2011. The consumer electronics market decreased at an average rate of 2.1% per year between 2008 and 2011, while the editorial products market (excluding digital media), decreased by 4.9% per year. (See Section 6.4.1 "Fnac's Markets in France"). The Group nonetheless maintained its market share in books, and gained market share in the consumer electronics, gaming, and video segments. The revenues generated in France amounted to €2,884.9 million for the 2011 fiscal year compared with €3,015.5 million for the 2010 fiscal year, a decrease of 4.3%. The Group opened five new directly-owned stores in 2011. On a same-store basis, revenues declined by 5.1%.

The following table provides a breakdown of the revenues generated in France by category of products and services:

	Year ended December 31				
	2010		**2011**		
	(€ million)	**%**	**(€ million)**	**%**	**Change**
Consumer electronics	1,573.1	52.2%	1,518.7	52.7%	(3.5)%
Editorial Products	1,250.7	41.5%	1,183.7	41.0%	(5.4)%
Services	191.7	6.3%	182.5	6.3%	(4.8)%
Total	**3,015.5**	**100.0%**	**2,884.9**	**100.0%**	**(4.3)%**

Sales of editorial products in France declined by 5.4% in 2011 compared with 2010, driven primarily by a significant decline in revenues from "discs and gaming" sub-category as a result in lower revenues from CDs and DVDs. Sales in the "books, toys and games, and stationery" category remained relatively stable over the fiscal year. Consumer electronics sales decreased by 3.5%, driven primarily by lower revenues from the "retail consumer electronics" category, especially audio and photography, and to a lesser extent, lower revenues from the "IT products" category. Services revenues fell by 4.8%, primarily as a result of a drop in revenues from add-on services for consumer electronics (including extended warranties and deliveries and installations).

Traffic, checkout transactions and the average checkout basket in the Group's stores in France decreased in 2011 compared with 2010, resulting in a 6.5% decline in in-store sales. Conversely, the internet channel posted a significant (13.3%) revenue increase in 2011 compared with 2010, and accounted for 12.7% of revenues over the fiscal year. At the same time, the MarketPlace, which was launched in 2009, enjoyed rapid growth and demonstrated its strong complementarity with the Fnac.com website. The Group also entered into strategic cooperation agreements with SFR (to create dedicated SFR areas in FNAC stores) and with Lagardère Services (to develop a network of sales outlets under the FNAC brand on a franchise basis in train stations and airports), whose start-up in the second half of 2011 helped support the Group's sales.

9.5.1.2 Gross margin in France

The gross margin in France decreased, driven by the lower revenues and a gross profit margin that was slightly lower than in 2010. The slight decline in the gross profit margin reflects strong online competition coupled with the strong resilience of the gross profit margin in the Group's retail stores.

9.5.1.3 Personnel expenses in France

Personnel expenses amounted to €457.2 million (15.8% of revenues) for the 2011 fiscal year compared with €453.4 million (15.0% of revenues) for the 2010 fiscal year, an increase of 0.8%. This increase was primarily due to a 0.8% rise in average headcount driven by the opening of five new stores and the expansion of the Group's internet teams.

9.5.1.4 Current operating income before the Kering management fee in France

Current operating income before the Kering management fee amounted to €62.1 million in France for the 2011 fiscal year compared with €144.2 million for the 2010 fiscal year. The decline primarily reflected the lower revenues and slight erosion in the gross margin, as well as an increase in personnel expenses and in other expenses related to the opening of new stores, including depreciation and amortization, facilities costs and IT expenses. The current operating income margin decreased, falling from 4.8% in 2010 to 2.2% in 2011.

9.5.1.5 Operating income in France

Operating income in France was €20.7 million for the 2011 fiscal year, compared with €148.7 million for the 2010 fiscal year.

9.5.2 Comparison of the results for the fiscal years ended December 31, 2010 and December 31, 2011 in the Iberian Peninsula

9.5.2.1 Revenues in the Iberian Peninsula

The Iberian Peninsula generated revenues of €707.3 million for the 2011 fiscal year compared with €732.3 million for the 2010 fiscal year, a decrease of 3.4%. The Group opened three new stores in Spain in 2011, and two additional stores were opened in November and December 2010 respectively. On a same-store basis, revenues fell by 7.4%.

This decline in revenues primarily reflects the very adverse economic environment in the region, which was hit hard by the sovereign debt crisis and by the bursting of the property bubble. The impact of the economic downturn on secondary consumption was compounded by a higher tax burden and by other austerity measures. In Portugal, 2011 was significantly affected by a three-point increase in the VAT applicable to the Group's products compared with the rate applicable in the first half of 2010 (except for books, where the applicable rate increased by one point), by a 50% reduction in the thirteenth month bonus for civil servants, by a 15% increase in the price of public transport, as well as by the rise in VAT on gas and electricity from 6% to 23%. In Spain, the fall in revenues on a same-store basis was offset by the contribution of new store openings (Barcelona La Maquinista in November 2010, Valencia Station in December 2010, Barcelona Las Arenas in March 2011, Madrid Castellana in September 2011, and Xanadu in November 2011). As a result of these store openings, actual revenues in Spain were higher for the period.

The following table provides a breakdown of the revenues generated in the Iberian Peninsula by category of products and services:

	Year ended December 31				
	2010		2011		
	(€ million)	%	(€ million)	%	Change
Consumer electronics	391.0	53.4%	394.9	55.8%	1.0%
Editorial Products	326.9	44.6%	293.2	41.5%	(10.3)%
Services	14.4	2.0%	19.2	2.7%	32.4%
Total	**732.3**	**100.0%**	**707.3**	**100.0%**	**(3.4)%**

The increase in revenues generated from the sale of consumer electronics primarily reflects the strong performance of the "IT products" category, which benefited from the success of the iPad and related accessories, as well as of e-readers. Conversely, the "retail consumer electronics" sub-category experienced a decline over the period, due to a fall in television sales in Spain and to a more generalized decrease in sales in Portugal. The editorial products category segments posted a steep decline over the period, due to the very unfavorable economic environment and to increased competitive pressure. Revenues in the service category increased, driven by higher sales of add-on services related to consumer electronics and commissions on gift boxes.

9.5.2.2 Gross margin in the Iberian Peninsula

The gross margin in the Iberian Peninsula declined, due to the sharp contraction in revenues, despite a slight improvement in the gross profit margin. The improvement in the gross profit margin was primarily due to the higher revenue share of services.

9.5.2.3 Personnel expenses in the Iberian Peninsula

Personnel expenses in the Iberian Peninsula amounted to €76.4 million (10.8% of revenues) for the 2011 fiscal year compared with €74.0 million (10.1% of revenues) for the 2010 fiscal year, an increase of 3.2%. The increase was driven by an increase in the average headcount resulting primarily from the opening of three new stores and an expansion of the internet team.

9.5.2.4 Current operating income before the Kering management fee in the Iberian Peninsula

Current operating income before the Kering management fee in the Iberian Peninsula amounted to €27.9 million for the 2011 fiscal year, compared with €39.2 million for the 2010 fiscal year, primarily as a result of the decline in revenues and of the expenses relating to the opening of the new stores. The current operating income margin fell from 5.4% in 2010 to 3.9% in 2011.

9.5.2.5 Operating income in the Iberian Peninsula

Operating income in the Iberian Peninsula amounted to a profit of €27.9 million for the 2011 fiscal year, compared with a profit of €39.2 million for the 2010 fiscal year.

9.5.3 Comparison of the results for the fiscal years ended December 31, 2010 and December 31, 2011 in Brazil

9.5.3.1 Revenues in Brazil

The Group generated revenues of €240.7 million in Brazil for the 2011 fiscal year compared with €232.1 million for the 2010 fiscal year, an increase of 3.7% (3.4% at constant exchange rates). This increase was driven primarily by the opening of a new store in Belo Horizonte in November 2010. On a same-store basis, revenues decreased by 1.2% over the 2011 fiscal year (-1.5% on a same-store basis and at constant exchange rates).

The following table provides a breakdown of the revenues generated in Brazil by category of products and services:

	Year ended December 31					
	2010		**2011**			
	(€ million)	**%**	**(€ million)**	**%**	**Change at current exchange rates**	**Change at constant exchange rates**
Consumer electronics.......	161.3	69.5%	161.2	67.0 %	(0.1)%	(0.4)%
Editorial Products	66.9	28.8%	73.6	30.6 %	10.0%	9.7%
Services............................	3.9	1.7%	5.9	2.4 %	51.3%	51.3%
Total....................................	**232.1**	**100.0%**	**240.7**	**100.0%**	**3.7%**	**3.4%**

On a local currency basis, editorial products performed well in 2011, especially the "discs and gaming" sub-category, and the "books, toys and games, and stationery" sub-category, which remained virtually unchanged thanks to the contribution of toys and games. Consumer electronics revenues fell slightly in 2011, driven by a decline in the "IT products" sub-category, which suffered from lower average sale prices for computers. The decline in IT products revenues was partially offset by the strong performance of the "retail consumer electronics" sub-category, driven by television sales, which were boosted by suppliers' promotion policies. Services revenues increased in 2011 due to the sharp increase in services relating to consumer electronics sales (extended warranties and deliveries and installations, primarily in the TV & video segment).

9.5.3.2 Gross margin in Brazil

The gross margin in Brazil declined due to a reduction in the gross profit margin driven by increased competitive pressure, which was partly offset by a favorable product mix effect due to the increase in editorial products sales.

9.5.3.3 Personnel expenses in Brazil

Personnel expenses in Brazil amounted to €21.3 million (8.9% of revenues) for the 2011 fiscal year compared with €21.0 million (9.0% of revenues) for the 2010 fiscal year, an increase of 1.4%. This rise was primarily due to a 2.5% increase in the average headcount resulting primarily from the opening of the new store.

9.5.3.4 Current operating income before Kering management fee in Brazil

Current operating income before the Kering management fee in Brazil amounted to a loss of €5.8 million for the 2011 fiscal year, compared with a profit of €0.9 million for the 2010 fiscal year. This deterioration resulted primarily from a steep indexed increase in rents (of around 10%), other rent increases for some stores, and an increase in outsourced logistics costs.

9.5.3.5 Operating income in Brazil

Brazil generated an operating loss of €13.8 million for the 2011 fiscal year, compared with an operating loss of €15.1 million for the 2010 fiscal year.

9.5.4 Comparison of the results for the fiscal years ended December 31, 2010 and December 31, 2011 for the other countries region

9.5.4.1 Revenues in the other countries region

Revenues generated by the other countries region amounted to €329.6 million for the 2011 fiscal year compared with €325.2 million for the 2010 fiscal year, an increase of 1.4% (or a decrease of 3.1% at constant exchange rates and a decrease of 5.4% at constant exchange rates and on a same-store basis).

The fall in revenues at constant exchange rates in the "other countries" region was driven by lower revenues in Switzerland as a result of lower traffic in the stores. This decrease in traffic resulted from the appreciation of the Swiss franc against the euro, which encouraged customers living close to the border to make their purchases in France, and to a lesser extent from road-works near the Geneva store, which made getting to the store difficult. One store was opened in Belgium (at La Toison d'Or in Brussels) in May 2010.

The following table provides a breakdown of the revenues generated in the other countries by category of products and services:

	Year ended December 31					
	2010		2011			
	(€ million)	**%**	**(€ million)**	**%**	**Change at current exchange rates**	**Change at constant exchange rates**
Consumer electronics	153.7	47.3 %	163.1	49.5%	6.1%	1.7%
Editorial Products	163.4	50.2 %	158.0	47.9%	(3.3)%	(7.8)%
Services	8.1	2.5 %	8.5	2.6%	5.7%	(0.1)%
Total	**325.2**	**100.0%**	**329.6**	**100.0%**	**1.4%**	(3.1)%

This table reflects the improved performance of consumer electronics in 2011, driven by the "IT products" sub-category, which saw increased revenues due to the strong performance of tablets and telephony (iPhone). The "retail consumer electronics" sub-category was relatively stable, as the decline in television sales was offset by the increase in sales of audio-related devices. In the editorial products category, the sales decline was driven primarily by lower "discs and gaming" sales, including a steep fall in CD and DVD sales. The "books, toys and games, and stationery" sub-category was down slightly, due mostly to a fall in book sales.

9.5.4.2 Gross margin in the other countries

The gross margin in the other countries region increased, due to the rise in revenues and to a slight improvement in the gross profit margin. The increase in the gross profit margin was primarily due to an improvement in purchasing terms, which was partially offset by marketing investments.

9.5.4.3 Personnel expenses in the other countries region

Personnel expenses for the other countries region amounted to €52.3 million (15.9% of revenues) for the 2011 fiscal year compared with €50.7 million (15.6% of revenues) for the 2010 fiscal year, an increase of 3.1%, which was primarily due to the opening of one store.

9.5.4.4 Current operating income before the Kering management fee in the other countries

Current operating income before the Kering management fee in the other countries amounted to €7.4 million for the 2011 fiscal year compared with €4.1 million for the 2010 fiscal year, thanks to the opening of the new La Toison d'Or store in Belgium as well as to the improvement in the gross profit margin and to a favorable currency effect.

9.5.4.5 Operating income in the other countries

Operating income in the other countries region amounted to a profit of €7.5 million for the 2011 fiscal year, compared with a profit of €3.5 million for the 2010 fiscal year.

9.6 QUALITATIVE AND QUANTITATIVE ASSESSMENT OF THE GROUP'S MARKET RISK

For a description of the Group's exposure to currency and interest rate risk, see Note 29 "Exposure to market risk, interest rate risk, currency risk and to the risk of fluctuations in the share price" to the financial statements included in Section 20.1 "Group Consolidated Financial Statements", together with Sections 4.4.1 "Currency Risk" and 4.4.2 "Interest Rate Risk".

9.7 ACCOUNTING PRINCIPLES AFFECTED BY IFRS

The preparation of consolidated financial statements requires the use of estimates and assumptions by the Group's management that can affect the carrying amounts of certain assets and liabilities, income and expenses, and the information disclosed in the notes to the financial statements. The Group's management reviews these estimates and assumptions on a regular basis in order to ensure their appropriateness in view of past experience and the current economic environment. Amounts in future financial statements could differ from the current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognized during the period in which the change occurs and all future periods affected .

The main estimates made by management in preparing the financial statements concern the valuation and the useful lives of operating assets, property, plant and equipment, intangible assets, and goodwill, the amount of the provisions for contingencies and other provisions relating to Group's business, primarily in relation to inventory, as well as the assumptions used for the calculation of the obligations relating to employee benefits, share-based payments, deferred tax, and financial instruments. In particular, the Group uses discount rate assumptions, based on market data, in order to estimate its long-term assets and liabilities.

For a description of the assumptions used by the Group in the preparation of its financial statements, see Note 2.3.2 "Use of estimates and judgment" to the annual financial statements included in Section 20.1 "Group Consolidated Financial Statements".

9.8 FINANCIAL CONSEQUENCES OF ADMISSION OF THE COMPANY'S SHARES TO TRADING ON EURONEXT PARIS

The financial consequences of admission of the Company's shares to trading on Euronext Paris are described in Chapter 4 "Risk Factors", including the risks related to the spin-off from the Kering Group and difficulties that the Group may have in making the necessary adjustments to carry out its business on an independent basis, and potential harm to the Group's relationships with certain suppliers. These consequences are also described in Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".

10. CASH AND CAPITAL RESOURCES

10.1 GENERAL OVERVIEW

Historically, the Group's main cash requirements have resulted from its working capital requirements, its operating investments, the payment of dividends, and from the payment of fees to Kering, its main shareholder. The Group has primarily met these requirements through the cash flows generated by its operating activities and by short-term current account advances from its main shareholder. In the event of admission of the Company's shares to trading on Euronext Paris, the Group will no longer be required to pay a fee to Kering for the period post-listing, and the short-term current account advances granted by Kering will come to an end. (See Section 10.2.2.2 "Financing of the Group after Admission of the Company's Shares to Trading on Euronext Paris" and Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris").

The Group believes that its cash needs in 2013 will consist primarily of its working capital requirements (see Section 10.3.4 "Funding of Working Capital Requirements"), and financing its gross operating investments (see Section 5.2.2 "Main Investments in Progress"). The Group intends to meet these requirements primarily through using cash flows from its operating activities and through debt.

10.2 FINANCIAL RESOURCES

10.2.1 Overview

In the past, the Group has mainly used the following sources of financing:

- *Available cash.* Cash and cash equivalents amounted to €251.5 million, €80.8 million and €305.5 million as of December 31, 2010, 2011, and 2012 respectively. Readers are also invited to refer to Note 27 "Cash and cash equivalents" to the financial statements included in Section 20.1.1 "Annual Consolidated Financial Statements".

- *Operating activities*, which generated positive net cash flows from operating activities of €216.3 million in 2010, €29.0 million in 2011 and €37.8 million in 2012.

- *Capital increases.* In December 2012, Kering subscribed to a €539.6 million capital increase for the Company, of which €291.3 million was released through the offsetting of receivables against the current account contracted by the Company with Kering. The balance, i.e. an amount of €248.3 million, was released and then loaned to Kering by the Company as part of a cash pooling agreement. The portion of the capital increase that was offset against receivables allowed the Group to reduce its gross debt while the portion paid in cash allowed the Group to increase its cash on hand. The Company plans to request the reimbursement by Kering of the remaining principal amount of the amounts loaned and related interest (the "Reimbursed Amount") before the admission of the Company's shares to trading on Euronext Paris and to proceed in parallel with a capital increase at its subsidiary FNAC S.A. in an amount equal to the Reimbursed Amount in accordance with the terms of the Loan Agreement.

- *Debt*, in euros, which was historically contracted with Kering via current account advances. The Group pays attention to keeping its recourse to leverage at a reasonable level. The table below provides the amount of the Group's net financial debt as of December 31, 2010, 2011, and 2012. For further information on the change in net financial debt, see Section 10.4.5 "Change in Net Financial Debt". For a more detailed description of the Group's debt, please see Section 10.2.2 "Financial Debt" below. The composition of the Group's financial debt is as follows:

	As of December 31		
(€ million)	**2010**	**2011**	**2012**
Gross financial debt	62.1	233.2	13.5
Cash and cash equivalents	(251.5)	(80.8)	(305.5)
Net financial debt	**(189.4)**	**152.4**	**(292.0)**

On an illustrative basis and based on the outstanding debt and share capital outstanding at 28 February 2013 (as shown in Section 3.2.2. "Shareholders' Equity and Debt"), the following table provides an overview of the Group's indebtedness and share capital after taking into account:

- various transactions involving the Company's share capital, including a share capital increase with a total amount of €70,023,682.82 without issue premium that occurred on April 17, 2013 and which is described in detail in Section 21.1.7 "History of the Share Capital over the Past Three Fiscal Years", as if they had occurred on 28 February; and

- the issuance of €60 million principal amount of undated subordinated deeply subordinated notes (See Section 10.2.2.2 "Financing of the Group after the Admission of the Company's Shares to Trading on Euronext Paris"), as if it had occurred on 28 February.

(unaudited, in millions of euros)	**At 28 February 2013**
Share Capital	16,6
Other equity instruments – Perpetual deeply subordinated notes (TSSDI)	60,0
Legal reserve	0,7
Other reserves	450,6
Equity attributable to owners (before earnings)	**527,9**
Cash	(112,6)
Cash equivalents	(75,6)
Marketable securities (*Titres de placement*)	(0,4)
Cash and cash equivalents	**(188,6)**
Bank overdrafts	25,1
Other financial debt	1,2
Gross financial debt	**26,3**
Net financial debt (after share capital reorganization and issuance of TSSDI)	**(162,3)**

10.2.2 Financial debt

10.2.2.1 Financial debt as of December 31, 2012

The Group's gross debt amounted to €62.1 million as of December 31, 2010, €233.2 million as of December 31, 2011 and to €13.5 million as of December 31, 2012. The table below provides a summary of the breakdown of the Group's gross financial debt and of the changes to that debt over the periods in question.

- The increase in gross financial debt in 2011 was primarily explained by an increase in current account advances from Kering so as to fund the payment of a dividend to Kering in 2011.

- The decrease in gross debt in 2012 was primarily explained by a €291.3 million capital increase, offset against the current account contracted with Kering. For further information on the change in net financial debt, see Section 10.4.5 "Change in Net Financial Debt".

	As of December 31		
(€ million)	**2010**	**2011**	**2012**
Other borrowings from credit institutions	0.1	–	–
Finance lease agreement liabilities	1.0	0.7	1.0
Bank overdrafts	60.7	9.3	12.2
Other financial liabilities	0.3	223.2	0.3
Total	**62.1**	**233.2**	**13.5**

The Group's main categories of financial debt were as follows:

- *Other financial liabilities (€0.3 million as of December 31, 2012).* This category primarily consists of the current account advances granted to the Group by Kering under a cash management agreement entered into between FNAC S.A. and PPR Finance, the company responsible for the Kering Group's cash management. These advances are usually granted on a short-term basis, are denominated in euros, and bear interest rates that are set according to market conditions. These advances amounted to €0.3 million as of December 31, 2010, €223.2 million as of December 31, 2011, and to €0.3 million as of December 31, 2012. Negative balances are shown in cash and cash equivalents in the consolidated financial statements. The Group has arranged independent bank financing in order to replace this funding, as part of admission of the Company's shares to trading on Euronext Paris. (See Section 10.2.2.2 "Financing of the Group after Admission of the Company's Shares to Trading on Euronext Paris").

- *Bank overdrafts (€12.2 million used as of December 31, 2012).* The Group uses bank overdrafts arranged with credit institutions. These financing lines are usually arranged by local subsidiaries in their respective countries, and are primarily denominated in euros, Swiss francs, and Brazilian reals. They are usually arranged on a short-term basis (less than one year) and are the subject of regular contractual renewals, primarily depending on the local subsidiaries' business activities and on the conditions offered by lending institutions.

  The amount of the bank overdrafts used by the Group as of December 31, 2012 was €12.2 million. For comparison purposes, the amount was €60.7 million and €9.3 million as of December 31, 2010 and December 31, 2011 respectively. The decrease in bank overdrafts between 2010 and 2011 is explained by a decrease in cash on hand following a change in the Group's purchasing center's process for settling supplier invoices, under which the Group encourages the use of bank transfers instead of payments by check, which are recognized under bank overdrafts from the time when they are issued to the time they are cashed.

- *Financial liabilities in the form of finance-lease agreements (€1.0 million as of December 31, 2012).* The Group also carries out limited borrowings in the form of finance-lease agreements (which primarily consist of a lease arranged to finance the acquisition of the new logistics platform at Wissous in France).

The table below sets out the Group's gross debt by currency as of December 31, 2012.

	As of December 31		
(€ million)	**2010**	**2011**	**2012**
Euro	38	207.6	11.3
Swiss franc................	22.9	25.4	2.2
Other currencies........	1.3	0.3	–
Total	62.2	233.3	13.5

The table below sets out the maturities of the Group's financial debt as of December 31, 2012.

	Fiscal year ended December 31, 2012					
(€ million)	**Total**	**N+1**	**N+2**	**N+3**	**N+4**	**N+5**
Long-term borrowings and financial debt	**0.7**	**0**	**0.3**	**0.2**	**0.2**	_
Finance lease agreement liabilities..	0.7	–	0.3	**0.2**	**0.2**	_
Short-term borrowings and financial debt	**12.8**	**12.8**	_	_	_	_
Finance lease agreement liabilities..	0.3	0.3	_	_	_	_
Bank overdrafts	12.2	12.2	–	–	–	–
Other financial liabilities................	0.3	0.3	–	–	–	–
Total...	**13.5**	**12.8**	**0.3**	**0.2**	**0.2**	

In the above table, the main liabilities that are expected to be redeemed within one year are bank overdrafts, which amounted to €12.2 million as of December 31, 2012.

Commitments and financial ratios

The amounts borrowed in connection with the Kering current account do not include any financial commitments or early repayment events (except in the event of a change in control over the Company), as the Group's risks are assessed in the context of its membership in the Kering Group. (See Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris").

In addition, as the bank overdrafts are not confirmed, they do not include any restrictions and/or specific commitments that must be specified.

After the execution date of the Loan Agreement (as defined below), i.e. April 19, 2013, the covenants described under Section 10.2.2.2.1(c) "Financing under the Loan Agreement – Main restrictive covenants under the Loan Agreement" will apply.

10.2.2.2 Financing of the Group after Admission of the Company's Shares to Trading on Euronext Paris

To enable the Group to finance its working capital requirements and to replace the financing historically granted to the Group in the form of current account advances by the Kering Group, the Group has obtained two new sources of external financing in the context of the admission of the Company's shares to trading on Euronext Paris:

- On April 19, 2013, FNAC SA entered into a revolving credit facility agreement with a maximum principal amount of €250 million with a lending syndicate, which consists of Crédit Agricole Corporate and Investment Bank, Société Générale, Crédit Lyonnais, Natixis, Banque Fédérative du Crédit Mutuel (Groupe Crédit Mutuel – CIC), BNP Paribas, Banco Espirito Santo, Caixabank S.A. and Arkéa Corporate and Institutional Banking, and under which certain FNAC SA subsidiaries (FNAC Paris, CODIREP and Relais FNAC) will act as borrowers (the "Loan Agreement").

- At the same time, on April 24, 2013 the Company also entered into an issuance and subscription agreement (the "Subscription Agreement") involving the issue of sixty perpetual deeply subordinated notes with a nominal value (TSSDI) of €1 million each, i.e. for a total nominal amount of €60 million ("the Perpetual deeply subordinated notes"), subject to the condition precedent of the allotment of the Company's shares to Kering shareholders being approved by the Kering General Meeting of Shareholders.

10.2.2.2.1 Financing under the Loan Agreement

The main terms and conditions of the Loan Agreement are set out below.

(a) Overview of the Loan Agreement

The purpose of the Loan Agreement is to enable the financing of FNAC SA and its subsidiaries' working capital needs. The current account arrangement that is currently in place between the Kering Group and FNAC SA, through which FNAC SA has historically financed its working capital requirements and those of its subsidiaries, will immediately cease to apply once FNAC SA is no longer effectively directly or indirectly controlled by Kering.

The maturity of the Loan Agreement is three years as from the date of its signature.

Drawdowns on the Loan Agreement will be made in euros, and will bear interest at a contractually determined rate, which will be equal to the total of:

- a base rate determined on the basis of EURIBOR; and

- a margin that will initially amount to 3.50% per year, and that will be reviewed, as applicable, on a half-yearly basis beginning with the financial statements for the year ended December 31, 2013, based on the level of the average rent adjusted leverage ratio.

The Loan Agreement provides for an undrawn commitment fee equal to 40% of the applicable margin, as calculated on the undrawn and uncancelled amounts.

(b) Guarantees relating to the Loan Agreement

The obligations of FNAC SA and of the other borrowers under the Loan Agreement are guaranteed by the following securities:

- a first demand guarantee issued by FNAC SA, for the purpose of guaranteeing the obligations of the other Group borrowers;

- a first-ranking pledge over the shares that FNAC SA owns in its main French subsidiaries, and in its Spanish subsidiary; and

- a pledge over certain businesses as a going concern (*"fonds de commerce"*) owned by FNAC Paris, CODIREP and Relais FNAC, in their capacity as borrowers, in order to guarantee their respective obligations.

(c) The Group's main restrictive covenants under the Loan Agreement

The Loan Agreement includes customary covenants for this kind of financing, and specifically the following clauses:

- *Financial covenants*
  - o The Group's Rent Adjusted Leverage Ratio (as defined below), which will be tested on a half-yearly basis, must remain below the thresholds set in the Loan Agreement, which range between 1.65 and 3.35. For the requirements of this covenant, the "Group's Rent-Adjusted Leverage Ratio" is defined as "Total Adjusted Debt" (i.e., the aggregate of the Group's long-term borrowings and financial debt and the Group's short-term borrowings and financial debt, minus the Group's cash and cash equivalents, plus five times the amount of the rent incurred for operating leases (excluding ancillary charges) as shown in the latest consolidated financial statements of the Group) divided by "Consolidated EBITDAR" (i.e. the Group's recurring operating income plus net changes to depreciation, amortization and provisions on non-current operating assets, plus the amount of the rent incurred for operating leases (excluding ancillary charges) as shown in the Group's latest consolidated financial statements).

  - o The level of shareholders equity, which will be tested on a half-yearly basis, must remain above the thresholds set in the Loan Agreement, which range between €350 and €425 million.

  - o The level of cash, which will be tested on an annual basis, must remain above the thresholds set in the Loan Agreement, which range between €290 and €335 million.

- *General restrictive covenants* – These involve covenants including, *inter alia*, certain restrictions relating to the granting of securities or guarantees, to the execution of merger or restructuring transactions, to the disposal or purchase of assets and to the Group's debt.

- *Restrictive covenants specific to the Company* – The Company also undertakes to comply with the following specific covenants:

  - o retaining 100% of the share capital and voting rights in FNAC SA[123];

  - o not granting any security or allowing any security to remain on its assets and on the shares that the Company owns in FNAC SA;

123 Except for the shares held by subsidiaries or directors of FNAC SA, in order to represent the minimum number of shareholders in a limited company (*société anonyme*).

- paying any dividends or making any other kind of payment relating to its share capital, and making any payment in relation to the perpetual deeply subordinated notes only to the extent that (A) such distribution and/or payment in any fiscal year does not exceed 50% of the distributable earnings for the previous fiscal year, and (B) no event of default under the Loan Agreement has occurred or will be triggered by such distribution/payment; and

- making available to FNAC SA (whether in the form of a capital increase by FNAC SA or a subordinated inter-company loan) all net proceeds received in connection with any funds raised by the Company in the capital markets or any financial debt subscribed by the Company, subject in all cases to receipt of the net proceeds in question.

• *Mandatory repayment in case of a change of control* – The Loan Agreement requires the early repayment of all the amounts due to all the lenders and the cancellation of any remaining amounts available under the revolving credit facility in the following cases:

  - a person or a group of persons acting in concert (within the meaning of Article L. 233-10 of the French Commercial Code) other than Artemis and/or any of its subsidiaries, gains control (within the meaning of Article L. 233-3 of the French Commercial Code) of the Company;

  - Artemis ceases to own, directly or indirectly (through one or several of its subsidiaries within the meaning of Article L. 233-3 of the French Commercial Code) at least (i) 38.8% of the Company's share capital or voting rights before the second anniversary of the signing of the Loan Agreement, or (ii) 25% of the Company's share capital or voting rights at any time after that date until the maturity of the Loan Agreement (the "Triggering Event"). It is specified that, by separate agreement, Artémis has agreed (for itself and on behalf of its subsidiaries) not to trigger such early prepayment and cancellation of unused commitments available under the Loan Agreement by sole reason of the Triggering Event until after the initial maturity date thereof (i.e. April 18, 2016). Nevertheless, it is specified that such agreement does not require Artémis, directly or indirectly (through one or more subsidiaries) to subscribe, underwrite or purchase any additional number of shares or other securities in the Company or to utilize the voting rights attached to its shares or other securities of the Company; or

  - Kering ceases to own, directly or indirectly (through one or several of its wholly-owned subsidiaries, directly or indirectly) 100% of the perpetual deeply subordinated notes, it being noted that, pursuant to a separate agreement, Kering has agreed (for itself and its subsidiaries) that, until after the initial maturity date of the Loan Agreement (i.e. April 18, 2016), it will not trigger any mandatory prepayment event under the Loan Agreement pursuant to a violation of this obligation.

• *Acceleration following an event of default* – Under the terms of the Loan Agreement, lenders have the right to declare that all or part of the amounts outstanding under the Loan Agreement shall become immediately due and payable, and specifically in the event of non-compliance with one of the covenants listed above, of default, of non-payment, or of the occurrence of events that are likely to have a material adverse effect on the financial situation or in certain cases business of the Company, of FNAC SA, of one of the other borrowers or of the Group as a whole, or on the ability of the Company, FNAC SA, or one of the other borrowers to perform any of their obligations under the Loan Agreement and the other finance documents.

(d) Conditions precedent relating to the opening of the availability period for the Loan Agreement and to its use

- *Conditions precedent relating to the availability of funds under the Loan Agreement* – In addition to the usual conditions for this type of facility, the availability period under the Loan Agreement is subject to the availability to FNAC SA of the net proceeds received by the Company from the issue of perpetual deeply subordinated notes subscribed by Kering or one of its direct or indirect wholly-owned subsidiaries.

- *Conditions precedent relating to any utilization request* – any utilization under the Loan Agreement is subject to the satisfaction of standard conditions for this type of revolving loan, i.e. the absence of events of default events and the accuracy of the representations and warranties made by the Company in the Loan Agreement.

10.2.2.2.2 Financing under the Perpetual deeply subordinated notes

The Perpetual deeply subordinated notes (TSSDI) Subscription Agreement includes the following terms and conditions:

- *Nature and form:* The perpetual deeply subordinated notes are perpetual deeply subordinated notes issued in accordance with Articles L. 228-38 *et seq.* of the French Commercial Code.

- *Subscriber:* Kering B.V., a company incorporated under Dutch law and a wholly-owned direct and indirect subsidiary of Kering.

- *Issue and entitlement date*: The perpetual deeply subordinated notes will be issued at par subject to the condition precedent of approval of the allotment of shares in the Company to Kering shareholders by the Kering General Meeting of Shareholders, and the issue price will become payable on the day of said General Meeting (the "Closing Date"), i.e. on June 18, 2013, barring any adjournments.

- *Term*: Subject to mandatory repayment events, amortization events and the right for voluntary prepayment provided for in the Subscription Agreement (and described below), the perpetual deeply subordinated notes will have no stated maturity.

- *Ranking and subordination*: The principal and interest amounts due under the perpetual deeply subordinated notes will constitute direct, unsecured, unconditional obligations of the Company, and shall rank *pari passu* with any other existing or future perpetual deeply subordinated notes issued by the Company, except that repayment will be subordinated to prior payment by the Company of all the amounts due under any participating loans (*prêts participatifs)* granted to it, and any super subordinated notes (*titres participatifs*) that it has issued, together with any other ordinary subordinated notes, regardless of their form (security, loan or other) and with its non-subordinated notes, regardless of their form (security, loan, or other) and in accordance with the provisions of Article L. 228-97 of the French Commercial Code. In the event that the Company is liquidated, the perpetual deeply subordinated notes will have priority only over payment of amounts due to holders of the Company's equity securities.

- *Interest:* 8% per year.

- *Payment of the interest*: Interest will be payable only in the event that one of the events listed below occurs:

- in full, upon any full cash repayment of the perpetual deeply subordinated notes occurs, but only after repayment of all the amounts due to the lenders under the Loan Agreement; and
- within five business days following the Company's decision to undertake any of the following:

  (i) distribution of a dividend, premium or reserves;

  (ii) amortization or redemption of its share capital (which is not caused by losses and which gives rise to a payment to shareholders); or

  (iii) purchase by the Company of its own shares at a premium,

  in full or in part, and in any event, within the limit of an amount that enables the perpetual deeply subordinated notes Cash Flows and the Group Fnac Share Cash Flows (as defined below) to be equalized, on the understanding that the Company will not be required to make any payment in connection with the perpetual deeply subordinated notes under any circumstances if such payment would result in an event of default under the Loan Agreement. In the event of a partial payment, the Company will be required to pay the accrued interest first, followed by the capitalized interest.

  In addition, if at a given date "t", the FNAC Group Share Cash Flows (FAGF (t) exceed the perpetual deeply subordinated notes Cash Flows (UNCF (t)) (as these terms are defined below), the principal amount of the perpetual deeply subordinated notes will be amortized in an amount of "X" for each undated deeply subordinated note, so that it equalizes the FNAC Group Share Cash Flows and the perpetual deeply subordinated notes Cash Flows at said date "t", without "X" exceeding the amount of the residual principal amount of the perpetual deeply subordinated notes, in addition to payment of all the accrued and capitalized interest.

The "Perpetual deeply subordinated notes Cash Flows (F_{TSSDI} (t))" will be determined as follows:

$F_{TSSDI}(t) = [I(t) + A(t)]/P_0$ Where:

"*I(t)*" refers to the aggregate amount of the accrued and capitalized interest actually paid in respect of each undated deeply subordinated note between the Execution Date and date (t);

"*A(t)*" refers to the aggregate amounts paid for the amortization of the principal of each undated deeply subordinated note between the Execution Date and date (t);

"*Po*" refers to the principal amount of each undated deeply subordinated note at the Execution Date, i.e. one million euros (€1,000,000).

The "FNAC Group Share Cash Flows (FAGF (t))" will be determined as follows:

$FAGF(t) = D(t)/Vt$ Where:

"*D(t)*" is the sum of the following items (adjusted in the event of share split or reverse split transactions, where applicable):

(i) the amount (per Company share) of any dividend, premium or reserve distribution (or the actual value of the securities allotted in the event of payment in kind) decided between the date when the Company's shares are admitted to trading on Euronext Paris (the "Stock Market Listing") and date (t);

(ii) the amount (per Company share) of any amortization or redemption (that is not caused by losses and gives rise to a payment to shareholders) of the Company's share capital decided between the Stock Market Listing date and date (t);

(iii) for any purchase of its own shares by the Company as part of a public tender offer at a price higher than the average volume-weighted price of the Company's shares during the 20-day stock market period prior to the opening of the offer period that occurs between the Stock Market Listing date and date (t), an amount equal to the ratio of (i) the number of shares purchased multiplied by the excess purchase price (or by the actual value of the securities exchanged) compared with the aforementioned average, and (ii) the total number of shares that constitute the Company's share capital before the purchase.

"V_t" refers to the volume-weighted price of the Company's shares (i) during the 90 trading sessions before the relevant date (t), and (ii) as an exception to the first date (t), to the price during the trading sessions in the period between the date of the Stock Market Listing and the first date (t) (so that the share price may be adjusted in order to take any transactions on the Company's capital into account, where applicable).

- *Capitalization of interest*: Unpaid interest will be capitalized annually on each anniversary of the Execution Date, and will itself bear interest, at the interest rate, in accordance with Article 1154 of the French Civil Code.

- *Mandatory full repayment in cash*: The Company will be required to repay the principal and accrued and capitalized interest on all the perpetual deeply subordinated notes outstanding, after the repayment of all the amounts due under the Loan Agreement, in the event of a takeover of the Company, or a merger, demerger, or winding-up process performed with the approval, or on the recommendation, of the board of directors of the Company.

- *Voluntary full repayment in cash*: The Company may decide at any time during the term of the perpetual deeply subordinated notes to repay them in full, after it has repaid all the amounts due to the lenders under the Loan Agreement and has cancelled all the lenders' commitments under said Loan Agreement, in an amount equal to that of the remaining principal amounts still due, plus accrued and capitalized interest.

10.3 OVERVIEW AND ANALYSIS OF THE MAIN USAGE CATEGORIES FOR THE GROUP'S CASH

10.3.1 Investments

The aggregate gross investments made by the Group during the 2010, 2011 and 2012 fiscal years amounted to €250.6 million in total; the bulk of this amount consisted of purchases of property, plant and equipment (€165.6 million), which were mainly made in order to open new stores, to renovate existing stores, to set up a new a logistics platform, and to ensure the development of its websites. (For further information regarding ongoing or planned investments over this period, see Section 5.2 "Investments", Section 10.4.2.1 "(Net)

Operating Investments” and Note 32 “Cash Flow Statement” to the consolidated financial statements shown in Section 20.1.1 “Annual Consolidated Financial Statements”.)

10.3.2 Dividends

The Group did not pay any dividends in respect of the 2009 fiscal year in 2010. The dividend paid in 2011 in respect of the 2010 fiscal year amounted to €325.9 million, i.e. €372 per share. The Company paid a dividend of €20.5 million in 2012. The Company will not pay any dividend in 2013 in respect of the 2012 fiscal year.

10.3.3 Recapitalization of the Company

When the Company was transformed into a limited company (*société anonyme*) on September 26, 2012, the par value of the Company’s shares was divided by a factor of seven, while the Company’s share capital of €6,131,671 remained unchanged, and was represented by 6,131,671 shares with a par value of €1 each. On December 27, 2012, following a resolution voted by the Company's General Meeting of Shareholders on November 29, 2012, the Company's Board of Directors decided to increase the Company’s share capital by €539,587,048, in order to increase it from €6,131,671 to €545,718,719, by raising the par value of each of the 6,131,671 shares that make up the share capital by €88 per share, increasing the par value of each share from €1 to €89. The capital increase was carried out on December 27, 2012. Kering released its €291,320,000 subscription to the capital increase via offsetting receivables and a cash payment for the balance.

In addition, on April 17, 2013, the Annual General Meeting of the shareholders of the Company approved a share capital increase of €70,023,682.82 (without issue premium) which closed on the same day and a reorganization of the share capital of the Company partially completed on the date of the AMF visa on this prospectus. These transactions are described in greater detail in Section 21.17 “History of the Share Capital over the Past Three Fiscal Years”.

10.3.4 Funding of working capital requirements

The Group’s working capital requirements amounted to - €382.9 million as of December 31, 2012. The Group mainly funds its working capital requirements (which primarily correspond to the value of its inventory, plus trade receivables and other receivables and minus trade payables and other payables), through its net operating cash flows and via borrowings, where applicable. The Group’s policy for managing its working capital requirements is primarily based on its system for managing pooled orders through its purchasing center, which enables it to manage its inventory levels in accordance with the expected demand for the products that it sells, and through close monitoring of the payment terms for trade payables and of the collection of trade receivables. (See Section 10.4.1.2 “Change in Working Capital Requirement” for a breakdown of the change in the working capital requirements over the past three fiscal years).

10.3.5 Contractual obligations

The table below sets out all the Group’s contractual commitments and obligations as of December 31, 2012, excluding the commitments relating to employee benefits and equivalent commitments, which are detailed in Notes 25 “Employee benefits and similar” to the consolidated financial statements shown in Section 20.1.1 “Annual Consolidated Financial Statements”.

(€ million)	As of December 31, 2012 Payments due according to maturity Less than one year	One to five years	Over five years	2010	2011	2012
Operating lease agreements	126.5	270.9	70.5	466.6	475.6	467.9
Irrevocable purchase obligations	7.6	19.7	-	1.9	14.9	27.4
Total commitments given	**134.1**	**290.6**	**70.5**	**468.5**	**490.5**	**495.3**

These contractual obligations primarily take the following forms:

- *Irrevocable purchase obligations (€27.4 million in 2012).* This category primarily includes irrevocable purchase commitments relating to IT, logistics, and security services.

- *Operating lease obligations (€467.9 million in 2012).* The amount of the contractual obligations featured on the "Operating lease agreement" line corresponds to the amount of the minimum payments due under operating lease agreements that cannot be cancelled by the lessee. They mainly correspond to non-cancellable lease payments for stores, logistics platforms and other buildings (head office and administrative buildings).

10.3.6 Other commitments given and received

The table below summarizes the other main commitments given and received by the Group for the periods shown (for further information, see Note 33.2.4 "Other Commitments" to the consolidated financial statements shown in Section 20.1.1 "Annual Consolidated Financial Statements").

	As of December 31, 2012			As of December 31		
	Payments due according to maturity					
(€ million)	Less than one year	One to five years	Over five years	2010	2011	2012
Other guarantees received	19.9	0.0	1.1	2.1	18.7	21.0
Total commitments received	**19.9**	**0.0**	**1.1**	**2.1**	**18.7**	**21.0**
Rent guarantees, and real estate securities	9.7	11.4	12.1	23.0	38.3	33.2
Other commitments	43.8	0.2	0.1	7.4	41.9	44.1
Total commitments given	**53.4**	**11.6**	**12.2**	**30.4**	**80.2**	**77.2**

"Other commitments" primarily consist of guarantees given by the Group as part of commercial agreements and in specific situations. The increase in guarantees received over the period is explained by the increase in the guarantees received by the Group for the sale of gift boxes.

No commitments were made or received following asset disposals, and no commitments or material contingent liabilities exist, to the Group's knowledge, other than those described in Note 33 "Contingent liabilities, unrecognized contractual commitments and contingent risks" to the annual financial statements shown in Section 20.1.1 "Annual Consolidated Financial Statements" and in Section 10.3.5 "Other Commitments Given and Received".

10.4 BREAKDOWN OF CASH FLOWS

The table below shows the Group's cash flows for the periods indicated.

(€ million)	Year ended December 31		
	2010	**2011**	**2012**
Net cash flows from operating activities	216.3	29.0	37.8
Net cash flows from investing activities	(14.6)	(17.2)	(77.6)
Net cash flows from financing activities	(24.7)	(114.6)	290.0
Cash flows from discontinued operations	(29.9)	(9.2)	(31.7)
Impact of fluctuations in exchange rates	(1.3)	(7.3)	3.4
Net change in cash	**145.8**	**(119.3)**	**221.9**

10.4.1 Net cash flows from operating activities

The table below breaks down net cash flows from operating activities for the periods indicated.

(€ million)	Year ended December 31		
	2010	**2011**	**2012**
Cash flow from operations before tax, dividends and interest	208.3	121.6	97.4
Change in working capital requirement	71.3	(41.6)	(25.1)
Income tax paid	(63.3)	(51.0)	(34.5)
Net cash flows from operating activities	**216.3**	**29.0**	**37.8**

The Group recorded cash flows from operating activities of €37.8 million in 2012 compared with €29.0 million in 2011. This €8.8 million increase is explained by a €16.4 million decrease in working capital requirements and by a €16.5 million drop in the tax charge paid, which were partially offset by a €24.3 million reduction in cash flow from operations before tax, dividends and interest.

The Group recognized cash flows from operating activities of €29.0 million in 2011 compared with €216.3 million in 2010. This €187.3 million decrease is explained by an €86.7 million decrease in cash flow from operations before tax, dividends and interest, and by a €112.9 million increase in working capital requirements, which was partially offset by a €12.3 million reduction in the tax charge paid.

10.4.1.1 Cash flow from operations before tax, dividends and interest

Cash flow from operations before tax, dividends and interest amounted to €97.4 million in 2012 compared with €121.6 million in 2011. The decrease was primarily due to the deterioration in net income, which was partially offset by an €85.4 million increase in net additions to depreciation, amortization and provisions on non-current operating assets.

Cash flow from operations before tax, dividends and interest amounted to €121.6 million in 2011 compared with €208.3 million in 2010. The decrease was primarily due to the decline in net income, which was partially offset by an increase in net additions to depreciation, amortization and provisions on non-current operating assets, and by an increase in other income and expense with no impact on cash.

10.4.1.2 Change in working capital requirement

Working capital requirements (which primarily correspond to the value of inventory plus trade receivables and other receivables and minus trade payables and other payables) expressed in days of cost of sales decreased from 56.2 days in 2010 to - 51.3 days in 2011 and then to - 49.2 days in 2012. As a percentage of revenues, the operating working capital requirement fell from 10.7% in the 2010 fiscal year to 9.8% in the 2011 fiscal year, and then to 9.4% for the 2012 fiscal year.

The Group’s working capital requirements are seasonal in nature. Working capital requirements generally increase during the first quarter, remain stable for the second and third quarters, and are lower in the fourth quarter of a given fiscal year.

Expressed as a percentage of revenues, trade receivables increased between 2010 and 2011 due to the end of receivable assignments in Brazil, before stabilizing between 2011 and 2012. Inventory decreased as a percentage of revenues, due to the attention paid to reducing inventory (see Section 6.3.6.2 “Continued Improvements in Productivity and Optimizing Organizational Structures”). Inventory decreased from 13.2% of revenues as of December 31, 2010 to 12.7% of revenues as of December 31, 2011, and then to 12.2% as of December 31, 2012. Inventory decreased from 6.7% between 2011 and 2012, amounting to €531 million in 2011 and €495 million in 2012. On a same store basis, this decrease amounts to 8.6% (not taking into account store openings in 2012), i.e., a decrease in stock value of €46 million. The inventory reduction policy resulted in a related reduction in trade payables between 2010 and 2011, when trade payables fell from 19.6% of revenues as of December 31, 2010 to 17.6% of revenues as of December 31, 2011, before stabilizing in 2012 (17.7% of revenues as of December 31, 2012).

10.4.2 Net cash flows from investing activities

The Group's net cash flows from investing activities include cash flows for purchases and disposals of property, plant, and equipment and intangible assets (net operating investments), as well as acquisitions and disposals of subsidiaries net of cash acquired or transferred, acquisitions of other financial investments and interest and dividends received (net financial investments). They amounted to net uses of €14.6 million, €17.2 million and €77.6 million in 2010, 2011 and 2012 respectively.

	Year ended December 31		
(€ million)	**2010**	**2011**	**2012**
(Net) operating investments	(63.4)	(65.0)	(94.9)
(Net) financial investments	48.8	47.8	17.5
Cash flows from investing activities	**(14.6)**	**(17.2)**	**(77.6)**

10.4.2.1 (Net) operating investments

The table below provides a breakdown of the Group’s operating investments for the periods indicated.

(€ million)	Year ended December 31 2010	 2011	 2012
Purchase of property, plant and equipment and intangible assets	**(76.5)**	**(95.6)**	**(78.5)**
O/w France	(49.6)	(74.7)	(67.5)
O/w Iberian Peninsula	(11.9)	(16.7)	(6.2)
O/w Brazil	(6.5)	(2.2)	(2.3)
O/w other countries	(8.5)	(2.0)	(2.5)
Change in debt relating to non-current assets	**13.0**	**14.5**	**(16.6)**
Disposal of property, plant and equipment, and intangible assets	**0.1**	**16.1**	**0.2**
Net operating investments	**(63.4)**	**(65.0)**	**(94.9)**

Net operating investments, i.e. purchases of property, plant and equipment and intangible assets minus disposals of property, plant and equipment and intangible assets, used €94.9 million in 2012. Gross capital expenditures (i.e. purchases of property, plant, and equipment and intangible assets) used €78.5 million, which was primarily related to the extension and renovation of stores, the maintenance and development of websites, and the Group's logistics platforms, including the new Wissous logistics platform. Disposals of property, plant and equipment amounted to €0.2 million in 2012.

Net operating investments used €65.0 million in 2011. Gross capital expenditures used €95.6 million, and were primarily related to the extension and renovation of stores, to the maintenance and development of websites, and to the Group's logistics platforms, including the Wissous platform. Disposals of property, plant and equipment amounted to €16.1 million in 2011, and primarily involved cash flows from disposal of the Herblay facility.

Net operating investments used €63.4 million in 2010. Gross capital expenditures used €76.5 million, and primarily related to the opening and renovation of stores, to the maintenance and development of websites, and to the Group's logistics platforms. Disposals of property, plant and equipment amounted to €0.1 million for the year ended December 31, 2010.

10.4.2.2 Net financial investments

The table below provides a breakdown of the Group's net financial investments for the periods indicated.

(€ million)	Year ended December 31 2010	 2011	 2012
Purchase of subsidiaries net of cash acquired	–	–	0.1
Disposal of subsidiaries net of cash transferred	56.6	46.3	–
Purchase of other financial assets	(9.5)	(1.6)	(2.4)
Disposal of other financial assets	1.6	0.7	19.1
Interest and equivalent payments, and dividends received	0.1	2.4	0.7
Net financial investments	**48.8**	**47.8**	**17.5**

The Group's net financial investments generated €48.8 million in 2010, €47.8 million in 2011, and €17.5 million in 2012, primarily from the disposal of subsidiaries net of cash transferred (including proceeds from the FNAC Eveil & Jeux and Conforama disposals) and from the disposal of other financial investments. Part of these net resources was reinvested over the period between 2010 and 2012, including as payment of part of the acquisition price of SplitGame, a community video game swapping website, and in the acquisition of Kyro Concept.

10.4.3 Net cash flows from financing activities

The table below breaks down net cash flows from financing activities for the periods indicated.

(€ million)	Year ended December 31 2010	 2011	 2012
Increase/Decrease in equity and other transactions with shareholders	–	–	539.6
Dividends paid to shareholders	–	(325.9)	(20.5)
Redemption of borrowings	–	–	(0.4)
Increase/Decrease in other financial debt	(19.6)	222.4	(222.8)
Interest and equivalent payments	(5.1)	(11.1)	(5.9)
Net cash flows from financing activities	**(24.7)**	**(114.6)**	**290.0**

Net cash flows from financing activities generated €290.0 million in 2012, and used €114.6 million in 2011 and used €24.7 million in 2010. The main sources of cash during the period were as follows:

- The Company's share capital increase, which was carried out on December 27, 2012, for €539.6 million;
- A €222.4 million increase in other financial liabilities in 2011, which corresponded to an increase in current account advances from Kering in order to finance the payment of a dividend to Kering in 2011.

The main uses of cash during the period were as follows:

- Dividend payments amounting to €325.9 million and to €20.5 million in 2011 and 2012 respectively;
- The reduction in other financial liabilities, which corresponded to a net use of cash of €222.8 million and of €19.6 million in 2012 and 2010 respectively;
- Interest and equivalent payments of €5.9 million in 2012, €11.1 million in 2011 and €5.1 million in 2010.

10.4.4 Free cash flow from operations

The table below shows the trend in the Group's free cash flow from operations for the periods indicated. Free cash flow from operations is equal to net cash flows from operating activities minus net operating investments.

(€ million)	Year ended December 31 2010	 2011	 2012	% change 2010/2011	% change 2011/2012
Cash flow from operations before tax, dividends and interest	**208.3**	**121.6**	**97.4**	**(41.6)%**	**(19.2)%**
Change in working capital requirement	71.3	(41.6)	(25.1)	(158.3)%	39.7%
Income tax paid	(63.3)	(51.0)	(34.5)	19.4%	32.4%
Net cash flows from operating activities	**216.3**	**29.0**	**37.8**	**(86.6)%**	**30.3%**
Net operating investments	(63.4)	(65.0)	(94.9)	2.5%	46.0%
Free cash flow from operations	**152.9**	**(36.0)**	**(57.1)**	**(123.5)%**	**(58.6)%**

The Group generated positive free cash flow from operations of €152.9 million in 2010, and negative cash flow from operations of €36.0 million in 2011 and of €57.1 million in 2012.

These amounts are primarily explained by a decrease in net cash flows from operating activities, by the change in the working capital requirements between 2010 and 2011 (primarily due to the increase in trade receivables) and by an increase in net operating investments between 2011 and 2012. Non-current operating charges had an impact on cash of €27.3 million in 2010, €25.8 million in 2011 and €30.4 million in 2012.

10.4.5 Change in net financial debt

The change in net financial debt for the 2010, 2011 and 2012 fiscal years was as follows:

	Year ended December 31		
(€ million)	**2010**	**2011**	**2012**
Net financial debt as of January 1	**(24.3)**	**(189.4)**	**152.4**
Free cash flow from operations[(1)]	(152.9)	36.0	57.1
Interest paid net of interest and dividends received	5.0	8.7	5.2
Purchase and disposal of subsidiaries net of cash acquired or transferred	(36.6)	0.7	(0.1)
Purchase and disposal of other (net) financial investments	(12.1)	(46.1)	(16.6)
Dividends paid	–	325.9	20.5
Other[(2)]	31.5	16.6	(510.7)
Net financial debt at the end of the period	**(189.4)**	**152.4**	**(292.0)**

(1) See Section 10.4.4 "Free Cash Flow from Operations" for the calculation of free cash flow from operations.
(2) Corresponds to the total amount of capital increases & decreases, of the impact of foreign exchange fluctuations on net financial debt, and of other fluctuations on changes in net financial debt.

The decrease in net financial debt as of December 31, 2012 compared with December 31, 2011 is primarily explained by the capitalization of the Kering current account, as part of a capital increase amounting to €539.6 million. The increase in net financial debt between December 31, 2010 and December 31, 2011 was mostly due to the payment of a dividend amounting to €325.9 million in 2011, which was primarily financed via the Kering current account.

It is specified that, recalculated assuming that the share capital increases implemented on December 27, 2012 for €248 million (for the amount fully paid-up in cash) and on April 17, 2013 for approximately €70 million (without issue premium) and the issuance of a nominal amount of €60 million perpetual deeply subordinated notes that should occur on June 18, 2013, all took place on January 1, 2012, the average net cash of the Group in 2012 would have been €202.4 million.

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

By virtue of the nature of the Group's activities, the Group does not conduct any research and development. As such, the Group does not own any patents or licenses.

The Group owns a portfolio of approximately 610 trademarks, registered across the world, for the name "Fnac" and its derivatives used in the context of commercial promotions.

The Group also owns a portfolio of approximately 740 domain names.

The Group's intellectual property portfolio is centered on the protection of its brands (in particular the "Fnac" brand and its derivatives) and its domain names. The policy involves filings and reservations on either a local country basis or in the full range of countries where the Group operates or wishes to preserve its rights. The name "Fnac" is reserved as a domain name with the main generic extensions and the main geographic extensions.

12. INFORMATION ON TRENDS AND FORECASTS

The main trends that have affected or may affect the Group's business since the close of the last fiscal year are described in Chapter 6 "Business" (especially in Section 6.4.1 "Fnac's Markets in France" and Section 6.4.2 "Fnac's Markets in the Iberian Peninsula") and in Chapter 9 "Review of the Group's Financial Position and Results" and especially Section 9.1 "Overview" and Section 9.2 "Comparison of the Group's Annual Results for the Fiscal Years ended December 31, 2011 and December 31, 2012".

12.1 REVENUES IN THE FIRST QUARTER OF 2013

The table below shows the breakdown of the Group's revenues for the first quarter of 2013 and 2012.

Consolidated Revenues (unaudited) € millions	**First Quarter 2012**	**First Quarter 2013**	**Change at current Exchange rates**	**Change at Constant Exchange Rates**
France	616.9	593.7	(3.8) %	(3.8) %
Iberian Peninsula	167.8	151.9	(9.5) %	(9.5) %
Brazil	58.7	46.6	(20.6) %	(9.8) %
Other Countries	72.4	68.0	(6.1) %	(5.5) %
Group	**915.8**	**860.1**	**(6.1) %**	**(5.3) %**

During the first quarter of 2013, the environment for consumer spending remained difficult in the Group's principal markets in light of the slow economic growth in Western Europe and an economic recession in Southern Europe. The Group's revenues were €860.1 million for the first quarter of 2013, representing a decline of 6.1% compared to the first quarter of 2012.

Exchange rates had a negative effect of 0.8 points, primarily due to the decline of the Brazilian Real against the euro. At constant exchange rates revenues declined by 5.3%. For the Group as a whole, new stores revenues amounted to 1.4% of the revenue growth observed in the first quarter of 2013. At constant exchange rates and on a same store basis, the Group's revenues declined by 6.7% in the first quarter of 2013 compared to the first quarter of 2012.

The decline in revenues for the period was also affected by a negative calendar effect of 1.8%, principally explained by the loss of one working day during the first quarter on 2013.

During the first quarter, all of the Group's geographical zones experienced a decline in revenues (at constant exchange rates) :

- France – In France, revenues declined for the period by 3.8% in markets that are contracting sharply. Excluding the calendar effect, the decline was 1.7%, in line with the trends observed in 2012. Consumer electronics revenues declined by 2.2% as a result of the marked decline in the retail electronics category, particularly in television-video revenues, despite an increase in IT products revenues. These figures show the resilience of the Group in a very deteriorated consumer spending environment. The French market for "grey" and "brown" products experienced monthly a decline of 9.9% respectively for the period.[124] Editorial products revenues declined by 4.3% driven by lower revenues from the discs and gaming sub-category. Revenues in the Books, games & toys, and stationary sub-category increased, as a

124 Source : Bank of France

result of the launch of the "Fnac Kids" corners. Revenues from services fell as a result of a decline in sales of guaranties, which are themselves linked to revenues from consumer products. On a same store basis, revenues in France declined by 5.3%. In terms of sales channels, the decline in revenues in France stems primarily from the decline in store revenues, with internet sales experiencing a slight increase as compared to the first quarter of 2012. In the first quarter of 2013, the Group opened one franchise store (at the Marseille airport), which brought the number of franchised stores up to 17.

- Iberian Peninsula – Revenues declined by 9.5% in this region in the first quarter of 2013 as a result of a strong decline in revenues in Spain (i.e. a decline of 10.7% on a same store basis). Revenues in Portugal increased slightly as a result of strong increases in internet sales and good performance in the IT products category.

- Brazil – Revenues declined in this region by 20.6% for the period. The decline in the exchange rate of the Brazilian real against the Euro had a negative impact of 10.8 points. At constant exchange rates, revenues declined by 9.8% (i.e. a decline of 13.6% on a same store basis at constant exchange rates). After a difficult beginning to the first quarter 2013, which was in line with the trend seen at the end of the year 2012, business recovered during the month of March (for a revenue decline of only 3.1% for the month of March 2013 compared to March 2012).

- Other Countries – Sales declined by 6.1% (5.5% at constant exchange rates) in the other countries region. The solid performance in Belgium was not enough to counterbalance the decline in revenues in Switzerland.

12.2 CHANGES IN THE GROUP'S FINANCIAL STRUCTURE SINCE JANUARY 1, 2013

As at March 31, 2013, the net outstanding borrowing under the cash pooling agreement between Fnac S.A. and PPR Finance was approximately €248 million (See Section 19.1 "Transactions with the Kering Group"). The Company placed at PPR Finance's disposal the cash paid by Kering as part of the Company's capital increase that was carried out on December 27, 2012. (See Section 10.2.1 "Overview".) The net cash position of the Company vis-à-vis the Kering Group is therefore positive, equaling a receivable of approximately €0.1 million at March 31, 2013.

For purposes of the admission to trading of the Company's shares on Euronext Paris, the Company secured new independent sources of financing, i.e. the Loan Agreement for a maximum principal amount of €250 million and the perpetual deeply subordinated notes for a nominal amount of €60 million. The terms and conditions of these new resources are described in Section 10.2.2.2 "Financing of the Group After Admission of the Company's Shares to Trading on Euronext Paris".

In addition, on April 17, 2013, the annual shareholders' meeting of the Company approved a capital increase in the amount of €70,023,682.82 (with no issue premium) as well as a reorganization of the Company's share capital, which was partially implemented as of the date of the visa on this prospectus. These transactions are described in more detail in Section 21.1.7 "History of the Share Capital Over the Past Three Fiscal Years."

12.3 MARKET FORECASTS

Section 6.4.1 "Fnac's Markets in France" and Section 6.4.2 "Fnac's Markets in the Iberian Peninsula" present market growth forecasts for each of the Group's markets. These forecasts can be summarized as follows:

CAGR 2012-2015	France	Iberian Peninsula
Consumer Electronics Market[1]	(2,6) % – 0,4 %	(5,0) % – (2,0) %
Editorial Products Market[2]	(7,0) % – (4,0) %	(7,3) % – (4,3) %
Household Appliances Market..	3,0 % – 4,2 %	–
Games & Toys Market.............	2,8 % – 4,3 %	–

(1) Includes information technology products, photography products, television and video products and audio products, as well as, for the Iberian Peninsula only, telephony products.
(2) Not including digital products.

While these forecasts are considered to be reasonable at the date of the visa on this prospectus, they are susceptible to change and may be adjusted as a result of the uncertainties related to economic, financial, competitive or regulatory concerns, as well as technological progress. Investors should closely read Section 6.4 "Market Overview" for a detailed analysis of the structural factors influencing the Group's markets and Section 6.4.5 "Sources for Certain Information Included in Sections 6.4.1 and 6.4.2" to find the sources on which the above forecasts have been based.

12.4 THE GROUP'S OBJECTIVES

The Group's objective is to stabilize its revenues by 2016, prior to pursuing revenue growth. This objective of stabilizing revenues is supported by:

- Continued efforts to gain market share (see Section 6.4.1 "Fnac's Markets in France"); and
- Ramping up recently introduced sub-categories of products (in particular games & toys and home & design products) and introducing further new sub-categories of products, with the objective that all new sub-categories taken together will make an overall contribution to the Group's consolidated revenues on the order of 5%.

By 2016, the Group's objective is to stabilize its gross profit margin, primarily through the favorable impact of the above-mentioned new sub-categories of products on the gross profit margin mix and, more generally, through the pursuit of strategies to improve the terms the Group obtains from its suppliers.

The Group intends to pursue its policy of seeking cost savings and streamlining its organizational structure, which is a key feature of the "Fnac 2015" strategic plan, as more fully described in Section 6.3.6 "Optimizing Operational Efficiency and Profitability". In 2012, this policy has already generated estimated savings of approximately €60 million, i.e. approximately €80 million on an annual basis. The Group intends to continue to pursue this policy on the same order of magnitude in 2013-2014.

Over the next few years, the Group also expects to continue to make targeted investments and capital expenditures of approximately €60 to €70 million per year and to continue its strategy of optimizing its inventory management, with an objective of reducing its inventory levels by an average of approximately 3% per year.

In the longer term, when the renewal of the Group's business model is complete and assuming stable market and economic conditions, the Group's objective is to achieve a current operating income margin of more than 3%.

The above objectives do not constitute projections or estimates of future Group profits, but represent strategic targets under its action plan. These objectives are based on data, assumptions and estimates that the Group considers to be reasonable. These data, assumptions and estimates may change over time as a result of uncertainties relating to the financial, economic, competitive and regulatory environment in which the Group operates. Moreover, one or more of the risks described in Section 4 "Risk Factors" could have an impact on the Group's business, results of operations or financial situation and therefore jeopardize the achievement of the objectives described above. The Group cannot guarantee and give no assurance that the objectives described in this Section will be achieved. For a detailed discussion of certain factors affecting the Group's business (in particular, changes in the macro-economic situation, competitive environment, store fleet, distribution channels, product mix, and changes in consolidation perimeter and business), refer to Section 9.1.2 "Key Factors Affecting the Group's Business".

13. PROFIT FORECASTS OR ESTIMATES

None.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 COMPOSITION OF MANAGEMENT AND AUDIT COMMITTEES

The Company is a French limited company (*société anonyme)* with a Board of Directors. A description of the main provisions of the bylaws and of the internal regulations of the Board of Directors and Special Board Committees is included in Chapter 16, “Functioning of Administrative and Management Bodies” and Section 21.2.2 “Administrative, Management and Supervisory Bodies and Senior Management Bodies”.

14.1.1 Board of Directors

The table below shows the composition of the Board of Directors that will come into effect on the date of admission of the Company's shares to trading on Euronext Paris, and the main positions held by Company directors outside the Company over the past five years.

Name or corporate name; business address	**Age**	**Term of office expiry date**	**Main position in the company**	**Key positions and offices outside the Company over the past 5 years**
Alexandre BOMPARD *Le Flavia* *9, rue des Bateaux-Lavoirs, ZAC Port d’Ivry, Ivry-sur-Seine Cedex (94768)*	40	Ordinary Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2015	Chairman, Chief Executive Officer	Offices and positions held at the date of this prospectus: - Chairman, Chief Executive Officer, Fnac - Observer of the Board of Directors, Kering* - Member of the Executive Committee, Kering - Director, Les Editions Indépendantes* Offices and positions held over the past five years that are no longer held: - Chairman, Télécompagnie - Chairman, Europe 1 and Europe 1 Sport - Manager, Europe News - Manager, Europe Interactive - Permanent representative, Lagardère Active - Director, Lagardère Active Broadcast

Name or corporate name; business address	Age	Term of office expiry date	Main position in the company	Key positions and offices outside the Company over the past 5 years
Patricia BARBIZET *12, rue François 1er Paris (75008)*	58	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Non-Board member Chief Executive Officer and Member of the Supervisory Committee, Financière Pinault - Chief Executive Officer and Director, Artémis - Vice-Chairman of the Board of Directors and Director, Kering* - Permanent representative of Artémis to the Board of Directors, AGEFI - Permanent representative of Artémis to the Board of Directors, Sebdo Le Point - Member of the Supervisory Board, Yves Saint Laurent - Director, Total* - Director, Air France-KLM* - Director, Fonds Stratégique d'Investissement - Director, Société Nouvelle du Théâtre Marigny - Member of the Management Board, Société Civile du Vignoble du Château Latour - Chairman, Christie's International Plc - Director, Gucci Group N.V. - *Administratore*, Palazzo Grassi Offices and positions held over the past five years that are no longer held: - Director, TF1 * - Director, Bouygues* - Non-executive Director, Tawa Plc - Delegated Chief Executive Officer, Société Nouvelle du Théâtre Marigny - Director, Piasa - Chairman of the Board of Directors et Chief Executive Officer, Piasa - Director, Fnac SA
Stéphane BOUJNAH *40, rue de Courcelles Paris (75008)*	49	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	- Offices and positions held at the date of this prospectus: - Chief Executive Officer, Santander Global Banking & Markets - Member of the Board of Directors, Paris Europlace - Director, Cinétévé - Chairman of the Board of Directors, En Temps Réel, Association pour la Recherche et le Débat Offices and positions held over the past five years that are no longer held: - Managing Director, Deutsche Bank

Name or corporate name; business address	Age	Term of office expiry date	Main position in the company	Key positions and offices outside the Company over the past 5 years
Carole FERRAND *12, rue François 1er Paris (75008)*	43	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Honorable Chairman and Director, Terra Nova Offices and positions held over the past five years that are no longer held: - Director and Chairman of the Board of Directors, EuropaCorp* - Director, Hoche Artois Image
Antoine GOSSET-GRAINVILLE *44, avenue des Champs-Elysées Paris (75008)*	47	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	- Offices and positions held at the date of this prospectus: - Member of Supervisory Committee, Schneider Electric* - Director, La Compagnie des Alpes* Offices and positions held over the past five years that are no longer held: - Deputy Chief Executive Officer, Groupe Caisse des Dépôts - Director, CNP Assurances* - Director, Icade* - Director, Fonds Stratégique d'Investissement - Director, Transdev
Alban GREGET *12, rue François 1er Paris (75008)*	36	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Director, Artémis - Director and Chairman of the Board of Directors, AGEFI - Director and Chief Executive Officer, Finintel - Director, Capi - Director, Immobilier Neuf - Director and Chief Executive Officer Délégué, La Centrale de Financement - Permanent Representative of Artémis, Director, Michel & Augustin - Chairman, Marigny - Permanent Representative of Rocka Director, Optimhome Offices and positions held over the past five years that are no longer held: - Director, La Centrale du Crédit - Permanent Representative of Artémis Director, Mimesis Republic

Name or corporate name; business address	Age	Term of office expiry date	Main position in the company	Key positions and offices outside the Company over the past 5 years
Nonce PAOLINI *1, quai du point du jour Boulogne (92656)*	64	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Chairman and CEO, TF1* - Chairman and Director, Monte Carlo Participation - Chairman and Director, Fondation d'entreprise TF1 - Chairman, HOP (Holding Omega Participations) - Chairman of Association des chaînes privées - Director, Bouygues* - Director, Bouygues Telecom - Representative of TF1 administrateur, Groupe AB - Representative of TF1 administrateur, Extension TV - Representative of TF1 administrateur, TF6 Gestion - Representative of TF1 administrateur, GIE TF1 Acquisitions de droits - Vice President and Director, TMC (Télé Monte Carlo) Offices and positions held over the past five years that are no longer held: - n/a
Arthur SADOUN *133, avenue des Champ- Elysées Paris (75008)*	41	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Chairman and CEO, Publicis Conseil - Chairmand and CEO, Publicis Activ France - Chairman, Marcel - Chairman, Publicis Dialog - Chairman, Publicis Webperformance - Director F2SCom - Director, Care France Offices and positions held over the past five years that are no longer held: - n/a
Brigitte TAITTINGER-JOUYET *74, rue Raynouard Paris (75016)*	53	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Director, HSBC France* - Director, L'orchestre de chambre de Paris - Director, Association des Amis et Mécènes de l'Opéra-Comique (AMOC) - Director, Centre Georges Pompidou Offices and positions held over the past five years that are no longer held: - Chairman, Société des Parfums Annick Goutal

Name or corporate name; business address	Age	Term of office expiry date	Main position in the company	Key positions and offices outside the Company over the past 5 years
Jacques VEYRAT *29, rue de Berri Paris (75008)*	50	Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015	Director	Offices and positions held at the date of this prospectus: - Chairman, Impala Holding - Director, Direct Energie - Director, Neoen - Director, HSBC France* - Director, ID Logistics Group - Director, Imerys - Director, Louis Dreyfus Armateurs - Member of Supervisory Committee, Eurazeo* Offices and positions held over the past five years that are no longer held: - Chairman, Louis Dreyfus Holding BV - Chairman and CEO, Louis Dreyfus - Chairman and CEO, Neuf Cegetel

* French listed companies.

Each of the directors of the Company listed above was appointed by the Company's shareholders' meeting of April 17, 2013. With the exception of Mr. Alexandre Bompard, these directors were each appointed subject to the non-retroactive condition of the admission to trading of the Company's shares on Euronext Paris. Furthermore, with the exception of Mr. Alexandre Bompard, each of the former directors in office on the date of the visa on this prospectus (whose names are not listed in this prospectus) will resign effective on the date of the admission to trading of the Company's shares on Euronext Paris.

In order to allow the renewal of director's terms on a rolling basis, directors names will be selected at random (with the exception of the Chairman and Chief Executive Officer) for one of the three following groups:

- A first group, comprised of three Directors, will resign from office prior to the Company's annual General Shareholders' Meeting called to approve the financial statements for the 2013 fiscal year;

- A second group, also comprised of three Directors, will resign from office prior to the Company's annual General Shareholders' Meeting called to approve the financial statements for the 2014 fiscal year; and

- A third group comprised of the three remaining Directors will continue their mandate until its expiration.

This random selection will take place after the admission of the Company's shares to trading on Euronext Paris.

The Company's Board of Directors will appoint a Vice-Chairman following admission to trading of the Company's shares on Euronext Paris as provided in its bylaws.

Personal information regarding the members of the Board of Directors:

Alexandre Bompard – A graduate of the *Institut d'Etudes Politiques* in Paris with a degree in public law, a postgraduate degree in economics and a graduate of the *Ecole Nationale de* *l'Administration* (Cyrano de Bergerac class). Appointed to the French General Inspectorate of Finance (1999-2002), Mr. Bompard became technical adviser to François Fillon, then Minister for Social Affairs, Labor and Solidarity (April-December 2003). From 2004 to 2008, Mr. Bompard was assigned many roles within the Canal + Group: he was Director of Chief of Staff for Bertrand Méheut (2004-2005), then Director of Sport and Public Affairs within the Group (June 2005 to June 2008). In June 2008, he was appointed Chairman and CEO of Europe 1 and Europe 1 Sport. Since January 2011, he has been Chairman and Chief Executive Officer of Fnac and a member of the Kering Executive Committee.

Patricia Barbizet – A graduate of the École Supérieure de Commerce de Paris. She started her career in the Renault Group as Treasurer of Renault Véhicules Industriels, then Chief Financial Officer of Renault Crédit International. She joined the Pinault Group in 1989 as a financial officer. In 1992, she became the Chief Executive Officer of Artémis then in 2004, Chief Executive Officer of Financierd Pinault. She is currently the Chief Executive Officer of Artémis, the Vice-Chairman of the Board of Directors of Kering and the Chairman of Christie's International.

Stéphane Boujnah – A graduate of the Institut d'Etudes Politiques de Paris, the holder of a DEA in international economic law, an LLM in international law from the University of Kent in Canterbury and an MBA from INSEAD. From 1991 to 1997, he was an attorney at Freshfields, specialized in mergers and acquisitions and in international investment projects. He became a consultant of Dominique Strauss-Kahn at the Ministry of Economy, Finances and Industry, where he was in charge of innovation, new technologies, risk capital, foreign investments and certain structural reforms (1997-1999). From 2000 to the end of 2002, he was the director of mergers and acquisitions at Crédit Suisse First Boston Technology Group in Palo Alto and later in London. He then created KM5 Capital, a company specializing in mergers and acquisitions in the technology sector and in advising risk-capital funds and private equity operators (2003-2004), and became Managing Director in charge of business development for the Deutsche Bank's investment bank in Paris (2005-2010). Since May 2010, he has been the Chief Executive Officer of Santander Global Banking and Markets for France and Benelux.

Carole Ferrand – A graduate of the Ecole des Hautes Etudes Commerciales (class of 1992). She started her career at PriceWaterhouseCoopers where she was an auditor and later a financial advisor in the Transaction Services division. She joined Sony France in 2000, the French subsidiary of the consumer and professional electronic branch of the Sony Corporation group, as Financial Director and then Secretary General as of 2002. In 2011, she held the position of Chief Financial Officer of the Europacorp group. Since January 2013, she has been Chief Financing Officer of the Artémis group.

Antoine Gosset-Grainville – A graduate of the Institut d'Etudes Politiques de Paris, the holder of a "Bank and finance" DESS from the Université Paris-IX Dauphine and graduate of the Ecole Nationale de l'Administration (promotion Léon Gambetta). Appointed to the General Inspection of Finances in 1993, he became Deputy Secretary General of the Economic and Financial Committee of the European Union in 1997. From 1999 to 2002, he was an Advisor of economic and industrial affairs in the Cabinet of Pascal Lamy at the European Commission. An attorney licensed in Paris and Brussells, in 2002 he became a partner at the law firm of Gide Loyrette Nouel. In 2007, he was appointed Deputy Director of the cabinet of the Prime Minister, François Fillon, in charge of economic and financial matters. In March 2010, he became Deputy Chief Executive Officer of the Caisse des Dépôts in charge of finance, strategy, investments and steering of European and international activities, then Chief Executive Officer of the Caisse des Dépôts Group by interim from February to July 2012. In April 2013, he formed the law firm BDGS Associés.

***Alban Gréget* –** A graduate of l'Ecole Supérieure des Sciences Economiques et Commerciales. He was an analyst in Corporate Finance at Société Générale in Paris and then in London (1997-2000). From 2001 to 2008, he was Analyst, Associate and then Vice-President of mergers and acquisitions at Merrill Lynch in Paris. Since March 2008, he has been Director of Investments for the Artémis group, where he is in charge of new investments, of merger and acquisition transactions and the strategic and financial oversight of certain investments, and is a Director of several Groupe Kering companies.

Nonce Paolini – Holds a master's degree in literature and is a graduate of the Paris « Institut d'Etudes Politiques » (class of 1972). He began his career with EDF-GDF where he held operational and management positions. In 1998, he joined the Bouygues group, where he successively held the positions of Director of Development and Director of Human Resources, before going on to become central Director or Communications. In 1993, he joined TF1 as Director of Human Resources and in 1999, was named Deputy Chief Executive Officer. In 2002, he was named Deputy Chief Executive Officer of Bouygues Télécom and he was then appointed Vice Chief Executive Officer and to the Board of Directors in April of 2004. In 2007, he was named Chief Executive Officer of TF1 group before becoming Chairman- Chief Executive Officer, in 2008.

Arthur Sadoun – A graduate of the European Business School and holds an MBA from the European Institute of Business Administration ("l'Institut européen d'administration des affaires"). He created his own public relations firm in Chile before joining the TBWA network in Paris as Director of International Strategic Planning and then Director of Development. In 2000 he was named Chief Executive Officer of TBWA/Paris and then went on to become Chairman of the Board in 2003. In 2006, he joined Publicis Conseil as Chairman-Chief Executive Officer. He has been Chairman of the Board of Publicis France since 2009 and has been Chief Executive of Public Worldwide, since 2011.

Brigitte Taittinger-Jouyet – A graduate of the Institut d'Etudes Politiques de Paris and holder of a master's degree in history from the Université des Sciences Humaines. Chief of Advertising at Publicis (1984-1988), and in 1988 she became the mission chief for the Directors of Marketing at the Groupe du Louvre in charge of industrial and economic hospitality products. From 1991 to 2012, she was Chariman of the Société des Parfums Annick Goutal.

Jacques Veyrat – Graduated from Ecole Polytechnique (class of 1983) and the Collège des Ingenieurs (class of 1989), and has an engineering degree from Ponts et Chaussés (class of 1988). He was appointed to the Treasury Department where he served as Secretary for the Inter-ministerial Committee on Industrial Reconstruction ("Comité interministériel de restructuration industrielle") for the period 1989-1991, then deputy Secretary General to the Club of Paris from 1991 to 1993. From 1993 to 1995, he served as Technical Cabinet Adviser to the Ministry of Transport Equipment, Tourism and the Seas. In 1995, he joined the Louis Dreyfus group as Chief Executive of Louis Dreyfus Shipbuilders (1995-1998), before becoming Chairman-Chief Executive Officer of Louis Dreyfus Communications, which was renamed Neuf Cegetel, from 1998 to 2008 and then Chairman - Chief Executive Officer of the Louis Dreyfus group from 2008 to 2011. Since 2011, he has been Chairman of Impala.

The Company's Board of Directors will need to determine the independence of its members in accordance with the criteria described in Section 21.2.2.1.2 "Composition of the Board of Directors".

14.1.2 Senior Management

In accordance with Article 16 of the Company's bylaws, Mr. Alexandre Bompard serves as Chairman of the Board and Chief Executive Officer of the Company. He was appointed as

Chief Executive Officer of the Company on April 17, 2013 for a period of three years expiring at the close of the Ordinary Shareholder’s Meeting called to approve the financial statements for the year ended December 31, 2015.

14.1.3 Management Committee

The Group’s Management Committee consists of seven members, as follows:

- Alexandre Bompard, Chief Executive Officer
- Enrique Martinez, Managing Director, Northern Europe
- Matthieu Malige, Chief Financial Officer for the Group
- Frédérique Giavarini, Director of Strategy
- Dominique Brard, Director of Human Resources
- Claudia Almeida e Silva, Managing Director, Southern Europe
- Sébastien Liorzou, Director of Operations, Organization and Systems
- Laurent Glepin, Communications Director
- Katia Hersard, Brand and Marketing Director
- Benoit Fremaux, Director of Information Systems
- Charles Bianchi, Commercial Director, France
- Ivan Michel, Director of Operations, France

The Group’s Management Committee meets on a weekly basis to discuss the Group’s operational and financial performance, strategic plans, and managing the business.

14.1.4 Statement of the Board of Directors

To the Company’s knowledge, at the date of the visa on this prospectus, there were no family ties between the members of the Company's Board of Directors.

To the Company’s knowledge, over the past five years: (i) no conviction for fraud has been charged against any of the above persons, (ii) none of the above persons has been associated with bankruptcy, receivership or liquidation, (iii) no incrimination and/or official public sanction has been delivered against any of the above persons by statutory or regulatory authorities (including designated professional bodies) and (iv) none of the above persons have been disqualified by a court from acting as a member of the administrative, management or supervisory body of any company, or from being involved in the management or performance of business of any company.

14.2 CONFLICTS OF INTEREST

To the Company’s knowledge, as at the date of the visa on this prospectus, there were no potential conflicts of interest between the duties of the members of Board of Directors towards the Company and their private interests.

To the Company’s knowledge, there is no agreement or understanding among shareholders, clients, suppliers or others under which any of the members of the Board of Directors was appointed as such.

The members of the Company’s Board of Directors have not accepted any restrictions regarding the disposal of their interests in the Company’s share capital, with the exception of rules to prevent insider trading.

15. REMUNERATION AND BENEFITS OF SENIOR EXECUTIVES

15.1 REMUNERATION AND BENEFITS OF SENIOR EXECUTIVES AND COMPANY OFFICERS

The Company is a French limited liability company with a board of directors. The positions of the chairman of the board of directors and the chief executive officer are combined and exercised by Mr. Alexandre Bompard.

No member of the Company's board of directors or executive officer received attendance fees or other compensation for their service in those capacities for the Company for the 2011 and 2012 fiscal year.

The Company's combined annual shareholders' meeting of April 17, 2013 fixed, subject to the non-retroactive condition precedent of the admission of the Company's shares to trading on Euronext Paris, the total maximum annual amount of attendance fees to be paid to all Board members collectively at €300,000 per year.

For reasons of good governance, the compensation of Mr. Alexandre Bompard in his capacity as chairman of the board of directors and chief executive officer of the Company will be fixed by the Board of Directors at a meeting convened after the date on which the Company's shares are first listed, after the independent directors have begun their terms and upon consultation of and receipt of a recommendation from the Appointments and Compensation Committee (See Section 14.1.1 "Board of Directors" and Section 21.2.2.1.2 "Composition of the Board of Directors"). The elements composing this compensation will be announced in a press release to the market, once they are decided upon.

Mr. Alexandre Bompard's compensation in his capacity as chairman and chief executive director is expected to include a fixed portion and a variable portion based on the achievement of specific Company performance targets determined by the board of directors. Mr. Bompard does not have an employment contract with the Company or with any of its subsidiaries.

Kering performance shares granted to Mr. Alexandre Bompard

No. And date of the plan	Number of shares allocated during the fiscal year	Valuation of the shares	Date of acquisition	Date of availability	Performance condition
2011-I May19, 2011	2,917	€243,657	May 19, 2013	May 19, 2015	Performance condition that performance be at least equal to the Kering share price compared to a representative index of listed European stocks in the luxury and retail sectors, over the period between the allotment and the final acquisition of these shares (2 years), the number of shares that are ultimately acquired being reduced in proportion to any eventual under-performance of the Kering share.
2012-I April 25, 2012	4,408	€391,121	April 27, 2014	April 27, 2016	Performance condition that performance be at least equal to the Kering share price compared to a representative index of listed European stocks in the luxury and retail sectors, over the period between the allotment and the final acquisition of these shares (2 years), the number of

	shares that are ultimately acquired being reduced in proportion to any eventual under-performance of the Kering share.

None of the performance shares granted to Mr. Alexander Bompard is transferable at the date of the visa on this prospectus.

There are currently no Company stock subscription plans, stock option plans, or free share allocation plans at the level of the Company or of any of its subsidiaries.

15.2 AMOUNT OF PROVISIONS MADE OR RECORDED BY THE COMPANY OR BY ITS SUBSIDIARIES FOR THE PAYMENT OF PENSIONS, RETIREMENT PLANS OR OTHER BENEFITS

The Company has made no provision for the payment of pensions, retirement plans or other similar benefits to company officers.

16. FUNCTIONING OF ADMINISTRATIVE AND MANAGEMENT BODIES

16.1 TERMS OF OFFICE OF MEMBERS OF THE ADMINISTRATIVE AND MANAGEMENT BODIES

The dates on which the appointments of each member of the Company's administrative and management bodies expire are shown in Section 14.1 “Composition of Management and Audit Committees”.

In order to allow the renewal of director’s terms on a rolling basis, directors names will be selected at random (with the exception of the Chairman and Chief Executive Officer) for one of the following groups:

- A first group, comprised of three Directors, will resign from office prior to the Company’s annual General Shareholders’ Meeting called to approve the financial statements for the 2013 fiscal year;

- A second group, also comprised of three Directors, will resign from office prior to the Company’s annual General Shareholders’ Meeting called to approve the financial statements for the 2014 fiscal year; and

- A third group comprised of the three remaining Directors will continue their mandate until its expiration.

This the selection of the Directors for each of the above groups will take place after the admission to trading of the Company’s shares on Euronext Paris.

16.2 INFORMATION ON SERVICE CONTRACTS LINKING MEMBERS OF THE ADMINISTRATIVE AND MANAGEMENT BODIES TO THE COMPANY OR ANY ONE OF ITS SUBSIDIARIES

As at the date of the visa on this prospectus, to the Company’s knowledge, there are no service contracts linking members of the Board of Directors to the Company or to any of its subsidiaries that provides them with benefits.

16.3 BOARD OF DIRECTORS COMMITTEES

Pursuant to Article 15(4) of the Company’s bylaws, the Company’s Board of Directors may establish committees for the purpose of examining issues submitted to their attention by the Board or its Chairman.

In accordance with this provision, the Company’s Board has established three committees: an Audit Committee; an Appointments and Compensation Committee; and a Corporate, Environmental and Social Responsibility Committee. The composition, duties and practices of these committees are set forth below.

16.3.1 Audit Committee

The Company's Board has decided to establish an Audit Committee and has set the following rules for its internal governance.

16.3.1.1 Composition

Members of the Audit Committee are appointed for an indefinite period (it being noted that such appointment shall terminate, in any event, when they cease to be a member of the Board of Directors). When selecting members of the Audit Committee, particular consideration is given to the independence of members, as well as to their competence in the areas of finance and accounting.

The composition of the Committee shall be decided by the Company's Board of Directors after the Company's shares have been admitted to trading on Euronext Paris.

16.3.1.2 Duties

The Audit Committee is responsible for monitoring the preparation and auditing of accounting and financial information, as well as for ensuring the efficacy of risk-monitoring and internal control procedures to facilitate the Board's review and approval thereof.

Accordingly, the Audit Committee's internal rules set out its main responsibilities as follows:

- *Monitoring the preparation of financial information* – The Audit Committee is responsible for examining the annual or interim reports of the company and consolidated financial statements prior to their presentation to the Board, including any provisions and related adjustments and any situation that could create a material risk for the Group, as well as any financial information, any report concerning quarterly, half-year or annual performance, or reports prepared for a specific transaction (a capital contribution, merger, market transaction, etc.).

- *Monitoring the internal control, internal audit and risk management systems relating to financial and accounting information* – The Audit Committee has as its mission to ensure the relevance, reliability and correct implementation of the Company's internal control, identification, hedging and risk management procedures relating to its business activities and its financial and accounting information. The committee also regularly examines the mapping of business risks, as well as the material off-balance sheet risks and commitments of the Company and its subsidiaries.

- *Monitoring the review of the individual company and consolidated financial statements by the Company's statutory auditors* – The Audit Committee will request information from and oversee the Company's statutory auditors (including in the absence of senior executives), particularly in relation to their general work schedule, any difficulties encountered while conducting their audit, changes they believe should be made to the Company's financial statements or other accounting documents, accounting irregularities, discrepancies or inaccuracies, material uncertainties and risks relating to the preparation and treatment of accounting and financial information, and any material weaknesses they may have discovered in internal control procedures.

- *Monitoring the independence of the statutory auditors* – when appointing, or renewing the appointment of the statutory auditors, the Audit Committee manages the selection process and submits its results to the Board. Furthermore, to enable the committee to monitor the independence and objectivity of the statutory auditors throughout their appointment, the Audit Committee shall have the statutory auditors deliver to them each year: (i) a statement of independence; (ii) the amount of fees paid to the network of statutory auditors by the companies controlled by the Company, or the entity that controls the Company, for services that are not directly related to the statutory auditors' responsibilities; and (iii) information on services rendered in respect of tasks falling directly within the statutory auditors' responsibilities. The Audit Committee, together with the statutory auditors, must also examine any risks to their independence and the measures taken to guard against such risks.

16.3.1.3 Practices

An Audit Committee meeting is valid where there is a quorum of two members in attendance. The Audit Committee's proposals are adopted by a simple majority of those attending the meeting, each member having one vote. The Audit Committee shall meet at least four times a year, and as many times as it deems necessary. Audit Committee meetings are held before a meeting of the Board and, where the agenda of the Audit Committee concerns the examination of the half-year and annual financial statements prior to their examination by the Board, at least two days before the Board meeting.

16.3.2 Appointments and Compensation Committee

The Company's Board has decided to establish an Appointments and Compensation Committee and has set the following rules for its internal governance:

16.3.2.1 Composition

The Appointments and Compensation Committee members are appointed for an indefinite period (it being noted that such appointment shall terminate, in any event, when they cease to be a member of the Board of Directors). When selecting members of the Appointments and Compensation Committee, particular consideration is given to the independence of members, as well as their competence in the selection and remuneration of senior executives and company officers in listed companies.

The composition of the Committee will be decided by the Company’s Board of Directors after the Company’s shares have been admitted to trading on Euronext Paris.

16.3.2.2 Duties

The Appointments and Compensation Committee is a specialized committee of the Board of Directors whose main function is to assist the Board in appointing members of the executive committees of the Company and the Group, as well as in determining and regularly reviewing the compensation and benefits awarded to company officers and the Group’s senior executives, including any deferred benefits and/or voluntary or compulsory redundancy payments awarded by the Group.

Accordingly, it carries out the following functions:

- *Proposing the appointment of members of the Board of Directors, of the executive management and of the Board’s committees* – The Appointments and Compensation Committee is responsible for making proposals to the Board concerning appointments to the Board (by Shareholders' Meeting or by co-option), of managing directors, as well as of members and the Chairman of each of the other Board committees. When making its recommendations, the Committee takes criteria into consideration that include the following: (i) the desired balance of the Board's composition in view of the composition of and changes in the Company's shareholders, (ii) the desired number of independent members, (iii) the proportion of men and women required under applicable regulations, (iv) the desirability of renewing terms of office and (v) the integrity, competence, experience and independence of each candidate. The Appointments and Compensation Committee must also establish a procedure for selecting future independent members, and conduct its own examination of potential candidates before they are approached. When it makes its recommendations, the Appointments and Compensation Committee must ensure that the Board and its specialized committees, including the Audit Committee and the Appointments and Compensation Committee, have at least the minimum number of independent members required by the corporate governance principles to which the Company adheres.

- *Conducting an annual assessment of the independence of the Board members* – Each year, before publication of the Company's annual report, the Appointments and Compensation Committee assesses whether each Board member meets the Company's independence criteria. It then submits its opinion to the Board so that the Board may assess the independence of each Board member concerned in light of these criteria.

- *Examining and proposing all aspects of and conditions to the remuneration of principal senior executives and the Group's executive management* – The Appointments and Compensation Committee is responsible for preparing proposals that include both fixed and variable remuneration, as well as, where applicable, share subscription and share purchase options, the allotment of performance shares, pension and private health care plans, retirement benefits, benefits in kind or specific benefits, and any other direct or indirect remuneration that the remuneration of executive management might include. It is informed of these aspects of the remuneration of the Group's principal company officers and of the relevant remuneration policies that have been implemented within the Group. In preparing these proposals, the Committee will take into account the corporate governance standards to which the Company adheres.

- *Examining and making proposals to the Board of Directors concerning the distribution of Directors' attendance fees* – the Appointments and Compensation Committee will propose to the Board the amount of attendance fees and the individual payments to be made to members of the Board, taking into account their attendance at Board and Committee meetings, their responsibilities and the time they are required to devote to their duties. The Committee also proposes the remuneration awarded to the Company's Chairman and Vice Chairman of the Board.

16.3.2.3 Practices

A meeting of the Appointments and Compensation Committee is valid where there is a quorum of two members in attendance. Committee proposals and remuneration proposals are adopted by a simple majority of those attending the meeting, each member having one vote. The Committee may meet as many times as it deems necessary, but must meet at least once a year, prior to the meeting in which the Board assesses whether its members meet the Company's independence criteria (for more information on the notion of "independence" see Section 21.2.2.1.2 "Composition of the Board of Directors"), and, in any event, prior to any Board meeting deciding upon the remuneration of Senior Executives or upon the distribution of attendance fees.

16.3.3 Corporate, Environmental and Social Responsibility Committee

The Company's Board has decided to establish a Corporate, Environmental and Social Responsibility Committee and has set the following rules for its internal governance:

16.3.3.1 Composition

The members of the Corporate, Environment and Social Responsibility Committee are appointed for an indefinite period (it being noted that such appointment shall terminate, in any event, when they cease to be a member of the Board of Directors). When selecting members of the Committee, particular consideration is given both to the independence of members, as well as their competence in handling issues of social, environmental and corporate relevance.

The composition of the Committee shall be decided by the Company's Board of Directors once the Company's shares have been admitted to trading on the Euronext Paris exchange.

16.3.3.2 Duties

The responsibilities of the Corporate, Environmental and Social Responsibility Committee are based on the three components of sustainable development identified by the Company: social, environmental and corporate.

Accordingly, the Corporate, Environmental and Social Responsibility Committee's internal rules set out its principal functions as follows:

- *Examining the social, environmental and corporate policies conducted by the Company* – The Corporate, Environmental and Social Responsibility Committee is responsible for examining, each year, the social, environmental and corporate policies conducted by the Company, the targets set and results obtained in these areas. The Corporate, Environmental and Social Responsibility Committee assesses these areas in light of the business activities of the Company and of its subsidiaries and any information it may have on suppliers and their subcontractors. In this respect, it reviews the Fnac CSR charter disseminated to the Group's suppliers and, where necessary, suggests improvements to it. Each year, the Corporate, Environmental and Social Responsibility Committee also examines the ratings awarded to the Company and its subsidiaries by non-financial rating agencies.

- *Examining the principal social, environmental and corporate risks and opportunities for the Company* – Each year, the Corporate, Environmental and Social Responsibility Committee is responsible for preparing a presentation mapping any risks posed to the corporate, environmental and social responsibilities of the Company in light of specific challenges in the Company's business activities. It examines the risks identified, reviews the procedures for protecting against those risks and stays informed of their development.

- *Examining the Company's publications in the areas of social, environmental and corporate responsibility* – Each year, the Corporate, Environmental and Social Responsibility Committee must review all information published by the Company that relates to issues of corporate, environmental and social responsibility. In this respect, the Corporate, Environmental and Social Responsibility Committee reviews the reporting, assessment and control systems annually, to enable the Group to produce reliable information on these areas.

- *Examining the promotion of diversity, equity and equality* – Each year, the Corporate, Environmental and Social Responsibility Committee examines all issues relating to the promotion of diversity, equity and equality within the Group. Where necessary, it summarizes its observations as recommendations and submits them to the Board. It also monitors and disseminates the recommendations adopted by the Board.

- *Examining the impact of the Group's activities on the environment* – Each year, the Corporate, Environmental and Social Responsibility Committee examines the impact of the Group's activities on the environment. It prioritizes questions concerning energy consumption, carbon dioxide emissions arising directly or indirectly from the Group's activities, and initiatives promoting the collection and recycling of end-of-life products. Where necessary, it summarizes its observations as recommendations it submits to the Board. It also monitors and disseminates the recommendations adopted by the Board.

- *Establishing a social sustainability focus within the Group* – The Corporate, Environmental and Social Responsibility Committee is responsible for highlighting changes in social trends that are materially linked to the Group's activities, such as the fight against cultural exclusion and freedom of expression. It supports initiatives to promote these values among the public, inviting people to become involved with initiatives undertaken by the Company (such as offering to act as partners with associations, a solidarity sign-up scheme, collecting cultural products for redistribution to the most disadvantaged, etc.).

- *Inclusion of employees in the Group's corporate, environmental and social policies* – Each year, the Corporate, Environmental and Social Responsibility Committee draws up proposals to enhance employees' involvement in the Group's corporate, environmental and social policies. In this respect, it chooses how to communicate the key messages to the highest number of people, furthers employees' awareness and provides training on its key corporate, environmental and social policies. It also reviews changes to proposals that have previously been adopted and implemented and, where necessary, proposes additional changes and/or further actions to be undertaken.

16.3.3.3 Practices

A meeting of the Corporate, Environmental and Social Responsibility Committee is valid where there is a quorum of two members in attendance. The Corporate, Environmental and Social Responsibility Committee's proposals are adopted by a simple majority of those attending the meeting, each member having one vote. The Committee meets as many times as it deems necessary, and at least once a year, prior to the Board meeting to convene the Annual Shareholders' Meeting.

16.4 STATEMENT RELATING TO CORPORATE GOVERNANCE

In an effort to maintain transparency and provide the public with information, the Company has conducted a comprehensive examination of its corporate governance practices with a view to listing its shares on Euronext Paris.

The Company intends to adhere to the corporate governance Code for Listed Companies of the MEDEF and AFEP (the "AFEP-MEDEF Code"), particularly in the context of preparing the Board Chairman's report required by Article L. 225-37 of the French Commercial Code on the composition of the Board and application of the principle of balanced representation of men and women within the Board, the conditions for preparing and organizing the Board's work, as well as the internal control and risk management procedures implemented by the Company.

As concerns all aspects of corporate governance known at the date of the visa on this prospectus, the Company complies with all of the recommendations contained in the AFEP-MEDEF Code. Following the admission of its shares to trading on Euronext Paris, the Company intends to continue to comply with all the recommendations of the AFEP-MEDEF corporate governance Code.

The principles referred to are those of the “Corporate Governance for Listed Companies” code, which may be consulted online.[125] The Company makes copies of this code available to its governance bodies.

The Company also has a code of conduct for trading in securities.

16.5 INTERNAL CONTROLS

As at the date of the visa on this prospectus, the Company and the Group are subject to the internal control rules and mechanisms implemented by Kering for all subsidiaries of the Kering Group.

Insofar as, on the date of the visa on this prospectus, there are no financial securities of the Company listed on a regulated market, the Chairman of the Company's Board of Directors is not bound to prepare the report required by Article L. 225-37 of the French Commercial Code on the composition of the Board and application of the principle of balanced representation of men and women within the Board, the conditions for preparing and organizing the Board's work, as well as the internal control and risk management procedures implemented by the Company. However, the Chairman of the Board of Directors of FNAC S.A. (subsidiary of the Fnac group that directly or indirectly holds all the Group's equity investments – see Section 7.1 “Simplified Group Organizational Chart”) has voluntarily chosen to prepare such a report for the 2012 fiscal year. Extracts of this report relating to internal control and risk management procedures implemented within the Group are shown in Annex 1.

Starting with the 2013 fiscal year and provided that the Company's shares are admitted to trading on the Euronext Paris exchange, the Chairman of the Company's Board will be obligated to prepare this report in accordance with the provisions of Article L. 225-37 of the French Commercial Code.

125 www.medef.com/fileadmin/www.medef.fr/documents/AFEP-MEDEF/Guide_AFEP-MEDEF_Fr__18-11.pdf

17. EMPLOYEES

17.1 PRESENTATION

17.1.1 Number and Breakdown of Employees

As at December 31, 2012, the Group had 16,648 employees in six countries, compared with 17,948 on December 31, 2011 and 17,897 on December 31, 2010 on the same basis. This decrease is mainly due to the various restructuring plans (*plans de sauvegarde de l'emploi*) adopted by the Group in France, together with productivity gains achieved by not automatically replacing employees leaving the Group in all countries where the it operates.

For the 2012 fiscal year, the Group's payroll expense (before taxes) was approximately €404 million.

The table below shows the number of employees of the Group in the last three years by geographic zone.

	December 31		
Geographic zone	**2010**	**2011**	**2012**
France	11,403	11,415	10,555
Iberian Peninsula	4,276	4,383	4,164
Brazil	892	874	918
Rest of the world	1,326	1,276	1,011
TOTAL	**17,897**	**17,948**	**16,648**

The table below shows the average number of employees of the Group in the last three years by geographic zone.

Geographic zone	**2010**	**2011**	**2012**
France	9,129	9,206	8,809
Iberian Peninsula	2,877	3,065	3,059
Brazil	812	832	900
Rest of the world	987	979	888
TOTAL	**13,805**	**14,082**	**13,656**

The difference between the number of employees at December 31 and the average number of employees is due to the seasonal nature of the Group's activities and the corresponding large increase of the workforce at the end of the year.

The table below shows the number of Group employees with open-ended employment contracts in the last three years by socio-professional category.

	December 31		
Socio-professional category	**2010**	**2011**	**2012**
Managers	2,593	2,696	2,438
Senior technicians and supervisors (T.S.M.)	0	0	0
Laborers, employees, technicians (O.E.T.) (Non managers)	11,993	11,846	11,215
TOTAL..	**14,586**	**14,542**	**13,653**

The table below shows the change in the percentage of female employees in the Group's workforce in the last three years.

	December 31		
Percentage of women	**2010**	**2011**	**2012**
Percentage of women in the workforce	44.5 %	44.7%	44.8%
Percentage of female managers	42.3 %	42.5 %	42.5%

The table below shows the change in the breakdown of the workforce by type of contract in the last three years.

	December 31		
Percentage of type of contract	**2010**	**2011**	**2012**
Open-ended employment contracts	82.0 %	81.0%	81.8%
Other...	18.0 %	19.0 %	18.2 %
of which interim workers..	*5.3%*	*4.7 %*	*4.1 %*

The table below shows the change in the age structure during the course of the last three years for permanent employment contracts:

	December 31		
Age structure	**2010**	**2011**	**2012**
< 25..	10.3 %	9.7 %	7.6 %
25 - 30...	20.3 %	21.2 %	19.7 %
31 - 40...	38.3 %	38.0 %	38.4 %
41 - 50...	22.5 %	22.7 %	24.4 %
51 - 55...	5.3 %	5.4 %	6.3 %
56 - 60...	2.8 %	2.6 %	3.2 %
> 60..	0.5 %	0.4 %	0.4 %

17.1.2 Workforce and Working Conditions

The table below shows the change in the workforce during the course of the last three years:

Workforce	2010	2011	2012
Turnover of staff with open-ended employment contracts(1)	13.2 %	13.0 %	11.3 %
Turnover of staff with open-ended employment contracts through voluntary redundancy............................	7.4 %	7.1 %	5.9 %
Hiring rate(2)	61.3 %	56.3 %	50.0 %
Hiring rate of staff with open-ended employment contracts	23.5 %	21.0 %	16.0%
Disabled/registered workforce percentage.........................	2.0 %	2.2 %	2.6 %

(1) Excluding internal transfers(2) Number of cumulative recruits in the year divided by the total number of employees registered at December 31 of the year in question

The table below shows the change in absenteeism during the course of the last three years:

Working conditions	2010	2011	2012
Absenteeism rate(1)	6.3 %	5.9 %	5.6 %
Overtime(2)...	114,374	102,478	90,098

1Number of days of absence on the theoretical total of working days
2 Scope: France

The table below shows the change in safety at the workplace during the course of the last three years:

Safety at the workplace	2010	2011	2012
Number of fatal accidents...	0	0	0
Frequency rate(1)..	ND	16.6 %	17.7 %
Severity rate(2)..	ND	0.5 %	0.5 %

1 In number of accidents (having led to at least one day of absence from work) per million hours worked
2 In number of days lost per thousand hours worked

Professional equality

Fnac focuses on the entire career path within the Group, from hiring to professional development, when dealing with professional equality. Accordingly, the Group has made numerous commitments, notably through professional equality agreements, to promote equality when hiring and giving access to training and promotion. The Group has also undertaken to monitor remuneration indicators and, through measures, promote the work-life balance of its workforce; it will sign the Parenthood Charter in 2013.

17.1.3 Training

Spending on staff training for 2012 amounted to around €4.4 million euros. The total number of employees trained in 2012 was 10,132, with 226,395 hours of training provided. The number of employees trained in 2012 decreased by 8% compared with 2011, and by 22% compared with 2010, on the same basis. This trend reflects the Group's desire to target better training, particularly for budgetary reasons, but also to provide a defined number of employees with training both of a high quality and focused on providing excellent service to customers, as for example *REVER* (DREAM) (receive, explore, sell, broaden, thank or, *recevoir explorer, vendre, elargir, remercier*) training.

Data for 2012	France	Iberian Peninsula	Brazil	Rest of the world	Total
Total training expense (in euros)	3,428,882	636,653	79,610	308,282	4,453,427
Employees having received training	4,300	4,302	949	581	10,132
Managers	*861*	*411*	*89*	*110*	*1,471*
Non-managers	*3,439*	*3,891*	*860*	*471*	*8,661*
Total number of hours of training	66,767	123,981	30,470	5,178	226,395
Average length of training course [1] (in hours)	16	29	32	9	–

[1] Average length of training course on number of trained employees

As part of its "Fnac 2015" strategic plan, and in accordance with its legal requirements, Fnac has implemented a training policy based on two main objectives.

The first of these objectives is to enable Fnac employees, irrespective of the country, to maintain or acquire the skills needed to carry out their duties in light of developments in the areas in which they work and changes in product trends. The Group also offers in-house or outside training enabling employees to progress within the Group, while acquiring the relevant skills. The second objective is underpinned by the desire to support the customer sales process, whether in stores or in any contact with Group employees.

Fnac has thus focused its training around *REVER* training. Through this training, which will be given to all employees, the Group wishes to ensure that when customers come to its stores, that they are both satisfied with the advice and the know-how of store vendors, and with the welcome they receive and the overall experience so that they want to come back. As part of the omni-channel strategy and online orders, Fnac wishes for customers to be fully satisfied each time they visit a store.

17.1.4 Employee Relations

Representative bodies have been set up for employees within each subsidiary of the Group in accordance with applicable legislation. The rights, obligations and manner in which these representative bodies act vary by country, particularly depending on local legislation. Although the Group has bodies in the six countries where it has subsidiaries, there are, however, at the date of this prospectus, no staff representative bodies at the Group level. These bodies are, in fact, situated at Kering level (Group Works Council and European Works Council). Such bodies will be set up as part of the listing of the Company's shares on Euronext Paris.

In France the social dialogue is structured at three levels: “group”, “company” and “establishment” level. At the “group” level, management regularly negotiates agreements to be applied in all companies of the Group with unions (for example, the agreements on employee profit sharing, employee savings plans, employee benefits or employment of seniors). At the “company” level, each legal entity has, depending on its workforce and complexity of its structure, a works council or a central works council and establishment councils. The management of each subsidiary negotiates agreements with the unions in areas such as profit-sharing, gender equality and the reduction and structuring of working time. Lastly, in each establishment there are staff representatives and an establishment council. The management of each establishment presides over the council proceedings, and may negotiate establishment agreements with the establishment's union representatives. In regard to health and safety, all Group establishments are covered by health, safety and working conditions committees (CHSCT)

The Group also has employee representative bodies within the companies Fnac Spain, Fnac Portugal, Fnac Brazil, Fnac Belgium and Fnac Switzerland.

17.2 SHAREHOLDINGS AND STOCK SUBSCRIPTION OR PURCHASE OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS

17.2.1 Shareholdings Held by the Members of the Board of Directors

As at the date of the visa on this prospectus, no member of the Board of Directors of the Company, as it will be composed following the admission of the Company's shares to trading on Euronext Paris, holds a stake in the capital of the Company.

17.2.2 Stock Subscription or Purchase Options and Allotment of Free Shares

As at the date of the visa on this prospectus, neither the Company nor the Group has implemented stock subscription or purchase option plans or bonus-share allotment plans.

Readers are also referred to Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris".

17.3 PROFIT-SHARING AGREEMENTS AND INCENTIVE SCHEMES

17.3.1 Profit-Sharing Agreements in France

For companies with 50 or more employees and taxable income of more than 5% of its equity, it is compulsory to implement a profit-sharing agreement in accordance with Article L. 3322-2 of the French Labor Code. Accordingly, the Group entered into a profit-sharing agreement on June 29, 2010 for a fixed period of three years. A new agreement has been under negotiation since the end of February 2013.

17.3.2 Incentive Schemes in France

Incentive schemes are optional schemes whose purpose is to establish a closer link, by means of a formula, between employees as a whole and the company's results and performance, through the payment of immediately available bonuses, in accordance with Article L. 3312-1 of the French Labor Code. Incentive-scheme agreements have therefore been entered into for a certain number of French entities of the Group. Each agreement includes its own formula for calculating the incentive bonus. Some agreements that expired at the end of 2012 will need to be renegotiated in 2013.

17.3.3 Company Savings Schemes and Similar Schemes

Companies having implemented a profit-sharing agreement must implement a company savings scheme in accordance with Article L. 3332-3 of the French Labor Code. A company savings scheme is a group savings arrangement that offers the company's employees participating in the scheme the chance of building up a securities portfolio with the help of their employer. In particular, it enables the employees to receive payments under an incentive or profit-sharing scheme, as well as voluntary payments. Funds invested in a company savings scheme are unavailable for five years, unless they are released in one of the cases provided for by applicable law. A company savings scheme was entered into within the Group on April 15, 2002 for one year, renewable by tacit consent. This scheme allows Group employees having more than three months service to allocate immediately and in full the sums paid to them to the acquisition of corporate investment fund (FCPE) shares.

18. PRINCIPAL SHAREHOLDERS

18.1 SHAREHOLDERS

As of the date of the visa on this prospectus, almost all of the Company's share capital and voting rights are held directly or indirectly by Kering.

As of the date of the admission of the Company's shares to trading on the Euronext Paris exchange (scheduled for June 20, 2013), based on the composition of Kering's share capital as of April 15, 2013, the breakdown of the Company's share capital will be as follows:

SHAREHOLDERS	% of share capital and voting rights
Groupe Artémis	38.88%
Baillie Gifford	4.79%
Groupe Kering	nm [1]
Public	56.33%
Total	100.00%

[1] " nm" = not meaningful (and after taking into account the KERNIC MET B.V. transaction described below)

The following should be noted with respect to this theoretical ownership structure:

- *Assumptions* – This ownership structure takes into account the distribution by Kering to its shareholders of a hypothetical maximum amount of shares in the Company eligible for distribution by Kering of 15,764,588 shares (representing slightly less than 95% of the share capital of the Company on the Ex-Date). A residual number of Groupe Fnac shares will be retained by Kering as a result of the outstanding allotment rights corresponding to fractional Groupe Fnac shares that remain unconverted on the Ex-Date, or if, on the Ex-Date the actual number of Kering shares eligible for allotment is less than the theoretical maximum number of shares that could be entitled to the dividend.

- *KERNIC MET B.V.* – On the date of the visa on this prospectus, KERNIC MET B.V. (a Dutch company that is 100% owned indirectly by Kering) held 830,907 Company shares, representing slightly more than 5% of the Company's share capital. These shares will not be distributed to shareholders of Kering because they are not held by Kering. In accordance with Kering's announced strategy to dispose of its interest in Groupe Fnac, prior to admission of the Company's shares to trading on Euronext Paris, KERNIC MET B.V. will transfer its 830,907 shares (representing its entire interest in the Company, including associated voting rights) to a financial institution in the context of a forward financial contract. The table above takes into account this transaction, the current shareholding of KERNIC MET B.V. being accounted for in the public's holdings. Pursuant to such agreement, KERNIC MET B.V. will receive an amount equal to at least 85% of the dividends received by the financial institution and, after three years (or at the date on which the totality of the shares have been disposed of by the financial institution), an amount equal to the sale price received by the financial institution following the sale of such shares *plus* accrued interest between the date of sale and date of payment. The financial institution has undertaken not to make any direct or indirect sale (including through derivative instruments) of the shares for a period of six months following the Ex-

Date, and thereafter to sell such shares using the degree of care of a financial market professional. Kering will give no instruction to the financial institution regarding the sale of such shares, which shall be made in the sole discretion of the financial institution.

- *Groupe Artémis Agreement* – The Loan Agreement requires the early prepayment of amounts lent by the lenders under the facility and the unused commitments available thereunder in the event that Artemis directly or indirectly (via one or several of its subsidiaries, within the meaning of article L.233-3 of the French Commercial Code), ceases to hold at least (i) 38.8% of the Company's share capital or voting rights before the second anniversary of entry into the Revolving Credit Facility (i.e. on April 18, 2015), or (ii) a 25% interest in the Company's share capital and voting rights at any time after that date until the maturity of the Loan Agreement (the "Triggering Event"). It is specified that, by separate agreement, Artémis has agreed (for itself and on behalf of its subsidiaries) not to trigger such early prepayment and cancellation of unused commitments available under the Loan Agreement by sole reason of the Triggering Event until after the initial maturity date thereof (i.e. April 18, 2016). Nevertheless, it is specified that such agreement does not require Artémis, directly or indirectly (through one or more subsidiaries) to subscribe, underwrite or purchase any additional number of shares or other securities in the Company or to utilize the voting rights attached to its shares or other securities of the Company. (See Section 10.2.2.2 "Financing of the Group after Admission of the Company's Shares to Trading on Euronext Paris".)

- *Categories of Shareholders* – For illustrative purposes, as of December 31, 2012, Kering's ownership structure was divided as follows by category of shareholders.[126] It should be noted, however, that this distribution of Kering's shareholding as of December 31, 2012 is without prejudice to the allocation of the shareholders of Kering who will receive shares and Groupe Fnac share allocation rights.

Category of shareholders	**% of share capital**
Groupe Artémis	40.9 %
International institutions [(1)]	41.7 %
French institutions	11.1 %
Individual shareholders	5.9 %
Kering Employee Shareholders	0.4 %

[(1)] Including Baillie Gifford in respect of an interest of 5.1 % of the share capital

18.2 SHAREHOLDERS' VOTING RIGHTS

Each share of the Company entitles its holder to one voting right.

Double voting rights held by some Kering shareholders will not be carried forward to their allotment of Company shares. (See Section 26.2.5 "Rights Attached to the Shares".)

126 Source : Kering 2012 Annual Report

18.3 CONTROL STRUCTURE

By holding 38.88% of the Company's share capital and voting rights, the Artemis group will be represented on the Company's Board of Directors and Board committees on a minority basis. (See Section 14.1 “Composition of Management and Audit Committees” of this prospectus.) This representation will, moreover, be supported by the presence of independent members of the Company's Board and committees, and by application of the recommendations of the AFEP-MEDEF corporate governance code for listed companies. (See Chapter 16 “Functioning of Administrative and Management Bodies”.)

18.4 AGREEMENTS LIKELY TO LEAD TO A CHANGE IN CONTROL

None

19. RELATED PARTY TRANSACTIONS

Investors should refer to Chapter 4 “Risk Factors”, in particular to become familiar with the risks related to the separation from the Kering Group and the difficulties that the Group may encounter in making the changes necessary to conduct business as an independent entity or the risk of a deterioration of relationships with suppliers.

19.1 TRANSACTIONS WITH THE KERING GROUP

The Group has entered into a number of transactions with Kering (for more information, see note 34 “Transactions with Related Parties” to the annual financial statements), including:

- *Centralized cash management agreement:* PPR Finance (a company owned by The Kering Group) and Fnac S.A. entered into a centralized cash management agreement on January 25, 2006 for an unlimited term. The purpose of this agreement is to implement a common cash management policy among the various Kering Group companies. Fnac S.A. has also established centralized cash management with some of its subsidiaries, which will remain in place following the admission of the Company’s shares to trading on Euronext Paris. Pursuant to this centralized cash management agreement, PPR Finance makes available to Fnac S.A., in the form of current account advances, the sums needed to finance its working capital needs and capital expenditures. In exchange, the Fnac S.A. undertakes to deposit any of its unused cash balances with PPR Finance.

  The amount of outstanding advances made by PPR Finance to Fnac S.A. pursuant to this agreement as of March 31, 2013 total approximately €248 million. In addition, the Group has made available to PPR Finance the cash amount paid by Kering for the Company’s capital increase on December 27, 2012. (See Section 10.2.1 “Overview”.) As a result, the Group holds a net positive position with regard to the Kering Group with a loan of €0.1 million as of March 31, 2013.

  This centralized cash management agreement will be terminated once the Company’s shares are admitted to trading on Euronext Paris. At the date of this prospectus, FNAC S.A. has entered into a revolving credit facility with a maximum principal amount of €250 million with a group of banks to replace the financing historically provided by the Kering Group. This revolving credit facility will cover the short-term financing provided by the Kering Group and ensure a suitable level of liquidity to manage the Group's future financing requirements. Furthermore, it is expected that, prior to the to the admission to trading of the Company’s shares on the Euronext Paris exchange, the Company shall issue €60 million nominal amount of perpetual deeply subordinated notes that will be subscribed in full by a company of the Kering Group. The terms and conditions of these new sources of finance are described in more detail in Section 10.2.2.2 “Financing of the Group after Admission of the Company’s Shares to Trading on Euronext Paris.”

- *Assistance and service agreement*: On November 10, 1994, Kering. and Fnac S.A. entered into an assistance and service agreement, which will be terminated once the Company’s shares are admitted to trading on Euronext Paris. In return for a management fee paid to Kering, Kering made available certain financial, legal, tax, human resources and business development consulting services under this agreement (consulting services including support in carrying out "merger-acquisition" transactions). The Group has anticipated the termination of this agreement in order to be able operate autonomously. Prospective investors are advised to review note 34 “Transactions with Related Parties” to the annual financial statements for a description of this agreement.

- *Tax consolidation agreement*: Kering signed tax consolidation agreements with the Company and its subsidiaries as part of Kering's tax consolidation, which governed the contribution the Company and its consolidated subsidiaries would make to various tax charges for which Kering was solely liable as the head of the group. The Company and its subsidiaries exited the scope of Kering's tax consolidation group as of January 1, 2013. Kering, the Company and the subsidiaries of the Company who were part of Kering's tax consolidation group until December 31, 2012 have concluded a tax consolidation exit agreement in order to specify the consequences of the exit of the companies of the Group from Kering's tax consolidation group and to establish the subsequent reciprocal relationship between Kering and the exiting companies. This agreement provides in particular (i) that Kering shall account for the recapture of former intra-group charges arising as a result of the exit of the Company and its subsidiaries from the group, (ii) that given the Company's capital increase of approximately €539 million to which Kering subscribed on December 27, 2012, the Group has been fully indemnified against any loss that may result from the loss by the Company and its subsidiaries of certain financial attributes (in particular carry forward tax losses transferred to the group) due to their exit from the group, with the Company being responsible for indemnifying its own subsidiaries if necessary for any loss resulting from the loss of their tax attributes and (iii) that the exiting companies will bear the consequences of any proposed adjustments of their results of the period in which they belonged to the group under the same conditions as if they had not been tax consolidated (provided, however, that potential penalties shall not be borne by the exiting companies unless they are effectively paid by Kering to the Treasury). The tax consolidation exit agreement also governs the payment terms of the advance payment of corporate income tax and the additional contributions that are due in 2013 and terminates the prior tax consolidation agreements.

  A new tax consolidation group was created in France between the Company and 15 of its French subsidiaries in respect of which it holds at least 95 % of the share capital, effective January 1, 2013.

- *Master agreement on foreign exchange and derivative transactions*: On December 18, 2007, PPR Finance and Fnac S.A. entered into a master agreement relating to foreign exchange and derivative transactions, the purpose of which is to define the standard terms and conditions in the contracts that the Group and Kering use to hedge against exchange rate fluctuations. After the Company's shares are admitted to trading on the Euronext Paris exchange, the Group expects to replace this master contract with its own currency hedging arrangements entered into directly with banks and no longer through the Kering Group as an intermediary. The Group plans to start putting in place its own relationship with the relevant banks. before the Company's shares are admitted to trading on the Euronext Paris exchange. However, the Group will continue to benefit from the hedging agreements already entered into with PPR Finance and will benefit from the Kering Group's trading office for a transitional period of six months following the listing of the Company's shares on Euronext Paris (see Section 19.3 "Consequences of Admission to Trading of the Company's Shares on Euronext Paris").

- *Insurance*: See Section 6.6 "Insurance."

The statutory auditor's special report on regulated agreements for the 2010, 2011 and 2012 fiscal years make no note of a regulated agreement, be it new or already approved.

19.2 MAJOR INTRAGROUP TRANSACTIONS

- *Cash investment and funding agreements*: Fnac S.A. has entered into centralized cash management agreements for an unlimited term with its Belgium, Spanish, Swiss and Portuguese subsidiaries. The purpose of these agreements is to centralize the Group’s management of cash in order to encourage coordination and optimization of the utilization of cash surpluses within the Group. Pursuant to the agreements, these subsidiaries deposit any cash surpluses with Fnac S.A. in exchange for which Fnac S.A. finances their working capital needs and capital expenditures.

  In the Group’s Brazilian subsidiary, implementation of a centralized cash management system is not possible primarily because of constraints linked to foreign exchange controls. The Group's Brazilian subsidiary has a specific loan granted by Fnac S.A.

- *Buying agent and reference centralized listing agreements*: Some of the Group's French subsidiaries as well as its Spanish, Portuguese, Swiss and Belgian subsidiaries have concluded with Fnac S.A. or FNAC APPRO GROUPE ("FAG") buying agent contracts for terms of one year, renewable for each period for an identical term. These agreements have the purpose of instructing Fnac S.A. or FAG, depending on the case, to draw up the relevant subsidiary's procurement policy, select its suppliers and some products sold in its stores, and negotiate these products' purchasing conditions. Fnac S.A. has also entered into centralized listing agreements with some of the Group's French subsidiaries, having a similar purpose, but also include the purchase of some products for each contracting subsidiary. In exchange for these services, Fnac S.A. or FAG, depending on the case, receives from the relevant subsidiary a percentage of the revenue from the products purchased on its behalf.

  In addition, the company Alize–SFL has entered into buying agent agreements for terms of one year, renewable for each period for an identical term, with some of the Group's French subsidiaries. The purpose of these agreements is to instruct Alize-SFL to negotiate the purchasing conditions and to purchase the merchandise, including books, for each relevant subsidiary. In exchange, Alize-SFL receives from the relevant subsidiary a fixed sum by number of products billed.

- *Service agreements*: Fnac S.A. has entered into service agreements generally for a term of one year, renewable by period for an identical term, with some of its French and foreign subsidiaries. The purpose of these agreements is to provide the contracting subsidiaries with Fnac S.A.'s skills, including in the following areas and depending on the relevant subsidiary: communication, accounting, risk prevention, streamlining cash pooling (for companies receiving it), internal audit, managing of overheads, legal, management control, IT, managing human resources, marketing, development, strategy, logistics and product marketing. Fnac S.A.'s remuneration is based on the annual expenses incurred to provide the relevant services and is allocated between the subsidiaries receiving the services, based on criteria that take into account beneficiaries' effective revenues and level of services rendered.

- *"Fnac in a box" agreements*: Fnac S.A. has entered into software license agreements with a two-year term, renewable with tacit consent for three-year terms, with its Belgian and Swiss subsidiaries, Fnac in a Box (FIB). The purpose of these agreements is to afford the relevant subsidiary with a non-exclusive user license for the FIB software for its operating needs in the territory of the sole country in which it carries on business. In exchange, Fnac S.A. receives an annual license fee, whose calculation is based on software-development, maintenance and investment costs.

- *Trademark license agreements*: Fnac S.A. has entered into one-, two- or three-year trademark license agreements, renewable for a one-year term, with some of its French and foreign subsidiaries. The purpose of these agreements is to grant a non-exclusive license to use "Fnac" trademarks and all other templates and trademarks required to operate a Fnac store or websites belonging to the Group. In exchange, Fnac S.A. receives an annual license fee based on a percentage of the relevant subsidiary's revenues.

19.3 Consequences of admission to trading of the Company's shares on Euronext Paris

19.3.1 Specific Costs Relating to the Listing

The Group will incur certain costs specifically relating to the initial listing of the Company's shares on Euronext Paris, including audit fees, bank advisory fees, legal fees and fees relating to financial communications in connection with the transaction (advice, advertising, agency fees, etc.). In addition, the centralized cash management agreement signed with PPR Finance will be terminated within the framework of the admission to trading of the Company's shares on Euronext Paris, and PPR Finance will therefore no longer be the Group's main source of funding. As of the date of the visa on this prospectus, FNAC S.A. has entered into a revolving credit facility for a maximum principal amount of €250 million to replace the financing that was historically provided by the Kering Group. The terms and conditions of the revolving credit facility are described in greater detail in Section 10.2.2.2 "Financing of the Group after Admission of the Company's Shares to Trading on Euronext Paris." The total cost related to the initial listing and to setting up this revolving credit facility are estimated to be around €10.5 million. This estimate takes into account the cost-sharing arrangements between the Group and the Kering Group.

19.3.2 Impact of the Admission on the Group's Cost Structure

In the event of the admission to trading of the Company's shares on Euronext Paris, the Group will bear the costs relating to the obligations of a company whose shares are admitted to trading on Euronext Paris and resulting from the changes that will take place in the Group's relationship with the Kering Group. The Group estimates these recurring costs to be approximately €10 to €11 million per year.

These costs stem from the following factors or will replace them:

- The admission to trading of the Company's shares on Euronext Paris will result in additional recurring costs relating to being a listed company such as: (i) an increase in costs relating to the independent acquisition of certain supplies or the recruitment of additional staff; (ii) increased costs resulting from the Company's new governance structure (directors' attendance fees, cost of shareholders' meetings, etc.); (iii) higher legal, auditing and other fees relating to compliance with the regulatory obligations of a listed company, particularly with respect to financial communications; and (iv) in the long term, the Group will bear the costs of any Groupe Fnac stock subscription or purchase option plan or other similar incentive scheme. The admission to trading of the Company's shares on Euronext Paris will also require the strengthening of the Group's in-house investor-relations, communication, cash and foreign exchange teams.

- The admission of the Company's shares to trading on Euronext Paris will also result in the following changes to the Group's relationship with the Kering Group:

- The service agreement with Kering will be terminated. The Group will have to internalize or externalize, as necessary, the services formerly provided under this agreement. However, in exchange, it will no longer be required to pay the corresponding management fee (See Section 19.1 “Transactions with the Kering Group” and Section 9.1.4.5 “Current Operating Income Before Kering Management Fee and Current Operating Income After Kering Management Fee.”)

- The centralized cash management agreement with PPR Finance will be terminated, and as a result, Kering Group will cease to be the primary source of funding for the Group. The recurring impact of the new funding obtained by the Group (see Section 10.2.2.2 “Financing of the Group after Admission of the Company’s Shares to Trading on Euronext Paris”) will principally be linked to financial charges: fees for setting up the revolving credit facility, which expense will be spread out over a three-year period, fees for the non-use of the revolving credit facility over the three-year period (if applicable), a different interest rate than under the PPR Finance arrangement, agent’s fees for management of the revolving credit facility costs relating to any interest rate hedging instruments, etc. For the 2013 fiscal year, the Group believes that the majority of the costs relating to this new funding will consist of the fees for setting up the revolving credit facility, which expense will be spread out over a three-year period, and of the non-usage fees as the Group only expects to draw on its revolving credit facility with a maximum principal amount of €250 million during one month of 2013.

- The Group will also have to negotiate its own currency hedging agreements directly with banks without PPR Finance as intermediary. The Group plans to develop relationships with the relevant banks before the Company's shares are admitted to trading on Euronext Paris. However, the Group will continue to benefit from the hedging agreements with PPR Finance and will continue to use the Kering Group’s trading room for a transitional period of six months following the admission to trading of the Company’s shares on Euronext Paris. The costs incurred by the Group during the transitional period in which it will continue to benefit from the hedging agreements established by PPR Finance and the Kering Group’s trading room will continue to be set at market prices and upon the same terms as those that applied prior to its listing. After this transitional period, it is expected that the Group will transfer the management of its currency hedging to other financial institutions. In terms of exchange rates, as the Kering Group's trading room provides the Group with derivative contracts at market rates, it is not expected that the hedging terms the Group receives from any future financial institution will be significantly different from those received from the Kering Group. In terms of transaction management services (front and back office), the Kering Group’s trading room will be replaced by a financial institution, which should have a marginal impact on the Group’s current operating income margin.

- In the context of the listing of the Company's shares on Euronext Paris, the Group will continue to benefit from certain services from the Kering Group during a transitional period of up to four and a half years, depending on the services concerned. Thus, for IT services and access to a multi-service platform administered by Kering (including an e-mail service, hosting of certain IT applications, IT security and internet access service), means for securing online payments (via systems developed and operated by the company Ogone) through framework agreements executed by Kering, services for network management between data centers, logistics sites, the Group's head office and stores (through the company Verizon), special telephone numbers (through the company Orange Business Services) and services for operating its website the Group will continue to benefit from the terms negotiated between the Kering Group and its providers and/or such services will be made available to the Group by the Kering Group. (See Section 6.5.8.1 "Information Systems Overview.") Likewise, the Group will continue to benefit from the Kering Group's framework agreements for express delivery (through Chronopost and DHL) and interim workers (through Adecco and Randstad).

- Conversely, as part of the admission to trading of the Company's shares on Euronext Paris, the Group will gain independence with respect to certain transactions previously managed at the Kering Group level, such as the purchase of certain products and services, such as agreements relating to postal services, computer services, processing of accounting data, legal services, human resources functions (mobility, remuneration), and purchases related to overhead costs.

- The Group will be solely responsible for bearing the cost of its insurance policies, which costs will be slightly lower than those borne when the Group was a member of the Kering Group. The method by which the Group expects to transition to its own insurance policies is described in Section 6.6 “Insurance.”

19.3.3 Other Consequences Relating to the Admission to Trading

Certain agreements concluded with suppliers and, outside France, certain lease agreements, include change of control provisions, and it cannot be guaranteed that counterparties will not invoke such clauses as a result of the Kering Group's loss of control over the Group. However, the Group believes such risks to be marginal.

The Group's tax consolidation agreement with Kering was terminated on January 1, 2013. (See the paragraph entitled “Tax consolidation agreement” of Section 19.1 “Transactions with the Kering Group” above.) The Group implemented a new tax consolidation agreement between the Company and 15 French subsidiaries which became effective on January 1, 2013. The Group believes that such an agreement optimizes its future tax liability in France. The Group believes that the putting into place of the tax credit for competition and employment (*crédit d’impôt pour la compétitivité et l’emploi*, CICE) should have a positive effect on the Group’s results (i.e., between €6 and €8 million euros for the 2013 fiscal year and about one and a half times that amount for the 2014 fiscal year).

Stock subscription options and stock option plans granted to employees and Group officers by Kering will remain rights to Kering shares. The terms for reinvoicing these stock options and rights are discussed in Note 7 "Share-Based Payments" of the financial statements included in Section 20.1 "Group Consolidated Financial Statements."

20. FINANCIAL INFORMATION CONCERNING GROUPE FNAC'S ASSETS AND LIABILITIES, FINANCIAL CONDITION AND RESULTS

20.1 GROUP CONSOLIDATED FINANCIAL STATEMENTS

20.1.1 Annual Consolidated Financial Statements

The Company's consolidated financial statements, which were prepared in accordance with IFRS, for the fiscal years ended December 31, 2012, December 31, 2011, and December 31, 2010, can be found in Annex 3.

20.1.2 Statutory Auditor's Report on the Annual Consolidated Financial Statements

GROUPE FNAC

A French Limited Liability Company

10, avenue Hoche75008 PARIS

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Statutory Auditor's report on the consolidated financial statements

Fiscal years ended December 31, 2010, 2011 and 2012

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This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with the terms of the assignment entrusted to us by your Annual General Meeting, we hereby submit our report on the financial year ended December 31,2012, together with our report on the financial years ended December 31, 2010 and 2011, at the request of your Senior Management, regarding:

- our audit of the FNAC Group's consolidated financial statements, as appended to this report;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. These standards require that we perform tests and procedures so as to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as of December 31, 2012 and of the results of its operations for the period then ended in accordance with the IFRSs as adopted in the European Union.

II. Justification of our assessments

Pursuant to the provisions of Article L. 823-9 of the French Commercial Code (*Code de commerce*) regarding the justification of our assessments, we hereby draw the following matters to your attention:

- During the second half of the financial year, your Company systematically tested goodwill for impairment, and also assessed whether there was any evidence of impairment of long-term assets, in accordance with the procedures set out in Note 2.10 to the consolidated financial statements. We have reviewed the procedures for implementing these impairment tests, together with the forecast cash flows and the assumptions used, and have verified that Note 18 to the consolidated financial statements provides appropriate disclosures.
- Where applicable, your Company assesses the impairment of inventory in accordance with the procedures set out in Note 2.9 to the consolidated financial statements. We have ascertained the appropriateness of the method, and the reasonableness of the assumptions used to measure and impair inventory.
- Note 2.15 to the consolidated financial statements sets out the procedures for measuring employee benefits and similar payments. These commitments have been measured by external actuaries. Our work consisted in reviewing the data used, assessing the assumptions made, and verifying that Note 25 to the consolidated financial statements provides appropriate disclosures.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of our opinion in the first part of this report.

III. Specific verification

We have also performed the other procedures required by law on the information on the Group given in the management report, in accordance with professional standards applicable in France.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, March 15, 2013,

Deloitte & Associés, Statutory Auditor

20.2 STATUTORY AUDITOR FEES

	Deloitte & Associés				
	Amount excluding VAT (in thousands of euros)			*% change compared with year N-1*	
	2012	2011	2010	2012	2011
Audit					
Statutory Audit, certification, audit of the individual company and consolidated financial statements	840.5	888.0	862.0	-5.3%	3.0%
Other services relating directly to the Statutory Audit assignment	704.4	6.0	16.0	11640.0%	-62.5%
Audit subtotal	1,544.9	894.0	878.0	**72.8%**	**1.8 %**
Other services provided by the firms to fully-consolidated subsidiaries					
Legal, tax, employee-related	181.2	206.0	135.0	-12.0%	52.6%
Other	-	-	-	-	-
Other services subtotal	**181.2**	**206.0**	**135.0**	**-12.0%**	**52.6%**
TOTAL	**1,726.2**	**1,100.0**	**1,013.0**	**56.9 %**	**8.6 %**

20.3 DATE OF LATEST FINANCIAL INFORMATION

The latest verified financial information on the Company shown in this prospectus is the consolidated financial statements as of December 31, 2012.

20.4 INTERIM FINANCIAL AND OTHER INFORMATION

Please refer to Chapter 12 “Information on Trends and Forecast.”

20.5 DIVIDEND DISTRIBUTION POLICY

Groupe Fnac’s distribution policy and future dividends will take into account the results of the Company, the constraints relating to the Group’s funding (see Section 10.2.2.2 “Financing of the Group after Admission of the Company’s Shares to Trading on Euronext Paris”), the implementation of the “Fnac 2015” strategic plan, the Group’s financial position, business considerations and any other factor that is considered pertinent by the Company’s Board of Directors. Taking these elements into account, the Company’s objective is to align its dividend distribution policy to industry standards for comparable groups (including those mentioned in Section 26.3 “Aspects of Valuing Company Shares”). However, this objective does not constitute a binding obligation of the Company.

Under the revolving credit agreement, the Company may only make dividend distributions or distributions of its capital of any other type and may only make payments under its perpetual deeply subordinated notes to the extent that: (A) such distributions of payments together do not represent more than 50% of the distributable earnings for the prior financial period and (B) no event of default has occurred and is continuing or is likely to occur upon such distribution. (See Section 10.2.2.2 “Financing of the Group after Admission of the Company’s Shares to Trading on Euronext Paris”.) In addition, the distribution of dividends, premiums, or reserves by the Company will trigger interest payments (and, in certain cases, principal amortization payments) under the nominal amount of €60 million perpetual deeply subordinated notes (TSSDI). (See Section 10.2.2.2.2 “Financing under the perpetual deeply subordinated notes”.)

The following table shows net dividends per share distributed by the Company during the course of the last three fiscal years:

Year of distribution	**2010**	**2011**	**2012**
Net dividend per share (in euros)[1]	-	19.63	1.24

[1] Adjusted to take into account the change in the number of shares and on the basis of 16,595,610 shares. See Section 21.1.7 “History of the Share Capital Over the Past Three Fiscal Years.”

20.6 JUDICIAL AND ARBITRATION PROCEEDINGS

20.6.1 Tax Litigation

Certain of the Group’s subsidiaries are parties to tax litigation that the Company does not believe will have a material effect on the financial condition or the profitability of the Company or the Group.

20.6.2 Civil and Criminal Disputes

The Group is not aware of any governmental, judicial or arbitration proceedings (including any proceeding known by the Group which has been suspended or that threatens the Group) likely to have or having had during the last twelve months a material impact on the financial condition or profitability of the Company or Group.

20.7 MATERIAL CHANGE IN THE FINANCIAL OR COMMERCIAL POSITION

To the best of the Company's knowledge, no material change in the Group's financial or commercial condition other than those described in this prospectus has occurred since March 31, 2013.

21. ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

21.1.1 Subscribed Share Capital and Authorized but not Issued Share Capital

In light of the transactions affecting the share capital described in Section 21.1.7 "History of the Share Capital Over the Past Three Fiscal Years," when completed, it is expected that on the date of the admission to trading of the Company's shares on Euronext Paris, the Company's share capital will amount to €16,595,610, divided into 16,595,610 shares, each with a par value of one (1) euro each, all of which are fully subscribed and paid up and of the same category.

The table below shows the financial resolutions approved by the Company's combined Ordinary and Extraordinary Shareholders' Meeting of April 17, 2013, subject to the non-retroactive condition precedent of the admission to trading of the Company's shares on Euronext Paris.

Subject of resolution	Maximum amount	Duration of authorization(1)
Authorization to effect transactions relating to the Company's shares	See Section 21.2.3	18 months
Issuance, with upholding of the shareholders' preferential subscription right, of shares and/ or securities conferring access to the capital and/or securities giving entitlement to the allotment of debt instruments, through a public offering	€8 million(2)	26 months
Issuance, with suppression of the shareholders' preferential subscription right, of shares and/ or securities conferring access to the capital and/or securities giving entitlement to the allotment of debt instruments	€2.5 million	26 months
Issuance, with suppression of the shareholders' preferential subscription right, of shares and/or securities conferring access to the capital and/or securities giving entitlement to the allotment of debt instruments, through a private placement	€2.5 million	26 months
Issuance of shares or securities conferring access to the capital without shareholders' preferential subscription right, in consideration of contributions in kind concerning equity securities or securities giving access to the share capital	10% of the nominal capital of the Company	26 months
Authorization granted to the Board of Directors, in the event of an issuance without preferential right of subscription, to set the issue price within the limit of 10% of the share capital	10% of the nominal capital of the Company	26 months
Capital increase by capitalizing additional paid-in capital, reserves, earnings or other	€8 million	26 months
Increase the number of shares to be issued in the event of a capital increase with or without preferential right of subscription	As limited by applicable regulations (currently 15% of the initial issuance)	26 months
Capital increase through the issuance of shares or securities conferring access to the capital allocated to members of employee share savings plans with suppression of the preferential right of subscription in favor of the latter	€0.5 million	26 months
Granting of stock subscription or purchase options with suppression of the preferential right of subscription	10% of the nominal capital of the Company	38 months

Subject of resolution	Maximum amount	Duration of authorization[(1)]
	(shared ceiling with the allocations of free shares below)	
Free allocations of existing or to-be-issued shares to Group employees and company officers, or to some of them, with suppression of the preferential right of subscription	10% of the nominal capital of the Company (shared ceiling with the stock subscription or purchase options below)	38 months
Authorization to reduce the capital by canceling treasury stock	10% of the nominal capital of the Company per 24 months	26 months

(1) As of April 17, 2013

(1) All other resolutions shall be applied against this ceiling.

21.1.2 Securities not Representing Share Capital

As of the date of the visa on this prospectus, the Company has not issued any securities that do not represent the share capital.

21.1.3 Shares Controlled by the Company, Treasury Shares and Company's Purchasing of its own Shares

As of the date of the visa on this prospectus, the Company does not hold any of its own shares and no shares in the Company are held by any of its subsidiaries or by any third party on its behalf.

At the combined Ordinary and Extraordinary Shareholders' Meeting held on April 17, 2013, the Company’s shareholders authorized, for a duration of eighteen months from such meeting (it being specified that this authorization may not be used before the admission to trading of the Company’s shares on Euronext Paris), the Company's Board of Directors to implement a program to buy back the Company’s shares in accordance with Article L. 225-209 of the French Commercial Code and in accordance with the AMF General Regulations, under the following conditions:

Transaction concerned	Duration of authorization	Maximum amount	Maximum number of shares
Share buyback program	18 months	€82,978,050	10% of the Company's share capital

These shares may be acquired at any time within the limits authorized by applicable laws and regulations, but not during a public offering, in particular for the purpose of:

- implementing any share purchase option plan of the Company's shares under the provisions of Articles L. 225-177 et seq. of the French Commercial Code, or any similar plan; or

- allocating or selling shares to employees under their share of the Company's profits, or implementing any company or Group savings plan (or similar plan) under the conditions provided for by law, including Articles L. 3332-1 et seq. of the French Labor Code or providing a free allocation of these shares in connection with a contribution in securities of the company and/or as a substitute for the discount, according to the applicable legislative and regulatory provisions; or

- allocating free shares under the provisions of Articles L. 225-197-1 et seq. of the French Commercial Code; or

- generally, honoring obligations associated with stock option programs or other allocations of shares to employees or officers of the Company or of an associate company; or

- awarding shares when exercising rights attached to securities conferring access to the capital through, repurchase, conversion, exchange, presentation of a warrant or in any other way; or

- canceling all or part of the securities so repurchased; or

- delivering shares (in exchange, as payment or otherwise) in connection with acquisitions, mergers, demergers or asset-for-share exchanges; or

- stimulating the secondary market or liquidity of Groupe Fnac shares through a market maker under a liquidity contract that complies with the ethics charter recognized by the AMF.

This program also has the purpose of implementing any market practice that would come to be accepted by the AMF, and, more generally, the execution of any transaction that complies with applicable regulation. In such an event, the Company will advise its shareholders through a press release.

The maximum purchase price of shares under this repurchasing program is set at €50 (or the equivalent of this amount on the same date in another currency).

21.1.4 Other Securities Granting Rights to the Capital

None. As of the date of the visa on the prospectus, the Company has allocated no stock subscription options, stock purchase options or free shares.

21.1.5 Terms Governing any Right of Acquisition and/or any Obligation Attached to the Capital Subscribed but not Paid-Up

None

21.1.6 Share Capital of any Company of the Group that is the Subject of an Option or of an Agreement to Put it under Option

Except as described under Section 18.1 “Shareholders”, the Company is not aware of any options to acquire all or part of the capital of any company in the Group or any conditional or unconditional agreement to grant an option over all or part of the capital of any company in the Group.

21.1.7 History of the Share Capital over the Past Three Fiscal Years

The table below illustrates the change in the Company's share capital since January 1, 2010 up until the date of the visa on this prospectus.

Date	Nature of the transaction	Capital prior to the transaction (in €)	Issue premium (in €)	Number of shares prior to the transaction	Number of shares after the transaction	Par value after transaction (in €)	Share capital after transaction (in €)
26/09/2012	Division of the nominal by 7	6,131,671.00	N/A	875,953	6,131,671	1.00	6,131,671.00
27/12/2012	Capital increase	6,131,671.00	0	6,131,671	6,131,671	89.00	545,718,719.00
17/04/2013	Reduction of capital due to losses	545,718,719.00	N/A	6,131,671	6,131,671	72.00	441,480,312.00
17/04/2013	Capital increase	441,480,312.00	0	6,131,671	6,131,671	83.42	511,503,994.82.00
17/04/2013	Division of the nominal and reduction of capital not due to losses	511,503,994.82	494,908,384.82	6,131,671	16,595,610	1.00	16,595,610.00

The following major transactions have been made on the Company's share capital since January 1, 2010 until the date of the visa on this prospectus.

- The Company's Shareholders' Meeting of September 26, 2012 approved the 7 for 1 share split, reducing the par value of each share from seven euros to one euro, while increasing the number of existing shares sevenfold.

- Acting upon the authorization of the Company's Shareholders' Meeting of November 29, 2012, the Company's Board of Directors approved, on December 20, 2012, an increase in the Company's share capital of €539,587,048, to increase it from €6,131,671 to €545,718,719, by increasing the par value of each of the 6,131,671 shares comprising the share capital by €88 per share, the par value of each share rising from one euro to €89. The capital increase was undertaken on December 27, 2012.

- The annual general shareholders’ meeting held on April 17, 2013 modified and reorganized the share capital of the Company along the following lines:

    - The meeting approved the reduction of capital, by reason of losses, by 104,238,407 euros, bringing the Company’s share capital from 545,718,719 euros to 441,480,312 euros. This reduction was accomplished through a reduction of 17 euros per share in the nominal value of the Company’s shares, which brought the nominal value of each of the 6,131,671 shares of the Company from 89 euros to 72 euros. The meeting also decided to impute the amount of the reduction to “retained earnings” in the financial statements, which resulted in a reduction in the balance of such line item from a negative balance of 105,930,998.42 euros to a negative balance of 1,692,591.42 euros.

- The meeting approved a capital increase of 70,023,682.82 euros, without issue premium, through the increase in the nominal value of the 6,131,671 outstanding shares of the Company by 11.42 per share, resulting in a per share increase in the nominal value from 72 euros to 83.42 euros. This capital increase, which was completed the day of the meeting, brought the share capital of the Company from 441,480,312 euros divided into 6,131,671 shares with a nominal value of 72 euros each, fully paid, to 511,503,994.82 euros divided into 6,131,671 shares with a nominal value of 83.42 each.

- The meeting approved in principle the division of the nominal value of shares in the Company and a capital decrease not motivated by losses, which would result in a share capital of 16,595,610 euros divided into 16,595,610 shares with a nominal value of one euro each. The meeting decided to account for the amount of the capital reduction (i.e., 494,908,384.82 euros) as an issue premium which would not be distributable, but may later be reincorporated later into the share capital or serve to amortize corporate losses. It should be noted that the capital reduction was approved under certain conditions and will be completed (i) 20 days after the filing with the Tribunal de Commerce de Paris (the "Tribunal") of the applicable approval resolution, provided that no creditor or representative of a masse of bondholders objects, (ii) after the Tribunal has ruled on any objections and determined that they are without basis and has rejected them, or (iii) after execution of the Tribunal decision, if objections are made and the Tribunal orders that guarantees or reimbursements of debt be granted. If the capital reduction is not carried out, the division of the nominal value of shares will nonetheless be implemented and the share capital will be divided into 16,595,610 shares with a nominal value equal to the division of 511,503,994.82 by 16,595,610.

21.2 CONSTITUTIVE DOCUMENTS AND BYLAWS

The Company's bylaws have been drafted pursuant to the laws and regulations applicable to limited companies with Boards of Directors incorporated under the laws of France. The principal stipulations below are taken from the Company's bylaws, as adopted by the Company's Ordinary and Extraordinary Shareholders' Meeting of April 17, 2012.

21.2.1 Corporate Purpose

Article 2 of the Company's bylaws provides that its purpose is to:

- create, operate and develop commercial or industrial establishments in the sectors of the distribution of cultural, educational, musical, leisure, electronic and computer products and services, services for the individuals and companies, or personal, home and office equipment, directly or indirectly by setting up subsidiaries or acquiring interests, throughout the world;

- acquire, administer and sell financial securities or interests of any type in any entity of lawful purpose, irrespective of the legal form, including unincorporated entities, throughout the world and for any length of time or duration, and carry out any transaction on these financial securities or interests, directly or indirectly by setting up subsidiaries or acquiring interests.

- carry out any transactions, including of a financial, investment or real estate nature, relating directly or indirectly or being necessary or relevant for any reason, including being related or ancillary, to the above.

To this end, the Company may act, directly or indirectly, on its own behalf or on behalf of third parties, either alone or in a partnership, association or company with any other company, individual or enterprises, and carry out any transaction that comes within the scope of its purpose;

21.2.2 Administrative, Management and Supervisory Bodies and Senior Management Bodies

21.2.2.1 Board of Directors

21.2.2.1.1 Internal Rules of the Board of Directors

The Board of Directors has internal rules whose purpose is to specify the operating rules of the Company's Board of Directors.

21.2.2.1.2 Composition of the Board of Directors (Article 12 of the Bylaws, and Article 1 of the Board's Internal Rules)

The Board is composed of at least three and at most eighteen members, subject to exceptions allowed by applicable law, including in the case of a merger.

A person cannot be appointed director if, being more than 70 years old, his appointment has the effect of taking the proportion of Board members with this age above one third of total members. Where, because a director has reached an age of more than 70, the above proportion of one third is exceeded, the oldest director shall be deemed to have resigned following the next annual Shareholders' Meeting.

The directors are appointed under legal conditions by the annual Shareholders' Meeting for a term of three years. The directors are eligible for re-election and may be dismissed at any time by a general shareholders’ meeting. In the event where one or more directors seats are vacant, the Board may make provisional appointments of directors, in compliance with law, which will be subject to ratification at the next annual Shareholders' Meeting. A director appointed under these conditions to replace another director, remains in office during the time remaining on his predecessor's term of office. The Board members' terms of office may be arranged in such a way as to renew its members as regularly as possible.

The Board must ensure balance within its membership and within that of the committees of Board members which it has established, by taking necessary measures to ensure its duties and those of the committees of Board members which it has established are fulfilled with the required independence and objectivity.

The proportion of independent members, where possible, must be at least one-third within the Board of Directors, at least two-thirds within the Audit Committee and at least one-half within the Appointments & Remuneration Committee and the Corporate, Environmental and Social Responsibility Committee. Independent-member qualification does not put into question the qualities and competences of Board members.

When a member's term of office is renewed or a new member appointed to the Board at least once a year prior to the publication of the Company's annual report, the Board assesses the independence of each of its members (or nominees). During this assessment, the Board, following the opinion of the Appointments and Compensation Committee, examines the qualification of each of its members (or candidates), on a case-by-case basis, in respect of the above criteria, particular circumstances and situation of the interested party in relation to the Company. Shareholders are informed of the assessment's conclusions through the annual report and, where necessary, the Annual Shareholders' Meeting when electing new Board members.

The assessment of independence of each Board member must include the following criteria:

- not being or having been in the past five years a Company employee or *mandataire social*, an employee or Director of any company that consolidates the Company, or of a company the Company consolidates;

- not being *mandataire social* of a company for which the Company, directly or indirectly, is a Director or for which a current or past (within the last five years) Company *mandataire social* or employee in such capacity is a Director;

- neither being, nor being directly or indirectly associated with, a significant customer, supplier, investment banker, commercial banker of the Company, or for which the Company holds a material proportion of its business;

- not being a close family relation of a Company *mandataire social*;

- not having been the Company's statutory auditor during the past five years;

- not having been a member of the Company's Board for more than twelve years as of the date on which his current office was bestowed on him.

For Board members holding ten percent or more of the Company's capital or voting rights, or representing a legal person holding such an interest, the Board, upon recommendation of the Appointments and Compensation Committee, shall decide the qualification of independence by taking into account the composition of the Company's capital and whether there is any potential conflict of interests.

The Board may consider that a member of the Board, even though he meets the above criteria, should not be deemed independent due to his particular situation or that of the Company, due to its shareholding structure or on any other ground. Conversely, the Board may consider that a Board member not meeting the above criteria is however independent.

21.2.2.1.3 Chairman of the Board of Directors (Article 14 of the Bylaws, and Article 1 of the Board's Internal Rules)

The Board elects a Chairman and Vice Chairman from its members that are natural persons, for terms not exceeding their Board-member term of office. Their duties include convening the Board and chairing its debates. The Chairman is eligible for re-election and may be dismissed at any time by the Board of Directors. At no time may he or she be more than 65 years of age.

21.2.2.1.4 Committees of the Board of Directors (Article 15 of the Bylaws, and Article 1 of the Board's Internal Rules)

The Board may decide to set up permanent or temporary committees from among its members in order to facilitate the operations of the Board and to provide effective assistance in preparing its decisions. These committees are charged with, under the responsibility of the Board, examining the subjects that the Board or its Chairman submits for their examination and advice to prepare the work and decisions of the Board. The composition, assignments and practices of these committees are set out in internal rules specific to each committee and approved by the Board.

As of the date of this prospectus, the Board has decided to establish the following permanent committees: (i) an Audit Committee, (ii) an Appointments and Compensation Committee and (iii) a

Corporate, Environmental and Social Responsibility Committee. (See Section 16.3 "Board of Directors Committees.")

21.2.2.1.5 Practices of the Board of Directors (Article 15 of the Bylaws, and Article 5 of the Board's Internal Rules)

The Board is convened by its Chairman, Vice Chairman or upon the request of at least one third of the Directors. In the latter case, the Chairman or, failing this, the Vice Chairman must convene the Board within fifteen days from receiving the request.

The Board is convened by any means, even spoken. The person who gave the convocation of the Board's meeting sets the meeting's agenda.

The Board meets at least four times a year and, at any other time, as often as the Company's interests require it. A provisional schedule of each year's meetings is sent to the Directors by November 30 of the preceding year, at the latest. The frequency and duration of meetings must be such as to allow a thorough examination and discussion of matters coming within the board's remit.

Meetings are chaired by the Chairman of the Board or, failing this, the Vice Chairman or, failing this, by the oldest Director or by any other Director appointed by the Board.

The Board can only deliberate if at least half of its members are present. Persons present at the Meeting for the purposes of calculating the quorum and the majority shall be deemed to include the Directors who take part in the Meeting via videoconference facilities or other appropriate means under the conditions provided for by the law and regulations. All directors may give a proxy in writing to another director to represent him at a meeting of the Board of Directors; each director may only hold one proxy per meeting.

Decisions are taken by a majority vote of the members present, deemed present or represented. In the event of a split-vote, the vote of the Chairman of the session is casting.

The Board of Directors appoints a Secretary, who can be chosen from outside its members.

The meetings of the Board give rise to the keeping an attendance register and the taking of minutes under the legal and regulatory conditions. The attendance register mentions the participation of members by videoconference or by any other telecommunication means.

21.2.2.1.6 The Duties of the Board of Directors (Article 13 and 17 of the Bylaws, and Article 3 and 4 of the Board's Internal Rules)

The Board carries out the duties and exercises the powers entrusted to it by law and the Company's bylaws. It determines and assesses the Company's strategy, objectives and performance, and ensures its implementation. Subject to the powers expressly conferred on the Shareholders' Meetings and within the limits of the corporate purpose, it concerns itself with all issues affecting the Company's operations and regulates the Company's affairs.

The Board carries out the audits and verifications it deems necessary. The Board is regularly informed of the Company's financial and cash position, as well as the Company's or Group's commitments and obligations. The Chairman and Chief Executive Officer communicate to the Directors, on an ongoing basis, any information concerning the Company of which it is aware and the communication of which it considers useful or relevant.

The Chief Executive Officer must obtain the Board's prior consent for any of the following transactions or decisions:

- Issues and transactions that materially affect the Group’s strategy, financial structure or scope of business,

- The following transactions conducted by the Company or any entity controlled by it to the extent that, for each of these transactions, it exceeds an amount set by the Board of Directors:

  - Any investment or divestment, including an acquisition or sale or exchange of interests in any companies currently existing or to be created;

  - Any borrowing (or series of borrowings) or loan of money or early repayment of a loan of any kind.

The Board of Directors also ensures the Company's and Group's good governance, in order to ensure a high level of sustainable development and transparency consistent with the Group's, Group directors' and employees' corporate responsibility.

21.2.2.1.7 Remuneration of the Board of Directors (Article 19 of the Bylaws, and Article 6 of the Board's Internal Rules)

The annual Shareholders' Meeting can allocate an annual fixed sum to Directors for attendance fees, for which the distribution among Directors is determined by the Board. Upon recommendation of the Appointments and Compensation Committee, the Board:

- freely distributes the attendance fees allocated to the Board by the annual Shareholders' Meeting among its members, provided that a portion determined by the Board is deducted from the aggregate amount allocated to the Board and paid to Committee members, based on their presence at the Committee meetings;

- determines the amount of remuneration paid to the Chairman and Vice Chairman; and

- may allocate to some of its members exceptional remuneration for missions or duties assigned to them.

21.2.2.2 Executive Management

21.2.2.2.1 Chief Executive Officer (Article 17 of the bylaws)

(a) Appointing the Chief Executive Officer

When the Board of Directors chooses to separate the functions of Chairman and Chief Executive Officer (CEO), it appoints the CEO from among or outside of the Directors, sets his term of office, determines his remuneration and, where necessary, the extent of his powers. At no time may the CEO be more than 65 years of age.

(b) Powers of the Chief Executive Officer

The CEO is invested with the most extensive powers for acting in the Company's name under any circumstances. He exercises these powers within the limits of the corporate purpose and what the law expressly assigns to the Shareholders' Meetings and to the Board of Directors. He represents the Company in its relations with third parties.

Some of the CEO's decisions are subject to the prior consent of the Board (see above). Moreover, the Board sets, under the terms of the law, either a total amount under which the CEO may give, with or without the option of delegating, commitments in the name of the Company in the form of sureties, endorsements or guarantees, or an amount above which each of the above commitments may not be given. All transactions exceeding the global ceiling or maximum amount set for commitments must be authorized by the Board.

The CEO may grant, with or without the option of substituting, any delegation to any Director that he elects, subject to the restrictions provided for by law.

21.2.2.2.2 Chief Operating Officers (Article 18 of the Bylaws)

Upon the CEO's recommendation, whether this position is held by the Chairman of the Board or by another person, the Board may appoint one or more natural persons charged with assisting the CEO, with the title of Chief Operating Officer. The maximum number of Chief Operating Officers is set at five. At no time may a Chief Operating Officer (COO) be more than 65 years of age.

Should the CEO cease or be prevented from exercising his duties, the COO or COOs, unless otherwise decided by the Board of Directors, will keep their positions until the appointment of the new CEO.

In agreement with the CEO, the Board of Directors determines the extent and duration of the powers given to the COOs. The COO or COOs hold, with regard to third parties, the same powers as the CEO.

21.2.3 Rights, Privileges, and Restrictions on Shares

See Section 26.2.5 "Rights Attached to the Shares."

21.2.4 Changes in Shareholders' Rights

Any change in voting rights attached to shares in the Company is governed by applicable legal and regulatory provisions.

21.2.5 Annual General Meetings

21.2.5.1 Convening Annual General Meetings

The Company's annual general meetings are convened upon the conditions, procedures and timetables set forth applicable law and regulations and the Company's bylaws. They are held at the head office or in any other place stated in the applicable notice.

21.2.5.2 Attending and Voting at Annual General Meetings

All shareholders are entitled to attend general meetings in person or by proxy, under the conditions set by applicable regulation, by providing proof of their identity and title to their shares by the recognition of these securities in the accounts in their name (or as long as the Company's shares are admitted to trading on a regulated market, in the name of the intermediary registered on the shareholder's behalf pursuant to the applicable regulation) no later than three business days preceding the meeting at midnight Paris time, or in the registered share account kept by the company, or, provided that the Company's shares are admitted to trading on a regulated market, in the accounts for bearer shares of an approved intermediary. Proof of the capacity of a shareholder can be provided electronically, under the conditions set by the regulations in force.

By a decision of the Board of Directors published in the notice of meeting or in the notice of convening to have recourse to such measures of telecommunications, are reputed to be present, for purposes of calculating the quorum and the majority, shareholders who participate in the meeting by video-conferencing or by means of telecommunication, including Internet, under the conditions provided in the applicable regulation.

Any shareholder may vote from a distance or by proxy pursuant to existing regulations, by means of a form prepared by the Company, filled in and sent to it in accordance with existing regulations, including via electronic filing or electronic means, by decision of the Board of Directors. To be accepted, this form must be received by the Company under regulatory conditions.

By prior decision of the Company's Board of Directors, the recording and signing of electronic forms may be achieved by a reliable identification process that meets the conditions stated in the first sentence of the second paragraph of Article 1316-4 of the French Civil Code, and may consist of a username and password, or any other means consistent with applicable regulations. Proxies or votes expressed electronically in this way before the meeting, and the confirmation of receipt given in reply, shall be regarded as irrevocable written instructions enforceable on all parties, it being stipulated that if the shares are sold before midnight Paris time before the third business day preceding the meeting, the Company shall invalidate or amend, as the case may, proxies or votes expressed before such date and time.

21.2.5.3 Holding of Annual General Meetings

The meetings are chaired by the Chairman of the Board of Directors, or, in his absence, by a director specially delegated for that purpose by the Board. Otherwise, the Meeting of Shareholders itself shall chair the meetings.

The minutes of the Shareholders' Meetings are drawn up and their copies are certified and delivered in accordance with applicable regulations.

21.2.6 Statutory Provisions Likely to Have an Impact on the Control of the Company

The Company's bylaws do not contain any provisions that would have, to the Company's knowledge, an effect of delaying, deferring or preventing a change of control of the Company.

21.2.7 Shareholding Thresholds and Identification of Shareholders

21.2.7.1 Shareholding Thresholds

As long as the Company's shares are admitted to trading on a regulated market, in addition to the legal obligation to notify the Company of holding certain percentages of the share capital, any natural or legal person acting alone or collectively, who holds or ceases to hold, directly or indirectly, a percentage of the Company's share capital or voting rights of 3% or more or any multiple of 1% above 3% has an obligation to notify the Company by registered letter sent by recorded delivery within the time provided for in Article R. 233-1 of the French Commercial Code (i.e., as of the date hereof, at the latest on the close of trading on the fourth day of trading following the date of the crossing of the ownership threshold). The provisions of paragraph VI *bis* of Article L. 233-7 of the French Commercial Code and of the General Regulations of the AMF apply mutatis mutandis to the thresholds referred to in this subparagraph.

If not declared in accordance with the preceding paragraph, shares exceeding the fraction that should have been declared shall be stripped of their voting rights in Shareholders' Meetings, if one or more shareholders, holding at least 3% of the Company's share capital or voting rights so requests at a shareholders' Meeting. Such deprivation of voting rights applies to all Shareholders' Meetings held until expiry of a two-year period following the date on which the declaration is regularized.

Furthermore, as long as the Company's shares are admitted to trading on a regulated market and in addition to the thresholds provided for by applicable regulation, any person who would solely or jointly hold a number of shares representing more than a twentieth of the Company's share capital or voting rights, must, in its declaration to the Company include the information referred to in paragraph VII of Article L. 233-7 of the French Commercial Code as shown in the General Regulations of the AMF.

At the end of each period of six months following his first declaration, any shareholder, should he continue to hold a number of shares or voting rights equal to or more than the percentage referred to in the previous paragraph, must renew his declaration of intention, in accordance with the above-mentioned terms, for each new period of six months.

The Company reserves the right to advise the public and shareholders either of any information of which it has been advised, or failure to comply with the above-mentioned obligation by the person concerned.

The ownership percentages are determined using the shares and voting rights referred to in Articles L. 233-7 et seq. of the French Commercial Code and the provisions of Articles 233-11 et seq. of the General Regulations of the AMF.

21.2.7.2 Identification of Shareholders

For so long as the Company's shares are admitted to trading on a regulated market, the Company is authorized, to the extent permitted under applicable law, to use the methods authorized under applicable regulation to identify the holders of securities that grant immediate or future voting rights at the Company's Shareholders' Meetings.

21.2.8 Specific Provisions Governing Changes in Share Capital

The Company's share capital may be increased, reduced or redeemed by any method or means authorized by applicable law.

The Company's Annual General Meeting may decide that any reduction in capital will be made in kind by delivery of assets of the Company.

22. MAJOR CONTRACTS

Major contracts executed by the Company during the course of the past two years are shown in Sections 6.5 "Business Overview," 10.2.2.2 “Financing of the Group after Admission of the Company’s Shares to Trading on Euronext Paris” and 19 "Related-Party Transactions."

23. INFORMATION FROM THIRD PARTIES, EXPERT CERTIFICATIONS AND INTEREST DECLARATIONS

Certain information found in Section 6.4 "Market Overview" comes from third-party sources. The Company certifies that this information was, to the best of its knowledge, faithfully reproduced and that to the knowledge of the Company based on the data published or provided by these sources, no fact has been omitted that would render this information inaccurate or misleading.

24. PUBLICLY AVAILABLE DOCUMENTS

Copies of this prospectus are available from the Company's head office, free of charge. This document may also be consulted on the Company's website (www.groupe-Fnac.com), on Kering's website (www.kering.com) and on *Autorité des marchés financiers*' website (www.amf-france.org).

While this prospectus is valid, the following documents (or a copy of these documents) may be viewed:

- Groupe Fnac's bylaws,
- any report, correspondence and other historical financial information or document, assessments and statements prepared by an expert upon the Company's request, of which a part is included or referred to in this prospectus, and
- historical financial information included in this prospectus.

All such legal and financial documents relating to the Company and made available to shareholders in accordance with applicable regulations may be viewed at the Company's head office.

Once the Company's shares have been admitted to trading on Euronext Paris, regulated information pursuant to the AMF General Regulations will be available on the Company's website.

25. INFORMATION ON EQUITY INVESTMENTS

Information relating to companies in which the Company holds equity which could have a material impact on the value of its assets, financial condition or results (that is, the companies listed in Section 7.2.2 "Major Subsidiaries") is shown in Sections 7 "Organizational Chart" and 20.1 "Group Consolidated Financial Statements."

26. INFORMATION ON ALLOTMENT OF COMPANY SHARES, COMPANY SHARES AND ALLOTMENT RIGHTS TO COMPANY SHARES

26.1 TERMS OF ALLOTMENT

The admission to trading of the Company's shares on Euronext Paris is part of the process of establishing an independent group composed of the Company and its subsidiaries.

The allotment of Company shares by Kering to its shareholders (other than Kering itself and holders of shares issued under Kering stock options exercised after January 1, 2013) will take the form of the distribution of a supplementary in kind dividend of one (1) Groupe Fnac share for every eight (8) Kering shares. In practice, to allot Company shares and facilitate the management of fractional rights to shares, one (1) allotment right to Company shares shall be detached from each Kering share held by a shareholder eligible to receive Company shares such that ownership of eight (8) allotment rights to Company shares will give the right to the allotment of one (1) Company share.

In order to facilitate collection of withholding taxes, social charges and installment income tax payments for natural persons resident in France, the allotment of Company shares will be accompanied by the payment of an supplemental cash dividend of €2.25 per Kering share. The supplemental cash dividend and the in-kind dividend, which will be paid in Groupe Fnac shares, shall constitute the balance of the dividend due for the year 2012 and supplement the interim dividend of €1.50 paid on January 24, 2013

The allotment of Company shares will be submitted for approval to Kering's Ordinary Shareholders' Meeting, which will be held on June 18, 2013. The allotment will be carried out subject to the approval by this meeting (which shall be considered extraordinary on this point), held on the same date, of resolutions that modify Kering's bylaws to introduce the option to carry out in kind distributions or to reduce share capital, as well as resolutions to remove the tax equalization undertaking that currently appears in the bylaws.

The Artémis group is the majority shareholder of Kering and held 56.5% of Kering's voting rights as of December 31, 2012. It has advised Kering of its intention to vote in favor of the draft resolution on the allotment of Company shares.

26.1.1 Provisional Calendar of Allotment

AMF visa on this prospectus	April 25, 2013
Publication by Euronext Paris of a notice on the admission to trading of Groupe Fnac's shares and allotment rights for Groupe Fnac's shares	April 26, 2013
Publication in BALO (*bulletin des annonces légales obligatoires*) of notice of Kering's Ordinary and Extraordinary Shareholders' Meeting	May 3, 2013
Kering's Ordinary and Extraordinary Shareholders' Meeting	June 18, 2013
Euronext Paris S.A. notice relating to the technical reference price of Groupe Fnac shares	June 19, 2013
Detachment of allotment rights and of additional Kering cash dividend ("Ex-Date") Delivery of allotment rights for Groupe Fnac shares to the Kering shareholders entitled to such allotment (See Section 26.13) Delivery to the Centralizing Agent (as defined below) of Groupe Fnac shares distributed as supplementary in kind dividend Payment of Kering supplemental cash dividend	June 20, 2013

Admission to trading on Euronext Paris of Groupe Fnac shares and allotment rights for Groupe Fnac shares	
Delivery by financial intermediaries to the Centralizing Agent (as defined below) of one Groupe Fnac share in exchange for every eight (8) allotment rights for the corresponding Groupe Fnac shares	Beginning on June 20, 2013
End of listing of allotment rights to Groupe Fnac shares on Euronext Paris Transfer of allotment rights to Groupe Fnac shares to the delisted securities segment of Euronext Paris	September 30, 2013
End of registration of allotment rights to Groupe Fnac's shares on the delisted securities segment on Euronext Paris	May 15, 2015

26.1.2 Allotment of Groupe Fnac Shares to Kering Shareholders

The Company has been advised that at most 15,764,588 Company shares, representing a little less than 95% of the Company's share capital on the Ex-Date, will be allocated by Kering to its shareholders (other than Kering itself and holders of shares issued through Kering stock options exercised after January 1, 2013) in the proportion to the number of shares of Kering that they hold on the basis of one (1) Groupe Fnac share for eight (8) Kering shares.

The Company has also been advised that the 830,907 Company shares will not be allocated because they are held by Kernic Met B.V., a Dutch company that is 100% owned indirectly by Kering as at the visa date of this prospectus (but such shares will be subject to the forward financial contract described in Section 18.1 “Shareholders”). In addition, a residual number of Groupe Fnac shares will be retained by Kering as a result of the outstanding allotment rights corresponding to fractional Groupe Fnac shares that remain unconverted on the Ex-Date, or if, on the Ex-Date the actual number of Kering shares eligible for allotment is less than the theoretical maximum number of shares that could be entitled to the dividend. (See Section 18.1 “Shareholders”.)

26.1.3 Holders Entitled to Allotment of Company Shares

All Kering shares outstanding on the Ex-Date will be eligible for allotment as described in this prospectus, except for (i) shares held by Kering itself, and (ii) shares issued pursuant to the exercise, after January 1, 2013, of Kering stock options that were allotted as part of Kering stock option plans, whose terms provide that shares received upon exercise shall be entitled to dividends as from the first day of the fiscal year in which they were subscribed.

Those entitled to allotment of Groupe Fnac shares (and allotment rights for Groupe Fnac shares) will be Kering shareholders (other than Kering itself and holders of shares issued as a result of Kering stock options exercised after January 1, 2013) whose shares have been recorded in the accounts in their name at the end of the business day preceding the Ex-Date, that is, on the evening of June 19, 2013 (i.e. after taking into account orders executed during the day of June 19, 2013, even if these orders are settled and delivered after the Ex-Date).

In other words, any person (other than Kering itself and holders of shares issued as a result of Kering stock options exercised after January 1, 2013) who has acquired Kering shares and not resold them prior to the Ex-Date will benefit from the allotment of Groupe Fnac shares (and allotment rights for Groupe Fnac shares) in accordance with applicable market rules, as described below.

The same conditions shall apply to the distribution of the supplemental cash dividend.

26.1.4 Parity of Allotment of Company Shares

The Kering shall allot Company shares to eligible shareholders referred to above on the basis of one (1) Company share for eight (8) Kering shares held.

26.1.5 Practical Terms of Allotment

In order to allot Groupe Fnac shares and facilitate the management of rights to fractional shares, on the Ex-Date one (1) allotment right for the Company's shares shall be detached from each Kering share held by a shareholder entitled to receive Company shares; each allotment right shall correspond to one-eighth of one Groupe Fnac share.

Allotment rights for the Company's shares and supplemental cash dividend will be detached from each Kering share simultaneously on the Ex-Date before the market opens. Payment of the supplemental cash dividend and delivery of allotment rights for Groupe Fnac shares will also take place on the Ex-Date.

No fractions of Groupe Fnac shares will be delivered; allotment rights must be grouped by eight (8) or multiples of eight (8) and every eight (8) allotment rights will give the right to automatically receive one (1) Groupe Fnac share on the Ex-Date.

A shareholder holding eight (8) allotment rights for Groupe Fnac shares will automatically receive, without any prior formality, the allotment of one Groupe Fnac share on the Ex-Date, such that the corresponding allotment rights may not be used for other purposes.

For Kering shares held as bearer shares or held in administered accounts, the following transactions will be executed:

- On the Ex-Date, the financial intermediaries that use Euroclear France will credit the supplemental cash dividend to the accounts of their clients who are eligible to receive it, after deducting applicable withholding taxes, social charges and/or installment income tax payments, payable on the supplemental cash dividend and supplementary in kind dividend;

- On the Ex-Date, CACEIS Corporate Trust will act as centralizing agent for the allotment (the "Centralizing Agent"), to ensure, through the intermediary Euroclear France, that all financial intermediaries using Euroclear France properly record the allotment rights for Groupe Fnac shares in the securities accounts of the Kering shareholders whose accounts they manage for whom Kering shares were recorded in such accounts at the end of the business day preceding the Ex-Date;

- On the Ex-Date, Financial intermediaries will automatically deliver to the Centralizing Agent, on behalf of their clients, the number of allotment rights for Groupe Fnac shares which corresponds to the highest multiple of eight (8) allotment rights available in each client account, in order to exchange them for delivery of the corresponding number of Groupe Fnac shares;

- Kering shareholders who hold less than eight (8) Kering shares or who do not hold a number of Kering shares that is evenly divisible by eight (8) will receive one allotment right for Groupe Fnac shares for every Kering share held below or in excess of lots of eight (8) shares (or a multiple of eight (8) shares), for up to of seven (7) allotment rights for fractional shares per securities account; and

- As regards Kering shares having been the subject of a purchase order using deferred settlement service (DSS), the allotment rights for Groupe Fnac shares detached from these Kering shares (and Groupe Fnac shares to which these allotment rights give right) will be paid to the seller who is under an obligation to transfer them to the purchaser's account on the Ex-Date. The seller will also receive the supplemental cash dividend and will be under the obligation to transfer to the purchaser, upon settlement of the DSS order, the strict equivalent in cash. The same rules will apply mutatis mutandis with regard to an DSS sale order.

For Kering shares held in pure nominative form in registered accounts, the following transactions will be carried out:

- As from the Ex-Date, the supplemental cash dividend will be paid to each eligible Kering shareholder after deducting applicable withholding taxes, social charges and/or installment income tax payments payable on the supplemental cash dividend and supplementary in kind dividend; and

- On the Ex-Date, the Centralizing Agent will credit to each shareholder in the Kering share register, a number of allotment rights for Groupe Fnac shares equal to the number of Kering shares; the Centralizing Agent will then record the number of whole Groupe Fnac shares allotted to each shareholder in the securities register and accounts of Groupe Fnac shareholders that it manages in the name of each shareholder in a direct registered Kering account. As a result, for each shareholder, the Centralizing Agent will cancel in the Kering register the number of allotment rights for Groupe Fnac shares that corresponds to the highest multiple of eight (8) allotment rights up to or equal to the number of account-registered allotment rights for Groupe Fnac shares. Remaining allotment rights, which represent the fractional number of Groupe Fnac shares shall remain recorded in registered Kering share accounts.

Pursuant to the provisions of Article 8 of Kering's bylaws, Kering shareholders whose number of allotment rights for Groupe Fnac shares do not correspond to a whole number of Groupe Fnac shares may at their discretion acquire or dispose of their allotment rights for Groupe Fnac shares in order to obtain a number of Groupe Fnac allotment rights equal to eight (8) or to a multiple of this number, corresponding to a whole number of Groupe Fnac shares.

To this end, a request has been made to admit the allotment rights for Groupe Fnac shares to trading on Euronext Paris during the period from June 20 to September 30, 2013 (inclusive). These allotment rights will thereafter be listed in the delisted shares section of Euronext Paris during an additional period lasting until May 15, 2015, it being specified that during such time such allotment rights remain freely transferable. The terms for listing allotment rights for Groupe Fnac shares which represent fractional numbers of shares are described in more detail in Section 26.6 " Admission to Trading of Allotment Rights for Company Shares”.

Holders of allotment rights for Groupe Fnac shares may obtain, from their financial intermediary, one Groupe Fnac share upon presentation of eight (8) allotment rights for Groupe Fnac shares, at any time, starting on the Ex-Date and until the day before the sale date of unclaimed shares as described below, subject to allotment rights for Groupe Fnac shares being effectively delivered to the Centralizing Agent on the date of sale of unclaimed shares at the latest.

Kering undertakes to reimburse brokerage fees and value-added taxes incurred by Kering shareholders between June 20, 2013 (inclusive) and the end of trading on September 30, 2013, that are a result of (i) the sale of allotment rights for Groupe Fnac shares representing fractional numbers of shares that are credited to securities accounts under the initial allotment that is the subject of this prospectus or, where applicable, (ii) the purchase of additional allotment rights for Groupe Fnac shares representing fractional numbers of shares, necessary to request the conversion of allotment rights into one additional Groupe Fnac share, given the number of allotment rights for Groupe Fnac shares representing fractional numbers of shares that were initially allotted to the such shareholder. The bearing of these costs will be limited to a maximum of €7.50, including VAT, and to the purchase or sale of a maximum of seven (7) allotment rights for Groupe Fnac shares.

Pursuant to the provisions of Article L. 228-6 of the French Commercial Code and in accordance with applicable regulatory conditions, Kering's Board of Directors has resolved to sell any Groupe Fnac shares remaining from unconverted allotment rights for Groupe Fnac shares whose holders have not requested the delivery of share, provided that this sale will be the object of a public notice published at least two years in advance in accordance with applicable regulations. This notice is projected to be published soon after the Ex-Date.

After the date of this sale and subject to a five-year statute of limitations, the allotment rights for Groupe Fnac shares will be canceled and their holders will only be entitled to the cash value (without interest) of the net proceeds from the sale of such unclaimed Groupe Fnac shares, plus the proportion of dividends, interim dividends and distributions of reserves (or similar items), where applicable, paid by Groupe Fnac between the Ex-Date and the date of sale of unclaimed Groupe Fnac shares. It should be emphasized that if payment is requested after the five-year rolling statute of limitations from the payment date of each dividend, interim dividend, or distribution of reserves (or similar sums), the obligation to pay the relevant sums to holders of such allotment rights for Groupe Fnac shares will be no longer be enforceable by virtue of the five-year statute of limitations and the sums will definitively escheat to the State.

When the provisions of Article L. 228-6 of the French Commercial Code are carried out, the holders of allotment rights for Groupe Fnac shares will be advised that Kering will hold the proceeds from the sale of unclaimed shares for them for a ten year period in a blocked account maintained with the Centralizing Agent. Once the ten years have elapsed, the sums will be transferred to the *Caisse des dépôts et consignations*, where they may be claimed for an additional twenty years by those eligible. After this time, the sums will definitively escheat to the State.

26.1.6 Tax Treatment of the Distribution In Kind

Under currently applicable French law and regulations, the following description summarizes certain French tax consequences that may apply to Kering shareholders as a result of the distribution in kind.

This information constitutes only a short summary of the applicable tax provisions under currently applicable legislation, and is provided for information purposes only. The rules described below are subject to change and new laws or regulations could be retroactive or apply to the current calendar or fiscal year.

The tax information below does not constitute an exhaustive description of all tax impacts that may to apply to Kering shareholders as a result of the distribution in kind.

Such persons should seek advice from their usual tax advisor on the tax consequences of their particular circumstances.

Moreover, persons who are not French tax residents must comply with the applicable tax legislation in their own state of residence and, in particular, where necessary, with the provisions of any applicable tax treaties concluded between France and their state of residence.

To determine their taxable income, shareholders must consider that the supplementary in kind dividend shall represent a per- Kering share dividend income equal to <u>one-eighth of the opening trading price of the Groupe Fnac share on the Ex-Date</u>.

26.1.6.1 Shareholders whose Tax Residence is Situated in France

26.1.6.1.1 Natural Persons with Personal Holdings of Kering Shares, Who Do Not Professionally Engage in Securities Transactions

The dividends, whether in cash or in kind, paid to these shareholders fall under the rules described in Section 26.2.10.1.1(a) "Shareholders whose tax residence is situated in France – Dividends" for the dividends received in respect of shares held outside the frame of a Share Ownership Plan (PEA), and in the Section 26.2.10.1.1(c) "Shareholders Whose Tax Residence is Situated in France – Groupe Fnac Shares Held in Share Ownership Plans" for the dividends received in respect of Kering shares held in the frame of a Share Ownership Plan.

26.1.6.1.2 Legal Persons Subject to Corporate Income Tax (under the Standard Rules)

The dividends, whether in cash or in kind, paid to these shareholders are subject to the tax treatment referred to in Section 26.2.10.1.2(a) "Legal Persons Subject to Corporate Income Tax (under the Standard Rules) – Dividends."

26.1.6.1.3 Other Shareholders

Kering shareholders that are subject to a tax regime different from those described hereinabove, in particular those tax payers whose securities trading goes beyond mere portfolio asset management or who hold their shares as assets of a business enterprise should consult their own tax adviser to determine the provisions that apply to their specific situations.

26.1.6.2 Shareholders Whose Tax Residence is Situated Outside France

The dividends, whether in cash or in kind, paid to shareholders whose tax residence is outside of France shall be subject to the provisions described in Section 26.2.10.2.1 "Shareholders Whose Tax Residence is Situated Outside France – Dividends."

26.2 DESCRIPTION OF COMPANY SHARES

26.2.1 Type, Category and Dividend Entitlement Date of Shares Admitted to Trading, ISIN Code

The 16,595,610 Company shares, whose admission to trading on Euronext Paris (compartment B) has been requested as from June 20, 2013, constitute all of the Groupe Fnac shares comprising the Company's share capital on the date of admission to trading.

The Company has also been advised that the 830,907 Company shares will not be allocated because they are held by Kernic Met B.V., a Dutch company that is indirectly 100% owned by Kering as at the date of the visa on this prospectus. In addition, a residual number of Groupe Fnac shares will be retained by Kering as a result of the outstanding allotment rights corresponding to fractional Groupe Fnac shares that remain unconverted on the Ex-Date, or if, on the Ex-Date the actual number of Kering shares eligible for allotment is less than the theoretical maximum number of shares that could be entitled to the dividend. (See Section 18.1 “Shareholders”.)

Once capital increases have been carried out as referred to in Section 21.1.7 "History of the Share Capital over the Past Three Fiscal Years”, the Company’s shares will have a par value of one (1) euro each, and will be fully paid up.

The allotted shares will be ordinary shares all of the same category entitling the holder to all of dividends, interim dividends or distributions of reserves or similar sums decided after their allotment.

The Company shares will be traded on Euronext Paris under the ISIN code: FR 0011476928.

The ticker symbol for the Company’s shares is “Fnac” (Euronext Paris).

26.2.2 Applicable Law and Competent Courts

The Company shares shall be governed by French law.

In the event of a dispute with the Company, the territorially competent courts are those with jurisdiction over the place of the Company's head office whenever the Company is the defendant, and the courts with subject matter jurisdiction shall be selected as a function of the nature of the dispute whenever the Company is the claimant, unless otherwise provided for by the French Code of Civil Procedure.

26.2.3 Form of Shares and Terms of Registering the Shares in Shareholders' Accounts

The Company shares may be held in nominative form in a direct registered account or in an administered account, or may be held as bearer shares.

In accordance with the provisions of Article L. 211-3 of the French Monetary and Financial Code, the Company shares, irrespective of their form, will be in dematerialized form and will thus have to be registered in an account held either by the Company or an authorized financial intermediary, as the case may be. The holders' rights will be represented by an entry in their name in the books of:

- CACEIS Corporate Trust (14, rue Rouget de Lisle, 92130 Issy-les-Moulineaux), as the financial intermediary designated by the Company, for the securities held in a direct registered accounts,

- an authorized financial intermediary of their choice and CACEIS Corporate Trust (14, rue Rouget de Lisle, 92130 Issy-les-Moulineaux) as the financial intermediary designated by the Company, for the securities held in an administered accounts, or

- an authorized financial intermediary of their choice for bearer shares held in accounts.

An application has been made to Euroclear France to administer the Company’s shares as central securities depositary and to clear the shares through its settlement systems.

The shares will be transmitted by inter-account transfer, and the transfer of ownership will result from being registered in the acquirer's securities account, pursuant to Articles L. 211-15 and L. 211-17 of the French Monetary and Financial Code.

Within the framework of the allotment, the Company shares automatically registered to holders' accounts will also be automatically registered directly with the Company, in an administered account, or held in account as bearer shares, depending on whether the shareholders hold their Kering shares respectively in a direct registered account, or in an administered account, or as bearer shares registered in an account.

The Company shares will be administered by CACEIS Corporate Trust (14, rue Rouget de Lisle, 92130 Issy-les-Moulineaux).

26.2.4 Issue Currency

The Company shares will be allocated free of charge, and the Company has been informed by Kering that this allotment will take the form of an supplementary in kind dividend distributed. They will be denominated in euros.

26.2.5 Rights Attached to the Shares

Upon their allotment, Groupe Fnac shares are subject to all provisions of the Company's bylaws. The principal rights attached to the Company shares under current French legislation and the Company's bylaws as they were adopted by Groupe Fnac's General Shareholders' Meeting held on April 17, 2013, are discussed below.

26.2.5.1 Dividend Rights

The shares referred to in this prospectus will carry dividends rights as from the date of their issuance

The Groupe Fnac shareholders are entitled to profits under the conditions of Articles L. 232-10 *et seq.* of the French Commercial Code.

After approving the financial statements and recognizing distributable profit, the General Shareholders' Meeting decides whether to allocate profits to one or more reserve accounts (the allotment or use of which it regulates), or allocate them to retained earnings, or distribute them.

The General Shareholders' Meeting that approves the annual financial statements may distribute a dividend to all shareholders in accordance with Article L. 232-12 of the French Commercial Code. It may also be distributed as an interim dividend before approval of the annual financial statements in accordance with Articles L. 232-12 of the French Commercial Code.

The Annual General Shareholders' Meeting, or any other General Shareholders' Meeting, may decide to distribute sums and/or securities paid in cash or in kind from the reserves available to it, by expressly naming the reserve accounts from which the payments are made. However, the dividends are paid first from the year's distributable profit.

The General Shareholders' Meeting has the right to grant shareholders the option to receive payment in cash or in shares, subject to applicable regulation, for all or part of the distributed dividend or interim dividend. Under Article 24 of the Company's bylaws, the General Shareholders' Meeting may decide that a distribution or capital decrease may be carried out through in kind distribution of Company assets, for all or part of any dividend, interim dividend, reserve distribution, distributed bonuses, or capital decreases that it decides to undertake.

The dividends must be paid within nine months of the end of the fiscal year. This time period may be extended by court order. Dividends will be deemed forfeited after the standard statute of limitations (i.e. after five years) and escheat to the French state.

Dividends paid to non-resident shareholders are in principle subject to withholding tax. See Section 26.2.10 "Tax Treatment of Shares".

26.2.5.2 Voting Rights

Each shareholder has a number of votes equal to the number of shares owned, subject to applicable regulations and the Company's bylaws.

Pursuant to Article L. 225-110 of the French Commercial Code, where the shares ownership is divided between a title holder (*nu propriétaire*) and a beneficial owner (*usufruit*), the right to vote at in Annual General Shareholders' Meetings attached to these shares belongs to the beneficial owner of the usufruct, whereas the right to vote at Extraordinary General Shareholders' Meetings belongs to the title holder (*nu propriétaire*).

26.2.5.3 Preferential Right for Subscription of Shares of the Same Category

Under current French legislation, any immediate or future capital increase in cash entitles the shareholders to a preferential right to subscribe for new shares in proportion to the amount of shares owned.

The General Shareholders' Meeting that authorizes a capital increase may cancel such preferential subscription rights for the entire capital increase or for one or more portions of this increase, and may or may not provide a priority subscription period for the benefit of shareholders. If shares are issued through a public offering or through a private placement of up to 20% of the share capital per year, with no preferential subscription rights, (as defined in II of Article 411-2 of the French Monetary and Financial Code) the issue price must be set in accordance with Article L. 225-136 of the French Commercial Code.

In addition, the Company's Annual Shareholders' Meeting that decides a capital increase may reserve it to named persons or categories of persons that meet determined characteristics, in accordance with Article L. 225-138 of the French Commercial Code.

The Company's annual Shareholders' Meeting that decides or authorizes a capital increase may also reserve it to shareholders of another company being the subject of a public exchange offer initiated by the Company in accordance with Article L. 225-148 of the French Commercial Code. The capital increases by contributions in kind for the benefit of contributors are subject to a distinct procedure provided for by Article L. 225-147 of the French Commercial Code.

Moreover, the General Shareholders' Meeting which decides a capital increase may reserve the issuance of shares to specifically designated persons or to a category of people meet specified characteristics, in accordance with article L.225-138 of the French Commercial Code.

The General Shareholders' meeting which decides or authorizes a capital increase may also reserve the issuance of shares to shareholders of another company which is the object of a public exchange offer initiated by the Company, in accordance with article L. 225-148 of the French Commercial Code. Capital increases that are carried out through the issuance of shares to entities or individuals that contribute in kind consideration to the Company are governed by a distinct procedure described in article L. 225-147 of the French Commercial Code.

During the subscription period, any preferential subscription right becomes negotiable when it is detached from shares that are themselves negotiable. It is, however, assignable under the same conditions as the share itself. Shareholders may waive their preferential rights on an individual basis, in accordance with Articles L. 225-132 and L. 228-91 of the French Commercial Code.

26.2.5.4 Right to Share in the Company's Profits

Each share gives the right to a part of the Company's assets and profits, in proportion to the number and nominal value of existing shares. Each shareholder's contribution to losses is proportional to his share of the share capital.

26.2.5.5 Right to Share in any Surplus in the Event of Liquidation.

Each share gives the right to a portion of the surplus remaining in the event of liquidation, in proportion to the number and nominal value of existing shares.

26.2.5.6 Repurchase Clauses, Conversion Clause

The bylaws do not provide for any share repurchase or conversion clause.

26.2.5.7 Crossing of Thresholds

Please refer to Section 21.2.7.1 " Shareholding Thresholds".

26.2.5.8 Identification of Shareholders

Please refer to Section 21.2.7.2 "Identification of Shareholders."

26.2.6 Date Scheduled for the Registering in an Account Company Shares Allocated to Kering Shareholders

The Company shares allocated to Kering shareholders will be registered in an account from June 20, 2013 as described in Section 26.1.5 “Practical Terms of Allotment.”

26.2.7 Restrictions on Free Negotiability

No statutory clause restricts the free negotiability of shares comprising the Company's share capital.

26.2.8 French Regulation on Public Offerings

Once the Company's shares have been admitted to trading on Euronext Paris, the Company will be subject to legislative and regulatory provisions in force in France on mandatory public offers, buy-out offers and squeeze-outs.

26.2.8.1 Mandatory Public Offers

Article L. 433-3 of the French Monetary and Financial Code and Articles 234-1 *et seq.* of the General Regulations of the AMF, prescribe the conditions for mandatory filings of a public offer for all equity securities and securities giving access to the share capital or voting rights of a company whose shares are listed on a French regulated market.

26.2.8.2 Buy-Out and Squeeze-Out Offers

Article L. 433-4 of the French Monetary and Financial Code and Articles 236-1 *et seq.* (buy-out offers), 237-1 *et seq.* (squeeze-out following a buy-out offer) and 237-14 *et seq.* (squeeze-out following any public offer) of the General Regulations of the AMF determine the conditions for filing a buy-out offer and implementing a squeeze-out procedure for minority shareholders of a company whose shares are listed on a French regulated market.

26.2.9 Public Offers Initiated by Third Parties on the Company's Capital During the Last and Current Fiscal Years

Given that no Company security is listed on a regulated market on the date of the AMF visa on this prospectus, no buy-out offer from third parties has been launched on the Company's capital during the last and current fiscal years.

26.2.10 Tax Treatment of Shares

Under currently applicable French law and regulations, the following description summarizes certain French tax consequences that may apply to persons who will become Groupe Fnac shareholders.

This information constitutes only a short summary of the applicable tax provisions under currently applicable legislation, and is provided for information purposes only. The rules described below are subject to change and new laws or regulations could be retroactive or apply to the current calendar or fiscal year.

The tax information below does not constitute an exhaustive description of all tax impacts likely to apply to persons who will become Groupe Fnac shareholders.

Such persons should seek advice from their usual tax advisor on the tax consequences of their particular circumstances.

Moreover, persons who are not French tax residents must comply with the applicable tax legislation in their own state of residence and, in particular, where necessary, with the provisions of any applicable tax treaties concluded between France and their state of residence.

26.2.10.1 Shareholders Whose Tax Residence is Situated in France

26.2.10.1.1 Natural Persons With Personal Holdings of Groupe Fnac Shares, Who Do Not Professionally Engage in Securities Transactions

(a) Dividends

(i) 21% withholding

Starting on January 1, 2013, pursuant to Article 117-*quater* of the French General Tax Code ("CGI"), subject to the exceptions referred to below, natural persons residing in France are subject to a 21% withholding on the gross amount of distributed earnings. This withholding is made by the paying agent of the dividend, if it is located in France. When the paying agent of the dividend is established outside of France, the income is declared and the relevant deduction made, within the first 15 days of the month following the month of the dividend payment, either by the taxpayer him/herself or by the paying agent, when that entity is established in a member state of the European Union or in another member state of the European Economic Area Agreement that has concluded with France a tax treaty providing for administrative assistance with a view to defeating tax fraud and evasion, and that entity has received instructions to that effect from the tax payer.

However, natural persons belonging to a tax household whose taxable income for the year before last, as defined in 1° of IV of Article 1417 of the CGI, is less than €50,000 for taxpayers who are single, divorced or widowed, or €75,000 for couples filing jointly, may request exemption from this withholding under the terms and conditions of Article 242-*quater* of the CGI, i.e. by providing to the paying agent no later than November 30 of the year preceding the year of the payment of the dividends a sworn statement that the reference fiscal income shown on the taxation notice (*avis* *d'imposition)* issued in respect of the second year preceding the year of payment were below the above-mentioned taxable income thresholds. For dividends received in 2013, the exemption request mentioned in Article 242-*quater* of the CGI could be made by March 31, 2013, at the latest, and took effect in respect of dividends paid from the date on which it was made.

When the paying agent is established outside France, only natural persons belonging to a tax household whose taxable income of the year before last, as defined in 1° of IV of Article 1417 is equal or superior to the amounts mentioned in the previous paragraph are subject to this tax.

The withholding tax does not apply to income related to securities held in Share Ownership Plans (French *Plan d'Epargne en Actions,* "PEA").

Shareholders whose dividends will be paid outside of France in a non-cooperative jurisdiction, should refer to the third paragraph of Section 26.2.10.2.1, "Shareholders Whose Tax Residence is Outside of France – Dividends". Shareholders in such a situation are invited to contact their own tax adviser in order to determine how such withholding tax may be credited against their personal income tax.

(ii) Income Tax

Starting on January 1, 2013, under Article 158 of the CGI, dividends must be included in the shareholder's global taxable income, in the portfolio income category, in respect of the year during which they are received. They are subject to income tax on a progressive scale and benefit from an unlimited tax deduction of 40% on the amount of distributed earnings ("40% Reduction").

Pursuant to Article 193 of the CGI, the 21% withholding may be credited against the income tax due in respect of the year in which it was paid. Where it exceeds the income tax due, the surplus is refunded.

(iii) Social Levies

Moreover, whether the 21% withholding tax is applicable or not, the gross amount of dividends distributed by Groupe Fnac (before application of the 40% Reduction) will also be subject to social levies at a global rate of 15.5%, broken down as follows:

- General Social contribution (*contribution sociale généralisée,* "CSG") at the rate of 8.2%;
- social debt repayment contribution (*contribution pour remboursement de la dette sociale,* "CRDS"), at the rate of 0.5%;
- social levy at the rate of 4.5%;
- additional contribution on the 4.5% social levy (at the rate of 0.3%); and
- solidarity tax introduced by the 2013 financing and social security law at the rate of 2%.

Except for the CSG, which is deductible up to 5.1% from the taxable income of the year of its payment, these social contributions are not deductible for income tax purposes.

Shareholders should consult their usual tax advisor to determine reporting obligations and payment rules that may apply to them in respect of the 21% withholding tax and the social levies that apply to them.

(i) Exceptional Contribution on High Income Earners

Pursuant to Article 223-*sexies* of the CGI, taxpayers subject to personal income tax are liable for a contribution based on the amount of the tax household's reference fiscal income as defined in 1° of IV of Article 1417 of the CGI, without any application of the quotient rules defined in Article 163-0 A of the CGI. The defined reference income includes the dividends received by taxpayers concerned before the 40% Reduction or capital gains, before any deduction for long-term holdings. This contribution is calculated by applying the following rates:

- 3% of the portion of reference fiscal income between €250,000 and €500,000 for single, widowed, separated or divorced taxpayers and the portion of taxable income between €500,000 and €1,000,000 for couples filing jointly.

- 4% of the portion of reference fiscal income above €500,000 for single, widowed, separated or divorced taxpayers and the portion of taxable income above €1,000,000 for couples filing jointly.

(b) Capital Gains

(i) Income Tax

Pursuant to Articles 150-0 A, 158 6 bis and 200 A of the CGI, net gains derived from the sale of securities sold by natural persons after January 1, 2013 are subject to income tax on a progressive scale, after a deduction for long-term holding provided in Article 150-0 D of the CGI, as applicable, at the following rates:

- 20% of the capital gain when, as of the date of sale, the shares have been held for at least two years but less than four years;

- 30 % of the capital gain when, as of the date of sale, the shares have been held for at least four years but less than six years; and

- 40% of the capital gain when the shares have been held for at least six years.

Subject to applicable exceptions, the holding period is determined from the acquisition or subscription date of the shares.

Persons with net capital losses that can be carried forward or who will realize a capital loss on the sale of their securities should consult their usual tax advisor.

(ii) Social Levies

Net gains on sales of securities are also subject, before deduction for holding period, to social charges at the rate of 15.5% broken down as follows:

- General Social contribution (*contribution sociale généralisée*, "CSG") at the rate of 8.2%;

- social debt repayment contribution (*contribution pour remboursement de la dette sociale*, "CRDS"), at the rate of 0.5%;

- social levy at the rate of 4.5%;

- additional contribution on the 4.5% social levy (at the rate of 0.3%); and

- solidarity tax introduced by the 2013 financing and social security law at the rate of 2%.

Besides the CSG, which is deductible up to 5.1% of taxable income of the year of its payment, these social contributions are not deductible for income tax purposes.

(iii) Exceptional Tax on High Income Earners

The exceptional tax on high income earners applies under the conditions described in Section 26.2.10.1.1(a) (iv) "Shareholders Whose Tax Residence is Situated in France – Exceptional Tax on High Income Earners".

(c) Groupe Fnac Shares Held in a Share Ownership Plan (PEA)

Ordinary Groupe Fnac shares received by Kering shareholders holding their shares in a Share Ownership Plan will be registered on such plan.

Share Ownership Plan allows, under certain conditions, (i) an exemption from income tax and social charges, during the life of the PEA, in proportion to income and gains on investments made as part of the PEA, subject to such income and gains remaining invested in the PEA, and (ii) when the PEA closes (where this happens more than five years after the PEA was opened) or when a partial withdrawal is made from the PEA's funds (if such a withdrawal is made more than eight years after the PEA is opened), an exemption of income tax in proportion to the net gain made since the opening of the plan, it being noted that such net gain remains subject to the social levies mentioned above at a variable rate depending on the date this gain was acquired or recorded.

Special rules that are not described in this prospectus, apply when capital gains are realized, or the plan is closed before the end of the fifth year after the PEA was opened, or when the PEA is closed and gives right to the payment of an annuity. Persons concerned should consult their usual tax advisor.

(d) Wealth Tax (“ISF”)

Groupe Fnac shares held by natural persons as part of their private estates are included in their assets subject to ISF, where applicable.

Under certain conditions, partial exemptions from the wealth tax apply to shares held by Company employees and officers. Persons concerned should consult their usual tax advisor to determine whether they are likely to qualify for these measures and under what terms.

(e) Inheritance and Gift Taxes

Groupe Fnac shares acquired by natural persons residing in France through inheritance or gift are subject to inheritance and gift taxes, where applicable.

26.2.10.1.2 Legal Persons Subject to Corporate Income Tax (Under Standard Rules)

(a) Dividends

(i) Legal persons not having parent company status in France

Legal persons, other than those having parent company status within the meaning of Article 145 of the CGI, should include the dividends received in their taxable income subject to corporate tax rate of 33 1/3%. The following additional contributions may also apply: (i) a 3.3% social contribution based on the corporate income tax, after a deduction of up to €763,000 for each twelve-month period (Article 235-*ter* ZC of the CGI), and (ii) for companies with turnover of €250,000,000, an exceptional 5% contribution (Article 235-*ter* ZAA of the CGI), based on the corporate income tax as determined before any reductions or tax credits.

However, pursuant to Article 219 I-b of the CGI, for legal persons with a turnover of less than €7,630,000, and a paid-up share capital that is at least 75% continuously held throughout the relevant fiscal year by natural persons or by a company satisfying all these conditions, the corporate income tax rate is set at 15% for the first €38,120 of taxable income for each twelve-month period. In addition, these legal persons are exonerated from the 3.3% social contribution and the additional 5% contribution, mentioned above.

(ii) Legal Persons Qualifying as a Parent Company in France

Legal persons holding at least 5% of Groupe Fnac's share capital and voting rights, and who meet the conditions provided under Articles 145 and 216 of the CGI, may benefit, upon election, from a dividend exemption under the parent subsidiary regime. Subsection I of Article 216 of the CGI provides, however, for the inclusion, in the taxable income subject to corporate income tax at the standard rate of the beneficiary, of a quota for fees and expenses set at 5% of total gross dividend income, tax credits included.

(b) Capital Gains

(i) Standard Tax Treatment

Gains realized on the sale of portfolio investments are included in the taxable income subject to the standard corporate income tax of 33 1/3% (or, where applicable, at the rate of 15% up to €38,120 of taxable income for each twelve-month period for companies meeting the conditions provided for by Article 219 I-b of the CGI), increased, where applicable, by (i) the social contribution of 3.3% based on the corporate tax, after a deduction of up to €763,000 for each twelve-month period (Article 235 ter ZC of the CGI), and (ii) for companies with turnover in excess of €250,000,000, an exceptional contribution of 5% (Article 235-*ter* ZAA of the CGI), based on corporate income tax as determined before any reductions and tax credits.

Losses realized on the sale of portfolio investments are deductible from the legal person's taxable income subject to corporate income tax.

(ii) Special tax treatment of long-term capital gains

Pursuant to the provisions of Article 219 I-a *quinquies* of the CGI, the gains on the sale of shares held for at least two years at the time of sale and qualifying as participating interest (*titres de participation)* benefit for a separate taxation as long term capital gains under the conditions set out below.

Investments in shares of corporations (other than securities of real estate companies) constitute participating interest within the meaning of Article 209 I-a *quinquies* of the CGI when they are accounted for as participating interest, or they are accounted for in a special sub-account in the applicable financial statements, or they are acquired upon execution of a public offer for the purchase or exchange by the company that initiates the offer, or they are securities giving a right to the parent-subsidiary tax regime provided for in articles 145 and 216 of the CGI.

Long-term capital gains on sales of participating interest are taxed at a rate of 0%, if the company makes net capital gains during the fiscal year in which the shares are sold, provided however that a quota for fees and expenses equal to 12% of the gross capital gains shall be included in the taxable income. However, despite a legislative history to the contrary, the tax authorities have stated in comments dated February 12, 2013 (BOI-IS-BASE-20-10-10-20130212) that the taxable portion must be calculated on the amount of gross capital gains, even in presence of a net capital loss.

Long-term capital losses are not deductible.

26.2.10.1.3 Other Shareholders

Groupe Fnac shareholders that are subject to a tax regime different from those described hereinabove, in particular those tax payers whose securities trading goes beyond mere portfolio asset management or who hold their shares as assets of a business enterprise should consult their own tax adviser to determine the provisions that apply to their specific situations.

26.2.10.2 Shareholders Whose Tax residence is Situated Outside France

Under current French legislation and subject to the application of any international tax treaties, the following provisions summarize some French tax consequences that may apply to investors (i) who are not tax residents of France within the meaning of Article 4 B of the CGI or whose seat are situated outside France and (ii) whose ownership of shares is not related to a fixed base or a stable establishment subject to taxation in France.

These investors must, however, verify, with their usual tax advisor, the tax treatment that applies to their specific circumstances and, moreover, comply with the tax laws in force in their state of residence.

26.2.10.2.1 Dividends

Subject to provisions of tax treaties aimed at avoiding double taxation which may apply and subject to the exceptions listed below, the dividends distributed by Groupe Fnac will, in principle, be subject to a withholding tax, deducted by the paying agent of the dividends, where the tax domicile or seat of the effective beneficiary is located outside France.

Subject to what is stated below, the rate of this withholding tax is set at (i) 21% where the beneficiary is a natural person residing in a member state of the European Union or in another member state of the European Economic Area Agreement that has concluded with France a tax treaty providing for administrative assistance with a view to defeating tax fraud and evasion, (ii) 15% where the beneficiary is a non-profit organization that has its seat in a member state of the European Union or in another member state of the European Economic Area Agreement that has concluded with France a tax treaty providing for administrative assistance with a view to defeating tax fraud and evasion, that would be taxed according to the treatment referred to in Article 206-5 of the CGI if it had its seat in France and that meets the criteria provided for by paragraphs 580 *et seq.* of the tax guidelines BOI-IS-CHAMP-10-50-10-40-20120912, and (iii) 30% in all other cases.

However, subject to the provisions of international tax treaties, regardless of the place of residence and status of the beneficiary, dividends paid by Groupe Fnac outside France in a non-cooperative state or territory within the meaning of Article 238-0 A of the CGI will be subject to a withholding tax at a rate of 75%. The list of non-cooperative states or territories is published by ministerial decree that is updated annually.

Shareholders that are legal persons having their effective seat of management in a state of the European Union may benefit from a withholding tax exemption, if they hold at least 10% of the company distributing the dividends, and otherwise meet all the conditions of Article 119-*ter* of the CGI. Moreover, subject to meeting the conditions specified in administrative guidelines BOI-RPPM-

RCM-30-30-20-40-20120912, legal persons that hold at least 5% of Groupe Fnac's share capital and voting rights may benefit from a withholding tax exemption, under certain conditions, if their effective seat of management is located either in a member state of the European Union, or in another member state of the European Economic Area Agreement that has concluded with France a tax treaty providing for administrative assistance with a view to defeating tax fraud and evasion. The shareholders concerned should consult their tax advisor to determine whether and under which conditions they may qualify for one of these exemptions.

Moreover, dividend income distributed to collective investment undertakings incorporated under foreign law, located in an EU member state or in another state that has concluded with France a tax treaty providing for administrative assistance with a view to defeating tax fraud and evasion, and which (i) raise capital from a certain number of investors with the purpose of investing it in a fiduciary capacity on behalf of such investors, pursuant to a defined investment policy; and (ii) have characteristics similar to those required of collective undertakings incorporated under Article L. 214-1 section I, subsections 1.5 or 6 of the French Monetary and Financial Code, also benefit from a withholding tax exemption. The investors concerned should consult their usual tax advisors to determine the ways in which these provisions apply to their own specific circumstances.

It is, moreover, the responsibility of Groupe Fnac shareholders to consult their usual tax advisor to determine whether they are likely to qualify for a reduction to or exemption from the withholding tax by virtue of the preceding principles or provisions of international tax treaties, and to determine the practical formalities to be complied with to benefit from these conventions, including those provided for by BOI-INT-DG-20-20-20-20-20120912 relating to the so-called "standard" or "simplified" procedure for the reduction of or exemption from the withholding tax.

Lastly, non-French tax residents must also comply with the tax laws in force in their state of residence, as may be modified by the tax treaties for the avoidance of double taxation signed between France and such jurisdiction.

26.2.10.2.2 Capital Gains

Subject to provisions of applicable tax treaties for the avoidance of double taxation, under Article 244-*bis* B and C of the CGI, capital gains on the sale of Groupe Fnac shares are not subject to tax in France, when they are realized by persons who are not domiciled in France within the meaning of Article 4 B of the CGI or whose seat is located outside France (and who do not hold their shares in connection with a fixed base or a permanent establishment subject to tax in France and on the balance sheet of which the shares are recorded), provided that the seller has not held, directly or indirectly, alone or with family members, a stake representing more than 25% of the rights in Groupe Fnac's earnings at one point in time during the five-year period preceding the sale.

Persons who do not meet the conditions of this exemption should consult their usual tax advisors.

Moreover, regardless of the percentage of rights held in the earnings of the company, when such gains are made by persons or organizations domiciled, established or incorporated outside France in a non-cooperative state or territory within the meaning of Article 238-0 A of the CGI, the capital gains are taxed at 75%. The list of non-cooperative states or territories is published by ministerial decree that is updated annually.

26.2.10.2.3 Wealth Tax (ISF)

Subject to provisions of double tax treaties, natural persons that do not have tax residence in France within the meaning of Article 4 B of the CGI and who own less than 10% of Groupe Fnac's share capital, directly or indirectly, are not subject to the wealth tax in France, provided that their interest does not allow them to exercise influence on Groupe Fnac.

26.2.10.2.4 Inheritance and Gift Taxes

Shares issued by French companies acquired through inheritance or gift by a natural person who is not a resident of France falls within the scope of French inheritance tax and gift taxes and, where applicable, are subject thereto.

France has signed with a certain number of jurisdictions agreements aimed at avoiding double taxation in respect of inheritance and gifts. Under the terms of such treaties, persons residing in jurisdictions parties thereto may, subject to certain conditions, be exempt from inheritance and gift taxes or obtain a tax credit.

Shareholders should consult their usual tax advisors concerning their liability for inheritance and gift taxes on Groupe Fnac shares they may own, and the conditions under which they may be entitled to tax exemptions or a tax credit as a result of tax treaties concluded with France.

26.2.10.3 Registration Taxes or Financial Transactions Tax

Pursuant to Article 726 of the CGI no registration tax is payable in France on the sale of shares in a listed company that has its seat in France, unless the sale is recorded in a deed signed in France or abroad. In the latter case, the sale of shares is subject to a transfer tax at the proportional rate of 0.1% based on the higher of sale price or fair market value of the shares, subject to certain exceptions provided for by II of Article 726 of the CGI. Pursuant to Article 1712 of the CGI, the registration taxes that would be due if the sale were recorded in a deed will be borne by the transferee (unless otherwise contractually stipulated). However, by virtue of Articles 1705 *et seq.* of the CGI, all parties to the deed will be jointly and severally liable to the tax authorities for the payment of the taxes.

Pursuant to Article 235-*ter* ZD of the CGI, a 0.2% tax on financial transactions applies to any acquisition for consideration of an equity security or similar security, if (i) this security is listed on a regulated market, (ii) its acquisition gives rise to a transfer of ownership, and (iii) this security is issued by a French company whose market capitalization exceeds one billion euros as of December 1 of the year preceding the taxation year. The tax is collected by the financial services provider, except where the acquisition took place without the assistance of a financial services provider, in which case the tax is liquidated and due by the establishment acting as custodian (*teneur de comptes-conservateur)*, within the meaning of 1 of Article L. 321-2 of the monetary and financial code. Acquisitions of equity or similar securities subject to this tax are exempt from registration taxes provided for by Article 726 of the CGI.

Transactions on Groupe Fnac securities undertaken in 2013 will not be subject to the financial transactions tax. Any application of the financial transactions tax to transactions undertaken in years after 2013 will depend on Groupe Fnac's market capitalization.

26.3 ASPECTS OF VALUING COMPANY SHARES

Following the allotment, the price of the Groupe Fnac’s shares will be determined through bid and ask orders on the Euronext Paris exchange during the initial trading session, which is scheduled for June 20, 2013, subject to the approval of the allotment by the Kering General Shareholders’ Meeting. The transaction does not involve any invitation to the public, or private placement, or subscription for or acquisition of Groupe Fnac shares by investors, that could give an indication of the potential value placed on Groupe Fnac shares by the market. It should be noted that the exchange ratio selected for the allotment of Groupe Fnac shares is one (1) Groupe Fnac share for eight (8) Kering shares.

Euronext Paris will indicate the price that will be used as the technical reference opening price in a notice published prior to the Ex-Date. This reference price will be used solely to set the reservation thresholds, and is not a prediction of the price at which Groupe Fnac shares will trade.

The following assessment criteria are provided purely for information purposes, and are not a prediction of the price at which Groupe Fnac shares will trade under any circumstances.

The information used to draw up the assessment criteria set out below was drawn from publicly available documents. Specifically, the historical or forecast information regarding certain companies in the leisure and entertainment retail market (including consumer electronics) is drawn from annual reports and from recent research reports prepared by financial analysts, or from databases. As a result, this information has not been, and will not be subject to independent verification.

The usual valuation methods used include the stock market comparables method, which aims to compare Groupe Fnac with a sample of listed companies that are comparable in terms of (a) their business profile, and (b) the geographical regions in which they operate.

There are no French listed companies in the same business sector as Groupe Fnac.

Darty is listed in the United Kingdom and has a very significant exposure to the French market, generating a substantial portion of its revenues in segments that it shares with Groupe Fnac. It may be used as a partially comparable company. Darty and Groupe Fnac compete directly on some consumer electronics products, and generate revenues of a comparable size on the French market. In contrast, the two companies differ:

(i) in terms of their product positioning: a substantial portion of Darty's business is generated from so-called "white goods" (including large household appliances), which conversely represent a non-significant portion of Groupe Fnac's sales (they are sold online only). In addition, Darty does not operate on some markets to which Groupe Fnac is heavily exposed, like editorial products;

(ii) in terms of their business models: Groupe Fnac uses multiple store formats, has mainly city-center stores in, and its customer loyalty program, as well as the fact that the two companies have different have different real estate approaches (Fnac rents its store network, while Darty owns part of its network).

(iii) from a geographic standpoint: Darty's operations in the Iberian Peninsula are insignificant, given the company's announcement on April 4, 2013 that it intends to shut down its Spanish division. In addition, Darty does not operate on certain other markets where Groupe Fnac operates, such as Switzerland, Portugal and Brazil.

Other companies that are listed in the United Kingdom and in the United States have been selected on the basis of certain criteria set out below, including Dixons, Best Buy, Home Retail Group, and, to a lesser extent, WH Smith. These companies display some similarities, despite business profiles that may not be entirely comparable to that of Groupe Fnac, as outlined below:

- Dixons is a major player in the consumer electronics retail market, specifically in the retail market for consumer electronics that are comparable to those sold by Groupe Fnac. Dixons also competes directly with Groupe Fnac in some markets, via its Pixmania website. Conversely, Dixons (i) operates in different geographical regions and generates the bulk of its revenues in the United Kingdom, Ireland and Northern Europe, (ii) has a strong position in product categories that are dissimilar to those sold by Groupe Fnac (including white goods), and is not present on the editorial products market, which represents a key aspect of Groupe Fnac's business model.

- Best Buy is a mass market consumer electronics retailer that generates the bulk of its revenues from sales of consumer electronics, some of which are comparable to those sold by Groupe Fnac. However, Best Buy (i) only has a marginal presence on the European market, via a joint venture with Carphone Warehouse, and generates over three-quarters of its business in the United States, where consumption patterns are different from those observed on the markets in which Groupe Fnac operates, and (ii) Best Buy is not positioned in editorial products, whereas the co-existence and complementarity of editorial products with consumer electronics are key aspects of Groupe Fnac's model.

- Home Retail Group is a specialist home equipment retailer, which has a specific presence in consumer electronics, some of which are comparable to those sold by Groupe Fnac. However (i), most of the company's business is generated on markets where Groupe Fnac does not operate (furniture and DIY, for instance) and it does not sell editorial products, and (ii) Home Retail Group operates solely in the United Kingdom and Ireland.

- WH Smith is a retailer that has a strong presence in some editorial products that are comparable to those sold by Groupe Fnac (primarily books and stationery), but is not a perfect comparable, inasmuch as it (i) has no presence in consumer electronics and (ii) operates almost exclusively in the United Kingdom in niche markets (small high street or travel retail stores) and therefore both the number and the size of its stores differs significantly from those of the Group.

The multiples that are usually considered in the entertainment and leisure products retail sector (including consumer electronics) are enterprise value multiples based on revenues, EBITDA or EBIT. Furthermore, market capitalization multiples using net income, or price-earnings ratios, are a frequent equity market benchmark (especially forward-looking multiples, i.e. for 2013 and even 2014). However, in the context of Groupe Fnac's implementation of its redesign strategy since July 2011, these indicators should be used with caution, as non-recurring exceptional items may limit the comparability of short-term valuations based on historical net income or forecast net income.

As a result, only Enterprise Value multiples based on Revenues, EBITDA and EBIT are provided in the table below.

These multiples were determined on April 23, 2013 as the ratio between the (i) the enterprise value[(1)] of the companies in the sample as published by each company[(2)] (for the 2012 calendar year) or as derived from consensus analysts' forecasts for the companies in question (for the 2013 and 2014 calendar years).

Company Name	Enterprise value/revenues			Enterprise value/EBITDA			Enterprise value /EBIT		
	2012a	**2013e**	**2014e**	**2012a**	**2013e**	**2014e**	**2012a**	**2013e**	**2014e**
Darty	0,12x	0,13x	0,12x	3,2x	3,5x	3,2x	9,7x	10,4x	8,1x
Dixons	0,20x	0,20x	0,19x	6,2x	5,3x	4,7x	13,3x	10,1x	8,0x
Best Buy	0,18x	0,18x	0,18x	3,6x	4,1x	4,0x	5,9x	6,9x	6,6x
Home Retail Group	0,18x	0,18x	0,18x	4,6x	4,5x	4,3x	10,6x	10,3x	9,7x
WH Smith	0,69x	0,70x	0,70x	6,0x	5,8x	5,6x	8,2x	7,8x	7,4x

(1) Enterprise value is defined as follows: stock market capitalization (calculated on the basis of the trading prices on April 23, 2013) + net financial debt + minority interests – equity investments (at their carrying value) + after tax value of provisions equivalent to debt (including provisions for pensions and other employee benefits).

(2) Calendarized data to December 31, the date on which Groupe Fnac's fiscal year ends.

It should be noted that no company is perfectly comparable to Groupe Fnac and that, given the differences which may exist between the companies listed above and Groupe Fnac, the information listed above should in no way predict the future market value of the Company.

26.4 ADMISSION TO TRADING OF THE COMPANY SHARES AND TERMS OF TRADING

26.4.1 Admission to Trading

A request has been made for the admission to trading of all of the Company shares on Euronext Paris (B segment).

The conditions for the admission to trading of the Company's shares will be set out in a notice released by Euronext Paris S.A. on the first day the shares are traded, at the latest. Before the first listing of Company shares, Euronext Paris S.A. will publish a technical reference price for Groupe Fnac shares. This price will be used for the sole purpose of setting reservation thresholds at the start of the first trading session and for calculating the day's Groupe Fnac share's performance. This technical reference price will in no way determine the price at which Groupe Fnac shares can be traded.

No other application has been made to admit the Company's shares to trade on any other regulated market.

26.4.2 Place of Listing

As of the date of this prospectus, the Company's shares are not admitted to trading on any regulated market.

26.4.3 Liquidity Contract

No liquidity contract has been implemented by the Company as of the date of this prospectus. However, the Company plans to establish such a contract as soon as Company shares are listed on Euronext Paris. (See Section 21.1.3 “Shares Controlled by the Company, Treasury Shares and Company’s Purchasing of its Own Shares”.)

26.4.4 Costs Associated with the Transaction

The costs to be borne by the Group in respect of all transactions described in this prospectus are estimated at around €10.5 million.

This estimation takes into account the arrangements for the allocation of costs between the Company and Kering.

26.5 DESCRIPTION OF ALLOTMENT RIGHTS FOR COMPANY SHARES

26.5.1 Type and Category of Allotment Rights for Company Shares Admitted to Trading – ISIN code

As part of the allotment, one allotment right for Groupe Fnac shares corresponding to one-eighth of one Groupe Fnac share will be detached from each Kering share entitled to the payment of the supplementary in kind dividend.

Allotment rights for Company shares thus allotted as part of the payment of the supplementary in kind dividend will all be of the same category.

A request was made for the admission to trading of the Company’s allotment rights on Euronext Paris from June 20 to September 30, 2013. After such time, they will be registered in the delisted shares section of Euronext Paris for an additional period lasting until May 15, 2015, , it being specified that during such time such allotment rights remain freely transferable.

The allotment rights for Company shares will be traded under the ISIN CODE FR 0011474998.

The Company shares' allotment rights ticker symbol will be "FNADA" (Euronext Paris).

Trading in allotment rights for Company shares on Euronext Paris should begin on June 20, 2013.

26.5.2 Applicable Law and Competent Courts

The allotment rights for Company shares are subject to French law

In the event of a dispute, the territorially competent courts are those of the place of Kering's headquarters whenever Kering is the defendant, and courts with subject matter jurisdiction shall be chosen depending on the nature of the dispute whenever Kering is the claimant, unless otherwise provided by the French Code of Civil Procedure.

26.5.3 Form of Allotment Rights for Company Shares and Registering in an Account

The allotment rights for Company shares may be held in a direct registered account, or held as bearer shares.

For shareholders who hold nominative Kering shares in a direct registered account, allotment rights for Company shares will be delivered by registering them directly with the Company, and, for those who hold bearer shares or who hold shares in an administered account, bearer shares will be delivered.

The holders of allotment rights for Company shares will obtain title to the instruments once the securities are registered in the investor's name in the books of the Centralizing Agent commissioned by Kering to manage the nominative allotment rights for Company shares held in a direct registered accounts, or, alternatively, for allotment rights for Company shares held in account as bearer shares, once the securities are registered in the investor's name in the books of an authorized financial intermediary of their choice.

An application has been made to Euroclear France to manage the allotment rights for Company shares in its capacity as central securities depositary and to clear the securities through its settlement systems.

Insofar as financial intermediaries automatically register Groupe Fnac shares which correspond to whole lots of eight (8) allotment rights for Company shares in the accounts of each shareholder entitled to the allotment of such Groupe Fnac shares, only allotment rights for Company shares representing fractional entitlements to Fnac shares will remain registered in the accounts of shareholders entitled to such allotment.

26.5.4 Issue Currency

Allotment rights for Groupe Fnac shares will be delivered free of charge in the form of an supplementary in kind dividend distributed by Kering. They will be denominated in euros.

26.5.5 Rights Attached to Allotment rights for Company Shares

The rights attached to allotment rights for Company shares are described in Section 26.1.5 "Practical Terms of Allotment."

26.5.6 Authorization by Virtue of Which the Allotment Rights for Company Shares will be Issued

The allotment of Company shares and the authorization to issue allotment rights for Groupe Fnac shares will result from the adoption of the resolutions pertaining to the allotment, which is submitted to Kering shareholders at Kering's Ordinary Shareholders' Meetings held on June 18, 2013.

The payment of the in kind supplementary dividend in the form of the allotment of one Company share for every eight (8) Kering shares, shall be offered subject to the adoption by Kering's Extraordinary General Shareholders' Meeting of two resolutions which are intended to (i) modify article 22 of Kering's bylaws to allow that company to carry out in kind distributions or capital reductions and (ii) article 8 of Kering's bylaws to eliminate the tax gross-up undertaking which is contained in that article. (This undertaking was initially introduced as a result of former tax regimes, which have since been abolished and therefore serves no purpose.)

The following resolution will be proposed to Kering shareholders for adoption:

> The General Shareholders Meeting, having noted the report of the Board of Directors and the opinion of the Works committee of PPR dated October 9, 2012 regarding the plans to publically list Groupe Fnac, acknowledges that the accounts closed as at December 31, 2012 and approved by this General Shareholders Meeting show net income for the period

of €505,561,401.82 and that, given prior retained earnings of €1,895,251,963.99, the distributable earnings equal €2,400,813,365.81

The General Shareholders' Meeting:

- resolves to allocate the distributable earnings as follows:

Net income for the period		€505,561,401.82
Retained earnings	(+)	€1,895,251,963.99
Distributable Earnings	(=)	**€2,400,813,365.81**

Dividend Distribution		
Cash dividend of €472,937,632.50 euros, corresponding to the interim payment of €1.50 euros per share, distributed on January 21, 2013 and a supplementary dividend of €2.25 per share.	(–)	€472,937,632.50
Subject to the conditions announced in the second and third resolutions submitted to this General Shareholders' Meeting, a supplementary in kind dividend taking the form of an allotment of Groupe Fnac shares, in the proportion of one (1) Groupe Fnac share for every eight (8) PPR shares that are entitled to the dividend. This attribution shall cover a maximum of 15,764,588 Groupe Fnac shares. For the purposes of allocating net earnings, shares that are thereby allocated will be valued at the opening trading price for the Groupe Fnac shares on the Ex-Date of the supplementary dividend, i.e. June 20, 2013.	(–)	An amount equal to the product of the number of Groupe Fnac shares effectively allotted times the opening price for Groupe Fnac shares on June 20, 2013, which amount shall be recorded by the Chairman and Chief Executive Officer.

Allocations to retained earnings	(=)	The remainder, which will be determined by the Chairman and Chief Executive Officer.

Given the interim dividend of €1.50 per share which had an Ex-date of January 21, 2013 and which was that was effectively paid on January 24, 2013 and which is recognized as part of the dividend paid in respect of the 2012 fiscal year, the supplemental cash dividend in respect of 2012 shall be €2.25 euros per share. This cash payment shall be in addition to the supplementary in kind dividend which shall be allotted in a ratio of one Groupe Fnac share for every eight (8) PPR shares, subject to the terms and conditions announced below.

The total amount of the cash dividend is estimated to be €472,937,632.50 (corresponding to the interim dividend already paid out and supplementary dividend) was based on the maximum number of PPR shares entitled to receive a dividend, equal to 126,116,702 shares, which is the number of PPR shares outstanding as at December 31, 2012.[127]

The maximum number of Groupe Fnac shares which can be allotted is calculated on the basis of the maximum number of PPR shares entitled to receive the supplementary in

127 It is specified that the amount of the interim dividend distributed was €189,105,840.

kind dividend, equal to 126,116,702 shares, which is the number of PPR shares outstanding as at December 31, 2012.

- resolves that the dividend, with respect to both the dividend in kind and the cash dividend, will be detached and paid or delivered at the same time on June 20, 2013;

- resolves that the beneficiaries of the allocation rights for Groupe Fnac shares will be the shareholders of the Company (other than the Company itself and the holders of shares issued after January 1, 2013 as result of the exercise of PPR stock options) whose shares were registered in their name at the end of the business day preceding the Ex-Date, i.e. the night of June 19, 2013 (i.e. after taking into account the orders executed during the day on June 19, 2013, even if settlement-delivery of these orders occurs after the Ex-Date) ;

- acknowledges that if the number of PPR shares effectively entitled to the right to the dividend in cash and to the additional dividend in kind is ultimately lower than 126 116 702, the corresponding sums will be held in the "Retained earnings" account and the number of Groupe Fnac shares actually allocated will be reduced accordingly (taking into account the applicable exchange ratio) ;

- resolves, in order to facilitate the management of fractional shares for the portion of the dividend taking the form of an allocation of Groupe Fnac shares, that the following will be detached from each PPR share entitled to the dividend on June 20, 2013 : one (1) Groupe Fnac share allocation right corresponding to one-eighth of a Groupe Fnac share, it being specified that no fractional Groupe Fnac shares will be delivered (the allocation rights must be grouped by (8) or multiples of eight (8)) and that eight (8) Groupe Fnac share allocation rights will automatically entitle their holder to the allotment of one (1) Groupe Fnac share as of the date of the distribution of the dividend;

- resolves that each shareholder with a number of Groupe Fnac share allocation rights that is not a whole number of Groupe Fnac shares, must, in application of the provisions of article 8 of the bylaws of the Company, make it their own affair to purchase or sell the number of allocation rights required in order to hold a number of Groupe Fnac shares equal to eight (8) or to a multiple of this number, corresponding to a whole number of Groupe Fnac shares;

- acknowledges that the Groupe Fnac share allocation rights will be admitted for trading on Euronext Paris during the period from and including June 20, 2013 to and including September 30, 2013, after which they will registered in the delisted compartment in which they may continue to be traded for an additional period ending on May 15, 2015;

- acknowledges that the Company will cover, from and including June 20, 2013 (inclusive) and the close of trading to and including September 30, 2013, the related brokerage fees and the VAT borne by each shareholder due to the purchase or sale of fractional Groupe Fnac share allocation rights, provided, however, that this reimbursement will be limited by shareholder account to a maximum of €7.50 with tax included and to the purchase or sale of a maximum of seven (7) Groupe Fnac allocation rights;

- acknowledges that the Company's Board of Directors has already resolved to apply the provisions of article L. 228-6 of the Commercial Code allowing for the sale, under applicable regulatory terms of the Groupe Fnac shares in respect of which the holders of

Groupe Fnac share allocation rights have not requested delivery, provided that a notice is published according to applicable regulatory terms at least two years prior to such sale. As of this sale, the Groupe Fnac share allocation rights will be voided and their holder will only be able to claim a cash distribution (without interest) of the net proceeds of the sale of the unclaimed Groupe Fnac shares, together with, if applicable, a prorated share of the dividend, advance dividend and of reserves (or similar amounts) subject to the five-year statute of limitations, paid by Groupe Fnac between the dividend distribution date and the date of sale of unclaimed Groupe Fnac shares;

- acknowledges that the mixed cash dividend (including the interim dividend) and in kind dividend distributed among shareholders will take the form of a dividend distribution for tax purposes, which is eligible, when it is paid to shareholders that are natural persons with their tax residence in France, for the tax abatement of 40% as provided under sub-section 2° of paragraph 3 of article 158 of the French General Tax Code:

- acknowledges that the dividends distributed in respect of the three fiscal years preceding 2012 were as follows:

Year	Number of shares entitled to a dividend	Dividend per share	Total (€ million)	Amount eligible for a 40% tax abatement under Article 158-3-2° of the French General Tax Code
2009	126,488,263	€3.30	417.4	€3.30
2010	126,819,717	€3.50	443.9	€3.50
2011	125,901,543	€3.50	440.7	€3.50

- grants all powers to the Chairman and Chief Executive Officer to under take all necessary actions to carry out and execute this resolutions and more generally to undertake anything that would be useful and necessary."

26.5.7 Date Scheduled for Registering Allotment Rights for Company Shares Allocated to Kering Shareholders in an Account

The detachment of allotment rights for Company shares will take place on the Ex-Date, i.e. June 20, 2013.

On the Ex-date, all financial intermediaries that use Euroclear France will be credited with allotment rights for Company shares for their Kering shareholder clients, whose Kering shares, whether held in an administered account or held in account as bearer shares, will have been registered in their name at the end of the business day preceding the Ex-Date.

For holders of Kering shares held in an administered account or as bearer shares in account, financial intermediaries will register the allotment rights for Company shares in accounts in the name of the shareholders starting on the Ex-Date. On the Ex-date, financial intermediaries will automatically convert each lot of eight (8) allotment rights for Group Fnac shares into the relevant number of Groupe Fnac shares by delivering such rights to the Centralizing Agent.

For the holders of Kering shares held in direct registered accounts, allotment rights for Groupe Fnac shares will be registered in accounts by the Centralizing Agent pursuant to the terms described in Section 26.1.5 "Practical Terms of Allotment"**.**

26.5.8 Restrictions on Free Negotiability of Allotment Rights for Company Shares

No statutory clause restricts the free negotiability of allotment rights for Company shares.

26.5.9 Tax Treatment of Allotment Rights for Company Shares

Under currently applicable French law and regulations, the following provisions summarize certain French tax consequences that may apply to natural and legal persons who will sell allotment rights.

This information constitutes only a short summary of the applicable tax provisions under currently applicable legislation, and is provided for information purposes only. The rules described below are subject to change and new laws or regulations could be retroactive or apply to the current calendar or fiscal year.

The tax information below does not constitute an exhaustive description of all tax impacts that may apply to natural and legal persons who will sell allotment rights.

These holders should seek advice from their usual tax advisor on the tax consequences of their particular circumstances.

Moreover, non-French resident holders must comply with the applicable tax legislation in their own state of residence and, in particular, where necessary, with the provisions of any applicable tax treaties concluded between France and their state of residence.

Kering shareholders should also carefully read Section 26.1.6 "Tax Treatment of the Distribution In Kind" to become familiar with the tax treatment of the distribution in kind and the resulting allotment of allotment rights.

26.5.9.1 Natural Persons Holding Allotment Rights as Part of their Private Portfolio, Who Do Not Professionally Engage in Securities Transactions

26.5.9.1.1 Capital Gains

The gains realized by such natural persons from the sale of their allotment rights for Groupe Fnac shares fall under the tax treatment described in Section 26.2.10.1.1(b) "Shareholders Whose Tax Residence is Situated in France – Capital Gains" when such holders do not hold their allotment rights in a Share Ownership Plan (PEA), provided however that no deduction for long-term holdings will apply) and the tax treatment described in Section 26.2.10.1.1(c) "Shareholders Whose Tax Residence is Situated in France – Groupe Fnac Shares Held in a Share Ownership Plan (PEA)" for holders whose allotment rights are held in a Share Ownership Plan (PEA).

It is specified that:

- The tax basis for each allotment right granting rights to fractional numbers of shares received as part of the distribution in kind will be equal to one-eighth of the opening trading price of Groupe Fnac shares on the Ex-Date;

- If allotment rights granting rights to fractional numbers of Groupe Fnac shares are acquired for consideration on the market by Kering shareholders for the purpose of receiving attribution of one additional Groupe Fnac share, the acquisition price thereof will increase the tax basis of the Groupe Fnac share thus received.

26.5.9.2 Legal Persons Subject to Corporate Income Tax

Capital gains realized by legal persons subject to corporate income tax as a result of the sale of their allotment rights for Groupe Fnac shares shall be subject to the tax treatment described in Section 26.2.10.1.2(b) "Legal Persons Subject to Corporate Income Tax (under Standard Rules) – Capital Gains" provided that they will not be eligible for the special long term capital gain regime.

It is specified that:

- The tax basis for each allotment right granting rights to fractional numbers of shares received as part of the distribution in kind will be equal to one-eighth of the opening trading price of Groupe Fnac shares on the Ex-Date;

- If allotment rights granting rights to fractional numbers of Groupe Fnac shares are acquired for consideration on the market by Kering shareholders for the purpose of receiving attribution of one additional Groupe Fnac share, the acquisition price thereof will be increase the tax basis of the Groupe Fnac share thus received.

26.5.9.3 Holders of Allotment Rights Whose Tax Residence is Situated Outside France

Subject to provisions of applicable tax treaties for the avoidance of double taxation, under Article 244-*bis* C of the CGI, capital gains on the sale of allotment rights are not subject to tax in France, when they are realized by persons who are not domiciled in France within the meaning of Article 4 B of the CGI or whose seat is located outside France (and who do not hold their shares in connection with a fixed base or a permanent establishment subject to tax in France and on the balance sheet of which the shares are recorded).

26.5.9.4 Other Situations

Kering shareholders subject to a tax regime different from those described herein**,** in particular tax payers whose trading in securities goes beyond mere portfolio asset management or who hold their shares as assets of a business enterprise should consult their own tax adviser to determine the provisions that apply to their specific situations.

26.6 ADMISSION TO TRADING OF ALLOTMENT RIGHTS FOR COMPANY SHARES

A request has been made to admit the allotment rights for Groupe Fnac shares detached from Kering shares to trading on Euronext Paris for the period between June 20, 2013 (inclusive) and September 30, 2013 (inclusive). Given the automatic delivery of one Groupe Fnac share for every eight (8) allotment rights held, in practice, only allotment rights for Groupe Fnac shares which represent fractional shares will be traded.

At the end of this listing period, the allotment right for Groupe Fnac shares representing fractional shares will be transferred to the delisted shares section of Euronext Paris for an additional period until May 15, 2015, but will remain registered in the holders' accounts and tradeable.

Unclaimed Groupe Fnac shares that have not been delivered in the context of a conversion of allotment rights will be sold by Kering pursuant to the procedure provided for by Article L. 228-6 of the French Commercial Code, the terms of which are described in Section 26.1.5 "Practical Terms of Allotment."

EQUIVALENCY TABLE

The following equivalency table includes, in respect of each sections provided for in Annex III of Regulation (EC) No. 809/2004 of the Commission of April 29, 2004 (as amended), the section number(s) corresponding to the information of such sections in this prospectus.

No.	Headings of sections shown in the Regulation	Section(s)	Page(s)
1	**Persons responsible**		
1.1	Persons responsible for this prospectus	1.1	31
1.2	Statement of responsibility	1.2	31
2	**Risk factors**	4.6	53
3	**Essential information**		
3.1	Statement on net working capital	3.2.1	35
3.2	Shareholders' equity and debt	3.2.2	35
3.3	Interest of natural and legal persons participating in the issue	n/a	–
3.4	Reasons for offer and use of the income	n/a	–
4	**Information on the securities to be admitted to trading**		
4.1	Type and category of securities admitted to trading, as well as the ISIN (International Security Identification Number) or any other identification code	26.2.1 and 26.5.1	284 and 300
4.2	Legislation pursuant to which the securities have been created	26.2.2 and 26.5.2	285 and 300
4.3	Form of securities issued	26.2.3 and 26.5.3	285 and 301
4.4	Issue currency	26.2.4 and 26.5.4	286 and 301
4.5	Rights attached to the securities, including any restriction applying to them, and terms of exercising these rights	26.2.5 and 26.5.5	286 and 301
4.6	Statement containing the resolutions, authorizations and approvals by virtue of which the securities have been created and issued	26.5.6	301
4.7	Scheduled issuance date	26.2.6, 26.5.6 and 26.5.7	288, 301 and 304
4.8	Restriction imposed on the free tradability of the securities	26.2.7 and 26.5.8	288 and 305
4.9	Rule on mandatory public offerings as well as on mandatory squeeze-outs and sell-outs applicable to the securities	26.2.8	288
4.10	Takeover bids made by third parties on the capital of the issuer in the last and current fiscal years, as well as the price or exchange conditions and result of these bids	26.2.9	288
4.11	Information on any withholding tax applicable to the securities and whether the issuer assumes responsibility for the withholding of tax at source	26.1.6, 26.2.10 and 26.5.9	283, 289 and 305
5	**Conditions of the offer**		
5.1	Conditions, statistics of the offer, tentative timetable and terms of a	26.1	279

No.	Headings of sections shown in the Regulation	Section(s)	Page(s)
	subscription application		
5.1.1	Conditions to which the offer is subject	Not applicable	–
5.1.2	Total amount of the issuance	Not applicable	–
5.1.3	Time during which the offer will be open and subscription process	Not applicable	–
5.1.4	Revocation and suspension of the offer	Not applicable	–
5.1.5	Possibility of reducing the subscription and the manner for refunding excess amounts paid by applicants	Not applicable	–
5.1.6	Maximum or minimum amount of subscription	Not applicable	–
5.1.7	The period during which an application may be withdrawn, provided that investors are allowed to withdraw their subscription.	Not applicable	–
5.1.8	Method and time limits for paying up the securities and for delivery of the securities	Not applicable	–
5.1.9	Description of the manner and date in which results of the offer are to be made public	Not applicable	–
5.1.10	The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.	Not applicable	–
5.2	Plan of distribution and allotment of securities		
5.2.1	The various categories of potential investors to which the securities are offered	Not applicable	–
5.2.2	To the extent that this information is known to the issuer, indicate whether its major shareholders, members of its administrative, management or supervisory bodies intend to subscribe to the offer, or whether any person intends to subscribe for more than five per cent of the offer.	Not applicable	–
5.2.3	Information on pre-allocations	Not applicable	–
5.2.4	Description of the procedure for notifying subscribers of the amount allocated to them and notice that trading may commence prior to this notification	Not applicable	–
5.2.5	Information on over-allocations and extensions	Not applicable	–
5.3	Setting the purchase price		
5.3.1	The price at which the securities will be offered	Not applicable	–
5.3.2	Process for the disclosure of the offer price	Not applicable	–
5.3.3	Where the issuer's shareholders have preferential subscription rights and where these rights have been restricted or removed, state the basis on which the issue price has been set if the shares must be paid for in cash, as well as the reasons and beneficiaries of this restriction or removal.	Not applicable	–
5.3.4	Where there is or could be a material disparity between the public offer price and the effective cash cost to members of the administrative, management or supervisory bodies or senior management, or affiliated persons, of securities acquired by them in transactions during the past year, or which they have the right to acquire, include a comparison of the public contribution in the proposed public offer and the effective cash contributions of such persons.	Not applicable	–

No.	Headings of sections shown in the Regulation	Section(s)	Page(s)
5.4	Placement and underwriting		
5.4.1	Name and address of the co-coordinator(s) of the global offer and of single parts of the offer and, to the extent known to the issuer or offeror, of the distributors concerned in the various countries where the offer takes place	Not applicable	–
5.4.2	Name and address of any paying agents and depository agents in each country concerned	26.2.3	285
5.4.3	Name and address of the entities agreeing to underwrite the issue on a firm commitment basis, and name and address of the entities agreeing to place the issue without a firm commitment or under 'best efforts' arrangements as well as the material features of the agreements, including the quotas.	Not applicable	–
5.4.4	When the underwriting agreement has been or will be reached	Not applicable	–
6	**Admission to trading**		
6.1	Application for admission of the offered securities to trading	26.2.3, 26.4.1 and 26.5.1	285, 299 and 300
6.2	Regulated markets or equivalent markets on which, to the knowledge of the issuer, securities of the same class of the securities to be offered or admitted to trading are already traded	Not applicable	–
6.3	If simultaneously or almost simultaneously with the creation of the securities for which admission to a regulated market is being sought securities of the same class are subscribed for or placed privately or if securities of other classes are created for public or private placing, give details of the nature of such operations and of the number and characteristics of the securities to which they relate.	Not applicable	–
6.4	Name and address of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity through bid and offer rates and description of the main terms of their commitment.	26.4.3	300
6.5	Stabilization and over-allotment option		
6.5.1	The fact that a commitment to stabilization could be made, that there exists no assurance of this and that it can be canceled at any time	Not applicable	–
6.5.2	The beginning and end of the period during which stabilization may occur	Not applicable	–
6.5.3	The identity of the stabilization manager for each relevant jurisdiction unless this is not known at the time of publication	Not applicable	–
6.5.4	The fact that stabilization transactions may result in a market price that is higher than would otherwise prevail	Not applicable	–
7	**Holders of securities wishing to sell**		
7.1	Name and business address of the person or entity offering to sell the securities, the nature of any position office or other material relationship that the selling persons has had within the past three years with the issuer or any of its predecessors or affiliates	Not applicable	–
7.2	The number and class of securities being offered by each of the selling security holders	Not applicable	31
7.3	Lock-up agreement	18.1	31

No.	Headings of sections shown in the Regulation	Section(s)	Page(s)
8	**Costs associated with the admission**		53
8.1	The total net proceeds and an estimate of the total expenses of the issue/offer	19.3 and 26.4.4	
9	**Dilution**		35
9.1	The amount and percentage of immediate dilution resulting from the offer	Not applicable	35
9.2	In the case of a subscription offer to existing shareholders, disclose the amount and percentage of immediate dilutions if they do not subscribe to the offer	Not applicable	–
10	**Additional information**		–
10.1	If advisors associated with the offer are mentioned in the Securities Note, include a statement of the capacity in which the advisors have acted	Not applicable	
10.2	An indication of other information in the Securities Note which has been audited or reviewed by statutory auditors and where auditors have produced a report.	Not applicable	284 and 300
10.3	Where a statement or report attributed to a an expert is included in the securities note, provide such person's name, business address and qualifications and, where applicable, any material interest in the issuer If the statement or report has been produced at the issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorized the contents of that part of the prospectus relating to the securities□	Not applicable	285 and 300
10.4	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information	Not applicable	285 and 301

ANNEX 1

EXTRACT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS' REPORT ON THE RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS DURING THE 2012 FISCAL YEAR

FNAC S.A.

French limited liability company with share capital of 6,928,971 euros

Headquarters: 9, rue des Bateaux-Lavoirs, ZAC Port d'Ivry,

94200 IVRY SUR SEINE

RCS CRETEIL 775 661 390

REPORT ON THE RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS DURING THE 2012 FISCAL YEAR

Pursuant to the rules and practices of the PPR Group concerning corporate governance presented by PPR's executive management to the Board of Directors' Audit Committee, I hereby report on the internal control and risk management procedures implemented by Fnac (the "Company") as part of its activities, for the scope of entities it controls, the conditions under which the Board of Directors' work is prepared and organized, and any restrictions that may be placed on the Chairman & CEO's powers.

…/…

III. RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

This section of the Chairman of the Board of Directors' report on the risk management and internal control procedures implemented by Fnac is based on the AMF's reference framework published on July 22, 2010. This reference framework takes into account changes in the laws and regulations that have occurred since it was first published in 2007, including the law of July 3, 2008 and order of December 8, 2008.

AMF's reference framework takes into account not only the aforesaid French and EU laws and regulations, but also the good practices and international guidelines of internal control and risk management including ISO 31000:2009 and COSO II.

III.1 General Principles of Risk Management

The AMF defines risk as the possibility of an event occurring, which consequences would impact the persons, assets, environment and objectives of the Company or its reputation.

Risk management includes themes that encompass more than just financial risks: strategic, operational, reputational or compliance. Risk management is a management tool that contributes to:

- creating and preserving the Company's value, assets and reputation;
- securing the Company's decision-making process and other processes to help meet its targets;

- encouraging consistency between the Company's actions and values;

- mobilizing the Company's workforce around a shared approach to managing the main risks.

III.1 Components of Risk Management

Fnac's risk management procedures provide an organizational framework, a three-step risk management process and ongoing management of these procedures.

III.1.1.1Organizational Framework

This organizational framework includes:

- an organization that defines the roles and responsibilities of those concerned, establishes clear and coherent procedures and standards, and

- a risk management policy that formalizes the goals of the procedures.

    - Organization of risk management at country level

Managing the exposure to decentralized risks is the responsibility of the country CEO and local managers, who are closest to the risks associated with the activities they exercise or supervise:

- Monthly performance reviews help to detect the appearance or occurrence of risks.

- Country Security Departments are responsible for the security of the Company's tangible and intangible assets and all those present across all the Group's sites, and implement all human, organizational and technical means to handle risks of an accidental or intentional nature.

- The Support Services Departments, in their role of securing and driving progress, may identify risks and propose an action plan for their containment.

    - Organization of risk management at Group level

- The Internal Audit Department manages, for management, the process of mapping the Group's major internal and external risks based on an institutionalized approach of identifying and assessing risks.

- The Risk Prevention Department coordinates and manages the network of Country Security Directors, and disseminates all the rules and good practices on managing risks under its responsibility.

- The Legal Department identifies and analyzes the Group's material legal risks and the insurable risks to be included in the Group's financial statements.

- The preparation of the strategic plan by the Strategy Department provides the opportunity to assess the major external risks and update the mapping of the Group's major risks. In accordance with the guidelines, these are sent to the Internal Audit Department.

- Risk management policy

Fnac instituted its risk management policy in 2011, which is based on the COSO II guideline. This document categorizes the steps and methods to be used as part of the ongoing risk management procedures, or when performing annual risk analyses.

III.1.1.2 A Three-Step Risk Management Process

- Identifying risks: with respect to Fnac activities, risk identification is carried out on an ongoing basis. Risk identification helps to categorize and centralize major risks either with the Risk Prevention Department, or the Internal Audit Department depending on the type of risk.

- Risk analysis: with respect to Fnac activities, this process is ongoing and completed at least once a year, either when the Internal Audit Department carries out its self-risk-assessment, or when the strategic plan is updated. The risk management policy sets out the criteria and the manner in which these assessments are conducted, which include the examination of the potential impact of the main risks (impact that can notably be financial, human, legal or reputational) and the assessment of their possible occurrence and level of risk management.

- Handling risk: the last step of the risk management process includes the identification of action plan(s) best adapted to the Company.

III.11.3 Managing Risk Management Procedures

The risk management process is audited and reviewed regularly: monitoring the process ensures it is continually improved.

The Audit Committee meets at least once a year to examine the mapping of industry-specific risks prepared by the Group's executive management, and monitors the progress of dedicated action plans.

At least once a year, the Audit committee examines the risks associated with the risk self-assessment coordinated by the Internal Audit Department.

III.2 Links Between Risk Management and Internal Control

The risk management and internal control procedures are complementary to the management of the Group's activities:

- The risk management procedures aim to identify and analyze the main risks. Such risks are addressed and are the subject of action plans. These plans may propose a change to the organization, the implementation of projects and the introduction of controls. These controls to be implemented are in line with internal control procedures and may be reviewed in light of the risks mapping.

- The internal control procedures rely on the risk management procedures to identify the main risks to be contained.

- The audit plan relies on the risks mapping to test the assessment of the level of control of identified risks.

The coordination and balance between the two systems depend on the control environment, which constitutes their shared foundation, and, more specifically, the Company's specific risk and control culture and the Group's ethical values.

III.3 General Internal Control Principles

III.3.1 Definition and Objectives of Internal Control

The internal control system at Fnac encompasses a set of adapted resources, policies, behaviors, procedures and actions, which purpose is to ensure that the required measures are taken to address:

- The activities, efficiency of its operations and efficient use of resources,

- The risks likely to have a material impact on the Company's assets or on its ability to meet its objectives, whether of an operational, financial or compliance nature.

Internal control is defined as a process conducted by the executive management under the control of the Board of Directors, implemented by the directors and all employees. Irrespective of its quality and extent of application, it cannot entirely guarantee that the objectives in the following areas will be achieved:

- Compliance with applicable laws and regulations,

- Implementation of instructions and strategy adopted by the executive management,

- Proper functioning of internal processes, including those contributing to protecting the assets,

- Reliability of financial information.

III.3.2 Limits of Internal Control

The following limitations inherent in any internal control system affect the probability that the Company will achieve its established objectives::

- human errors or malfunctions that occur when decisions are taken or implemented,

- deliberate collusion between several persons making it possible to elude the control system in place,

- deliberate fraud of the management, or

- where the implementation, or maintenance of the control, is more burdensome than the risk which it is supposed to alleviate.

- Moreover, when endeavoring to achieve the above-mentioned objectives, companies are confronted with events and hazards that are outside of their control (unforeseen changes in markets and competition, unforeseen change in the geopolitical situation, errors in forecasting or estimating the impact of such changes on the organization, etc.).

III.3.3 Components of Internal Control

The quality of the internal control system depends on the following components:

- A control environment based on rules of conduct and integrity upheld by the executive management and communicated to all employees,

- The existence of a clear and appropriate definition of roles and responsibilities,

- A system for categorizing, analyzing and managing the main risks,

- Ongoing monitoring of the internal control system, and regular examination of its performance.

III.3.3.1 Fnac's Internal Control Environment

This environment is structured around the principles and values shown in the internal Codes or Charters governing the behavior and ethics of all employees and is based on the management of human resources guaranteeing the competence, ethics and involvement of employees.

✓ Principles and Values

- The Business Code of Conduct, which was first distributed in 2005, then redistributed in 2009 to all employees, states the ethical principles and the main rules of conduct and behavior expected of Fnac employees.

- A Fnac Values Charter, distributed in 2012 as the result of an internal collective process, specifies four key values: Commitment, Passion, Respect and Innovation.

- A "Suppliers gifts and benefits charter" distributed in 2006 sets forth the rules concerning the various gifts and enticements from suppliers and third parties. This charter has been validated by the Company's Management Committee.

- The "Fnac's Essential Rules", distributed in 2012, set forth for the fourteen main operational and administrative cycles of Fnac's activities, the key rules of internal control related to legal or regulatory compliance, and how to achieve such objectives while efficiently allocating resources. In addition to these rules, there is a "Store Good Practices" corpus and a "Risk Prevention in Management" glossary, which was also updated in 2012.

- A charter relating to the appropriate use of computer equipment was first released in 2008, then re-issued in 2012, for computer systems users to raise awareness and increase user responsibility for the rights and duties incumbent on them.

- An Internal Control Charter, issued in 2010, defines the role, as set out by the AMF framework, of each individual involved in internal control.

✓ Human Resources Policy

The human resources policy contributes to internal control, in particular by providing descriptions of functions, an employee assessment system and investments in training.

- Descriptions for the main functions establish the controls needed to oversee a specific activity and also serve as a framework for the individual assessment system. The identification and description of key skills (managerial and business specific) for the Group allows for the gradual implementation of a shared system for managing skills.

- Training, a component of annual plans, is focused on business-specific skills, combining specific know-how and management expertise. It is provided from the time new recruits first join the Group and continues throughout their careers ensuring their individual development.

- All Group managers and employees benefit from an annual meeting to appraise their performance and skills and take into account their training and professional development needs. Group Human Resources is responsible for Group senior executives (recruitment, international mobility, career management and training). Succession plans are in place for the principal Group management positions.

- A survey of employees is conducted every two years.

- Remuneration policies are managed and controlled by Group Human Resources for principal management functions and by Country Human Resources for other functions, in accordance with the main defined goals.

- Group Human Resources deploys and coordinates the Group's Corporate and Environmental Responsibility policy.

III.3.3.2 Organization

The organization of the Group's internal control involves persons in the entire chain of responsibility, from the Executive Committee to all employees and supervisory and assessment bodies, including the Board of Directors, Internal Audit Committee and Statutory Auditors.

The allotment of responsibilities and division of functions ensures control and provides the basis on which the respective roles of the various decision-making bodies are built.

✓ Executive Committee

The Executive Committee determines the Group's main strategic axis and their impact on the major financial and management equilibrium. It examines the work of internal and external auditors. It decides which directions to take and which action plans to follow.

It is chaired by the Chairman & CEO, and, in 2012, included, in addition, the CEO France, General Secretariat[128] and Human Resources Director. The Strategy Director manages and coordinates the projects of the Executive Committee.

As from January 2, 2013, the composition of the Executive Committee has changed: it comprises, besides its Chairman, of CEO North Europe (France-Belgium-Switzerland), CEO South Europe (Spain-Portugal), Operations-Organizations and Systems Director, General Secretariat[129] and Human Resources Director. The Strategy Director manages and coordinates the projects of the Executive Committee.

✓ Management Committee

The Executive Committee is assisted by a Management Committee, which comprises, besides the members of the Executive Committee, the Brand and Marketing Director, Communication Director, Organization and Information Systems Director, Commercial Director France and Fnac Direct CEO.

128 Renamed since as Finance Director
129 Renamed since as Finance Director

The Management Committee is in charge of and assesses the performance of store organization, subsidiaries and entities and, in particular, of Directors involved in the exercise of controls.

✓ Investment Committees

Since 2008, the Group Investment Committee has examined and validated all investment decisions on projects of more than 150,000 euros, including:

- store creation,
- acquisition or disposal of companies or businesses,
- logistics, or other major operational projects.

The Group Investment Committee is chaired by the Company's Chairman & CEO and the permanent members are the General Secretariat,[130] Legal Director, Assets and Growth Director and Financial Control Director. Country projects are presented by the country CEO, assisted by his Finance Director.

Since 2012, the IT Investment Committee has examined and validated all investment decisions on IT projects of more than 150,000 euros.

The IT Investment Committee is chaired by the General Secretariat[131] and the permanent members are the Organization and Information System Director and the Financial Control Director. Country projects are presented by the country CEO, assisted by his Finance Director.

✓ Operational Managers and Employees

Management is the operational actor of internal control, on which it relies to meet its objectives. In this respect, the exercise of appropriate controls is one of the essential responsibilities of each Fnac manager. This responsibility begins at the first level of supervision. The delegation of powers and responsibilities is the first step in raising awareness of the principal actors of internal controls. In view of this delegation, each director and manager defines, implements and manages the internal control system. In particular, store, subsidiary and entity directors are responsible for maintaining a satisfactory level of internal control on the assets and cash flows of the unit or company they manage.

Employees must be aware of the internal control systems in respect of the objectives they have been assigned, and must respect the control principles and rules, and can be a source of improvement and malfunction detection.

✓ The Other Internal Control Players

- The Legal Department advises and assists the operational departments and subsidiaries on major legal questions,
- The Tax Department, which was created in 2012, advises and assists the operational departments and subsidiaries on major tax questions,
- The Financial Control Department is in charge of implementing and ensuring the respect of reporting procedures and the preparation of the consolidated financial statements,

130 Renamed since as Finance Director
131 Renamed since as Finance Director

- The Human Resources Department advises and ensures that internal practices comply with labor laws and regulations,

- The Risk Prevention Department conducts specific risk analyses and proposes action plans on security, safety and the environment.

✓ Supervisory and Internal Control Assessment Bodies

- The Board of Directors contributes, through the skills of its members, to the general control environment. It is regularly informed of major internal control and risk management methodologies, on which it reports on in its activity report.

- Part of the Audit Committee's responsibility is "to implement and ensure the relevance of internal controls; identify and hedge risks of the Company, in particular of its financial or commercial, tangible or intangible assets, staff, customer or third party risks of any type arising from the activities of the Company and/or its subsidiaries". The Audit Committee will be reorganized in 2013 as a result of the initial public offering, and the manner in which it operates will be specified in internal regulation that will be adopted by the Board of Directors prior to the listing.

- The Internal Audit Department, through its mandate, contributes to the assessment of the internal control system and draws up recommendations for the improvement of its practices. The Internal Audit Department is in charge of managing and coordinating risk management, through annual mapping of risks and monitoring of action plans. It is also in charge of the central administration and analysis of internal control pursuant to the Law of Financial Security and the AMF's reference framework set out in the paragraph below "Surveillance of the system". The Internal Audit Committee, which is linked to the General Secretariat,[132] reports the main results of its assessments to the executive management and the Audit Committee.

- The statutory auditors review the internal control systems to certify the accounts by identifying strengths and weaknesses, assessing the risk of material misstatement and, if necessary, making recommendations.

III.3.3.3System for Managing Main Risks

The risk management system described below in paragraph III.1 "General principles of risk management" is structured as described above in paragraph III.2 "Links between risk management and internal control" with the internal control system to contribute to its ongoing assessment and improvement.

III.3.3.4 Surveillance of the system

The ongoing surveillance of the internal control system and regular examination of how it is functioning comprises three types of work: annual self-assessment exercises, Internal Audit mandates and observations made by the statutory auditors.

✓ Self-Assessment

Those in charge are asked to apply the internal control system to assess the level of internal control achieved through key controls for the proper functioning of their activities.

This approach helps in:

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- Raising awareness among operational and functional managers of the internal control procedures for which they are responsible,
- Providing a structured and objective framework of risks, and exchange internal control best practice,
- Launching action plans and, if necessary, improvement plans.

The approach to analyzing internal control is based on the following principles:

- An annual self-assessment of Fnac's Essential Rules, through questionnaires filled in by key operational staff in each Fnac country organization. In 2012, the first year these rules were disseminated, thirteen cycles out of fourteen were self-assessed; the fourteenth cycle "Finance, Accounting and Management" is assessed separately (as described below).

These questionnaires help operational staff to assess the quality of internal control procedures for which they are responsible. They help to homogenize the level of internal control across all activities and have them benefit from best practices. They help to launch improvement action plans based on the results obtained.

- Self-assessment relating to the "Finance, Accounting and Management" cycle is administered alongside each other. A questionnaire is sent to country finance directors, which includes approximately fifty of the mandatory key control points and takes into account AMF's reference framework and, in particular, its application guide.

The inclusion of the self-assessment cycle in the general self-assessment cycle of Fnac's Essential Rules is scheduled for the 2013 fiscal year, in accordance with the AMF's reference framework.

- An annual self-assessment of "Essential" in-store controls, which is based on "Store Good Practices", is managed and coordinated by the finance network of country organizations. In 2012, all stores in France and abroad engaged in self-assessment.

✓ Internal Audit

In 2012, the Audit Department continued to strengthen its system for assessing organizations' internal control and risk control. The main actions undertaken concern:

- Internal Control Committees for all French and foreign subsidiaries. The purpose of these committees includes:
  - formalizing feedback from operational managers concerning identified and/or proven risks, and
  - ensuring that control activities are implemented and that they cover the subsidiary's risks.

Thus, thirteen committees were held between January and December with the country and subsidiary CEOs and Finance Directors, and the General Secretariat,[133] Legal Department, Financial Control and Internal Audit Department.

In 2013, the Tax Department also participated in these Committees.

- Approximately twenty on-site audits were conducted, including:

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- comprehensive audit of operational cycles of ten stores (six French and four abroad) as part of the ongoing assessment of internal control,
- audit of the main store managers of the French subsidiary Fnac Paris' knowledge of store key procedures,
- audit of the purchasing cycle of merchandise and management of suppliers of the Spanish subsidiary,
- audit of the process of the French subsidiary Fnac S.A.'s sourcing of personal computers and tablets,
- audit of financial-flow cycles and internal control of the subsidiary of ticket distribution France Billet.

✓ Statutory Auditors

As part of the mandate of certifying the 2011 financial statements, the statutory auditors included in their assessment of internal control:

- Processes for determining and monitoring the French subsidiary' merchandise sales margin
- French subsidiary's accounting processes of France Accounting Services (SCF)
- The e-Commerce sales process of the subsidiary Fnac Direct
- Foreign subsidiaries' main processes of Purchasing-Margin-Collection cycles.

III.4 Description of Internal Control Procedures Relating to Preparing Accounting and Financial Information

III.4.1 General Principles of Organizing Accounting and Financial Internal Control

✓ Definition and Objectives

Accounting and financial internal control includes the processes that provide accounting data: the processes of producing financial information and closing accounts and, from 2013, communication assignments.

The accounting and financial internal control system aims to ensure:

- The adherence to accounting regulations and the proper implementation of the principles on which the accounts are prepared;
- the implementation of instructions given by the executive management in respect of financial information;
- the preservation of assets;
- the quality of information reported for the preparation of published financial statements and the reliability of their centralized treatment for group consolidation with a view to their distribution and use for management purposes;
- the control of production of financial, accounting and management items.

✓ Scope

The scope of application of internal control procedures relating to the preparation and treatment of financial and accounting information includes the parent company and all subsidiaries included in the consolidated accounts.

III.4.2 Organization and Management Process of the Accounting and Finance Function

✓ Organization

Group financial and accounting information is prepared by the General Secretariat.[134]

In 2012, the General Secretariat oversaw the Financial Control Department, Finance Department France, Legal Department, Tax Department, Organization and Information Systems Department and Internal Audit Department, which are closely involved, through dedicated specialist teams, in implementing Group accounting and finance management. He also oversaw the Indirect Purchasing Department, Property Department and Risk Prevention Department.

The General Secretariat's scope of supervision changed in 2013, with the establishment of a Group Treasury and Financial Communication Department and a Group Development Department, while the Organization and Information Systems Department and Indirect Purchasing Department will now be supervised by the Operations, Organization and Systems Department.

✓ Standards

– *Accounting standards*

The Group has a body of accounting rules and methods, the use of which is mandatory for all consolidated subsidiaries to ensure the reporting of homogeneous and reliable financial information.

These accounting rules, which are regularly updated and were last updated in the 2012 fiscal year, take into account changes in accounting regulations and standards.

- The accounting standards establish the principles required for a homogeneous treatment of operations. They specify, in particular, the recording methods pursuant to International Financial Reporting Standards (IFRS).
- The single and centralized chart of accounts and budgetary and closure procedures ensure homogeneous treatment of data.

– *Management standards*

Management standards not only specify the rules applying to the valuation of certain major nominal and income statement accounts, but also the controls and validations applying to key processes.

The Financial Control Department is responsible for the improvement of the quality of formalization and the update of such rules.

✓ Management Process

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The production and analysis of financial and accounting information is based on a set of management procedures, such as:

- Medium-term plans that measure the consequences and strategic directions on the major Group financial and management axes. Such plans are also used annually to assess the Group's values in the use of assets relating to the various cash-generating units.

- Annual budgets, which are drafted in two stages based on exchanges between the operational departments and the Group and country executive management: a budget detailing the major financial balances and operational action plans are drawn up in the fourth quarter of the fiscal year and endorsed in the following first quarter, taking into account, where applicable, events having occurred in the interim.

- The Annual budgets are updated at least twice a year to ascertain whether the budgetary targets have been met and, if necessary, to revise them by taking into account results to date and changes in the internal and external environments.

- The reporting that is carried out each month on the basis of monthly results closures performed by all entities dependent on the Group on the 5th business day of the month, allows rapid reporting of financial information and regular monitoring of the performance of operations. The Financial Control Department, based on controls delegated to country or subsidiary Finance Directors, monitors its coherence, reliability and whether it complies with the applied accounting treatments.

  The Chairman & CEO, General Secretariat,[135] Zone, country or subsidiary CEOs, meet regularly with the managers of the various activities to assess the development of business, based on the financial and operational aspects.

- The Financial Control Department oversees, on a regular basis, off-balance sheet commitments of consolidated legal entities, including as part of the statutory consolidation processes or with regard to how they are required to list all their commercial- or financial-type commitments and the monitoring thereof over the fiscal years.

✓ Information Systems

Financial and accounting information systems implemented in the Group have the purpose of meeting the requirements of compliance, security, reliability, availability and traceability of information.

Financial management and accounting data is generated with one and the same information system in all Group activities to ensure consistent treatment, comparison and control of accounting and financial information.

Consolidation data is collected in a single consolidation tool, interfaced with the accounting information system.

To strengthen internal control of systems, the Organization and Information Systems Department work to strengthen the systems for dividing tasks and improving right of access controls.

III.4.3 Preparing Accounting and Financial Information

✓ Operational Bookkeeping Processes

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All bookkeeping processes, including sales, purchases and inventory management, fixed assets, payroll and cash are the subject of specific monitoring procedures and accounting validation and authorization rules.

- ✓ Consolidation of Accounts

The statutory consolidation of accounts is performed at the end of June and December using the single consolidation application that allows financial information of consolidated subsidiaries to be transmitted in real time after a comprehensive validation process of consolidation files by their statutory auditors, CEOs and CFOs, who sign a representation letter, thus ensuring the quality of financial information transmitted.

The Financial Control Department coordinates and is in charge of preparing the Group's consolidated financial statements. In order to accomplish its task, the Department sends to subsidiaries instructions with the list of statements to be sent, the shared assumptions to be used and the specific points to be taken into account.

- ✓ Financial Communication

As from the 2013 fiscal year, the Financial Communication Department, which is linked to the General Secretariat,[136] will be in charge of preparing the precise calendar for the release of up-to-date information on the Group's activities to financial markets.

This calendar will be in line with the requirements of market authorities. Managers will verify, with help from the Legal Department, that the information is released within the required time and in compliance with the laws and regulations it monitors on an ongoing basis.

Any material information communicated to the financial community must reflect with sincerity and transparency the situation of the Group's activity, and be released in accordance with the principle of equality of information between shareholders.

- ✓ Statutory Auditors

As part of their ongoing assignment, the statutory auditors audit the annual and interim accounts and financial statements of consolidated entities. The Group's annual consolidated financial statements are prepared under the supervision of the General Secretariat[137] after having been validated by the entities' finance departments. The Chairman & CEO and General Secretariat[138] certify that the consolidated financial statements are true and present a fair view by signing a representation letter addressed to the statutory auditors.

Signed at Ivry on 29/01/2013,
Alexandre BOMPARD
Chairman & CEO of FNAC SA

136 Placed under the responsibility of the Finance Director
137 Renamed since as Finance Director
138 Renamed since as Finance Director

ANNEX 2

INFORMATION ON CORPORATE AND ENVIRONMENTAL RESPONSIBILITY

Fnac has a long-standing commitment to Corporate and Environmental Responsibility (CER). It has built its policy on three components: corporate, environmental and social, to which is added a strong commitment to fighting cultural exclusion, fully in line with its activities, history and values.

Since 2011, the Group has wished to formalize this policy and publish it through annual reports exclusively dedicated to this theme, which is an approach followed in France and by the Group's subsidiaries abroad. Within the framework of its listing, the Group wishes to strengthen this component of its development and commitment.

Investors should note that the information presented in this Annex 2 has not been the subject of a report published by an independent third-party organization.

1. Corporate Information

The Group's human resources policy has for a long time been centered on human and cultural diversity, which presents a permanent challenge as well as an economic and competitive advantage. This policy is balanced between the need to support the Group in the development of its markets and its corporate and economic model, and the desire to maintain a strong social dialogue. In this respect, Fnac is a group that respects its legal and regulatory obligations and that also endeavors to anticipate the legislative developments with regard to improving employees' working conditions. The Group's scope is covered by numerous plans and unilateral agreements that highlight this activity.

1.1. Workforce

1.1.1. Employees

The table below shows the number of employees of the Group in the last two years by geographic zone.

	December 31	
Geographic zone	**2011**	**2012**
France	11,415	10,555
Iberian Peninsula	4,383	4,164
Brazil	874	918
Rest of the world	1,276	1,011
TOTAL	**17,948**	**16,648**

The number of employees presented above includes employees hired by the Group through an employment contract or an internship agreement and do not take into account whether such agreements were suspended at year-end. The figures presented in the table above do not include temporary hires or external service providers.

The table below shows the average number of employees of the Group in the last two years by geographic zone.

Geographic zone	2011	2012
France	9,206	8,809
Iberian Peninsula	3,065	3,059
Brazil	832	900
Rest of the world	979	888
TOTAL	**14,082**	**13,656**

The differences between the number of employees at December 31 and the average number of employees are due to the seasonal nature of the Group's activities and, correlatively, to the large increase of the workforce at the end of the year.

The table below shows the number of Group employees (in France and abroad) with permanent employment contracts in the last two years by socio-professional category.

	December 31	
Socio-professional category	**2011**	**2012**
Managers	2,696	2,438
Senior technicians and supervisors (T.S.M.)	0	0
Manual workers, office workers, technicians (O.E.T.) (Non managers)	11,846	11,215
TOTAL	**14,542**	**13,653**

The table below shows the distribution of Group employees (in France and abroad) during the course of the last two years by gender.

	December 31	
Share of women	**2011**	**2012**
Percentage of women in the workforce	44.7%	44.8%
Share of women managers	42.5 %	42.5%

The table below shows the distribution of Group employees (in France and abroad) during the course of the last two years by age bracket.

	December 31	
Age structure	**2011**	**2012**
< 25	9.7 %	7.6 %
25 - 30	21.2 %	19.7 %
31 - 40	38.0 %	38.4 %
41 - 50	22.7 %	24.4 %
51 - 55	5.4 %	6.3 %
56 - 60	2.6 %	3.2 %
> 60	0.4 %	0.4 %

1.1.2. Recruitment and Departures

In this section, the term "recruitment" refers to all acts related to engaging a person and linking such person to a company through a work contract in light of the execution of a specific work task. The term "termination" refers to the means by which an employer unilaterally terminates a work contract that connects the employer to the employee.

During the course of the 2012 fiscal year, the Group recruited 8,372 employees in the seven countries where it is present. Moreover, in the 2012 fiscal year, the Group employed 692 agency workers.

The Group had no major difficulty in recruiting staff in 2012, including vacant posts for which there were no internal resources.

However, the 2012 fiscal year was unusual for Fnac because the Group was constrained by its legal obligations with regard to three job preservation plans (PSE) announced on January 13, 2012.

The table below shows the distribution of departures of staff with permanent employment contracts in France and abroad by reason for departure:

Reason for departure (%)	**2011**	**2012**	
	% of total	**Number of departures**	**% of total**
Departures on the initiative of the employee	51.3 %	983	49.6 %
Termination for economic reasons	0.0 %	71	3.6 %
Departures on the employer's initiative	37.3 %	743	37.5 %
Departures because of retirement	1.3 %	33	1.7 %
Other departures	7.3 %	102	5.1 %
Breach of contract	2.8 %	50	2.5 %
Total	100 %	1,982	100 %

Reasons for departure between 2011 and 2012 remained relatively stable, with an increase in the percentage associated with economic redundancies because of three PSEs in the year. This trend should continue in 2013 with the effective departure of employees impacted by the PSE procedures.

1.1.3.Remuneration

1.1.3.1. Remuneration Policy

As of December 31, 2012, the Group's payroll (in France and abroad) amounted to 404 million euros, compared to 429 million euros as of December 31, 2011.

The remuneration policy is determined by the Human Resources Department, which regularly analyzes the Group's remuneration positioning in comparison with market data provided by specialist firms. These market analyses then help to define the overall remuneration policy tailored to the various activities.

The remuneration policy is composed of the basic salary, systems of individual or collective variables, and employment benefits. The basic salary remunerates good job performance. It is determined by reference to tables of minima by level of post, and is adjusted in relation to individual performance, pursuant to internal consistency and equity. The respect of wage equilibrium (men/women, seniors, part-time, etc.) is a main component of the Group's human resources.

At the end of 2012, 90% of employees, managers and non-managers, benefited from variable remuneration systems linked to economic indicators and the achievement of individual targets. In 2012, the Group increased the weight of economic indicators in the variable remuneration to strengthen the match between payroll and Group economic performance. The Group also implemented a new variable system for employees of stores in France; this new system rewards individual and collective performance and promotes customer satisfaction.

Lastly, profit-sharing and incentive schemes enable Group employees in France to benefit collectively from a share of profits. These schemes are governed by agreements specific to each Group subsidiary, except for the profit-sharing scheme, which comes under a discretionary agreement at Group level.

1.1.3.2. Remuneration of Directors

Remuneration of Group directors is monitored by the Group Human Resources Department, to ensure internal consistency and equity.

The Group is one of the few French companies to link a variable part of its directors' remuneration to corporate, environmental and social criteria (number of kilowatt-hours saved, increase in numbers of disabled and senior employees, implementation of energy audits and use of recycling bins).

1.1.3.3. Additional Health, Accident and Retirement Coverage

In 2012, 100% of employees in France were covered by "Health and Accident" schemes, providing a very high level of coverage considered among the best on the market. In 2012, changes were made to these schemes through the signing of a rider to the Health and Accident agreement by the social partners. In the other countries, where applicable, employees have additional coverage in compliance with the legal obligations of the country.

Moreover, the Group managers in France benefit from a defined-contribution occupational pension plan.

1.1.3.4. Profit-Sharing Agreements and Incentive Schemes

For companies with 50 or more employees and taxable income of more than 5% of its equity, it is compulsory to implement a profit-sharing agreement in accordance with Article L. 3322-2 of the French Labor Code. Accordingly, the Group concluded a profit-sharing agreement on June 29, 2010 for a fixed period of three years. A new agreement has been under negotiation since the end of February 2013.

Incentive schemes are optional schemes which purpose is to establish a closer link, by means of a formula, between employees as a whole and the company's results and performance, through the payment of immediately available bonuses, in accordance with Article L. 3312-1 of the French Labor Code. Thus, incentive scheme agreements have been concluded for a certain number of French entities of the Group. Each agreement includes its own formula for calculating the incentive bonus. Some agreements that expired at the end of 2012 will need to be renegotiated in 2013.

1.1.3.5. Employee Savings Plans

On April 15, 2002, the Group implemented an employee Group savings plan, for a one-year term renewable by tacit consent, designed to receive employees profit-sharing and incentive scheme funds as well as employers' contributions. This scheme allows Group employees having more than three months service to allocate immediately and in full the sums paid to them to acquire shares in corporate investment funds (FCPE). This scheme benefits from exemptions from tax and social security contributions under applicable regulation. In addition, Fnac has concluded a collective pension savings scheme (PERCO), credited via a Time Savings Account for the benefit of its employees.

1.2. Organization of Work

1.2.1. Organization of Working Time

The average working time of Group employees (in France and abroad) working full-time is 36 hours a week, which has not changed between 2011 and 2012. The organization of working time may vary depending on the country, site and population concerned. In France, the set number of hours and days, annualisation and modulation of working time schemes constitute the most common ways of organizing work. Beyond this, there is shift work (day and sometimes night) or occasional penalty schemes may be implemented in some structures.

In 2012, 90,175 hours of overtime was recorded in France.

1.2.2. Absenteeism

The table below shows the overall rate of absenteeism and sickness in France and abroad during the course of the last two years.

Working conditions	**2011**	**2012**
Total absenteeism rate(1)	5.9 %	5.6 %
Absenteeism sickness rate(2)	4.0 %	3.9 %

(1)Number of days of absence for all types of reasons (illness, workplace accidents, accidents outside of the workplace on professional assignment, paid leave, maternity leave, unpaid leave, etc.) on theoretical total working days
(2)Number of days of absence for illness, workplace accidents or accidents outside of the workplace on professional assignment on theoretical total working days

1.3. Employee Relations

1.3.1. Organization of Social Dialogue

Representative bodies have been set up for employees within each subsidiary of the Group in accordance with applicable local legislation. The way in which these staff representative bodies act varies greatly by country, depending on applicable local legislation. The Group has set up staff representative bodies in six countries where it operates. As of the date of the visa on this prospectus, there are no staff representative bodies at Group level; they exist at Kering group level (Group Works Council and European Works Council). Such bodies will be set up as part of the listing of the Company’s shares on Euronext Paris.

In France the social dialogue is structured on three levels: “group”, “company” and “establishment” levels. At “group’ level, management regularly negotiates agreements to be applied in all companies of the Group with union bodies (for example, the agreements on employee profit sharing, savings plans, employee benefits or employment of seniors). At “company” level, each legal entity has, depending on its workforce and complexity of its structure, a works council or a central works council and establishment councils. The management of each subsidiary negotiates with the union bodies agreements in areas such as profit-sharing, gender equality and the reduction and structuring of working time. Lastly, in each establishment there are staff representatives and an establishment council. The management of each establishment chairs the bodies, and may negotiate establishment agreements with the establishment’s union representatives. As regards health and safety, all Group establishments are covered by health, safety and working conditions committees (CHSCT).

The Group also has staff representative bodies within the companies Fnac Spain, Fnac Portugal, Fnac Brazil, Fnac Belgium and Fnac Switzerland.

1.3.2. Collective Agreements

Group subsidiaries are covered by agreements that are either mandatory or left to the initiative of management and social partners. Thus, whether the negotiation is conducted at central Group level (such as profit-sharing) or Subsidiary level, the history of agreements has led to a stark improvement in employees' individual and collective benefits in respect of legal provisions. Five Group subsidiaries are thus covered by "company agreements" covering areas of labor law (including leave and indemnities, breaks, etc.) on a company-wide basis.

In addition to Group or Subsidiary level agreements, the Group has implemented several unilateral action plans, with the objective of assuring the implementation of basic measures relating to fundamental subjects such as the management of employment and skills.

The social dialogue is at the heart of several negotiations with Group Subsidiaries, including in respect of reorganizations. The social dialogue has allowed the Group to finalize agreements with the more significant union organizations in respect of the three job preservation plans announced in 2012 in Fnac S.A., Fnac Relais and Codirep. Please see Section 9.2.4 "Personnel Expenses" for additional information on expenses related to personnel in the context of the implementation of the "Fnac 2015" plan.

1.4. Health and Safety

1.4.1. Occupational Health and Safety Practices

The Group is particularly attentive in the area of employee health protection (at headquarters, in stores and distribution depots), and takes and intends on taking all measures needed to meet its obligation with respect to prevention in terms of occupational health.

Thus, and pursuant to its legal obligations, management annually updates a single document for each establishment to identify the risks for employees' physical and mental health and automatically associates an action plan to each identified risk. This update is performed with the help of employees and in collaboration with CHSCT members.

In addition, failing to have reached agreement with its social partners, the Group decided to implement unilaterally a certain number of actions, such as the implementation of an alert system (Violence and harassment), which may be triggered by any employee with the purpose of stopping any situation placing the employee's health at risk. The Group also has two social assistants and a telephone support scheme to provide employees with assistance in identified difficult situations. Lastly, in the past few years, opinion surveys have been regularly conducted, including themes on the quality of life at work.

1.4.2. Signed Health and Safety Agreements

Please see Section 1.4.1 " Occupational Health and Safety Practices" of this prospectus.

1.4.3. Work Accidents

The Group considers it a fundamental duty to ensure its employees' physical and mental health and safety. To this end, Fnac annually updates its documents unique in each of its establishments. This practice allows existing physical and physiological risks to be identified within work units. For each identified risk, Fnac implements a measure to reduce or remove the risk, in cooperation the CHSCTs. Accordingly, Fnac intends to identify, assess and limit the main risks linked to its activities.

In 2012, the total number of occupational lost-time accidents that occurred in the work place or work-related travel in France and abroad was 409, compared with 406 in 2011. There were no fatal accidents in 2012.

	2011	**2012**
Occupational accident frequency rate[1]	16.6 %	17.7 %
Occupational accident severity rate[2]	0.5 %	0.5 %

[1] In number of accidents (having led to at least one day of absence from work) per million hours worked
[2] In number of days lost per thousand hours worked

In 2012, 17,537 training hours in the area of safety were dispensed to 4,744 Group employees (in France and abroad).

In 2012, 10,690 days of absence were caused by workplace accidents.

1.5. Training

In 2012, the Group allocated a budget of around 4.4 million euros to staff training, which represents 1.1% of the Group's payroll.

As part of its "Fnac 2015" strategic plan, and in accordance with its legal requirements, Fnac has implemented a training policy based on two main components. The first component is that which enables Fnac employees, irrespective of the country, to maintain or acquire the skills needed to carry out their duties in light of developments in the areas in which they work and changes in product trends. The Group also dispenses in-house or outside training enabling employees to progress within the Group, while acquiring the relevant skills. The second component is underpinned by the desire to promote the customer path, whether in stores or in any contact with Group employees.

Fnac has thus focused its training around *REVER* training. Through this training, which will be given to all employees, the Group wishes, by prioritizing the moment when customers first enter its stores, that customers are both satisfied with the advice and the know-how of store vendors, as well as the reception they receive and the experience they take away that makes them want to revisit the store. As part of the omni-channel strategy and online orders, Fnac is keen that customers are fully satisfied each time they visit a store.

Thus, in 2012, 226,396 training hours were dispensed in France and abroad, and 10,132 employees received at least one type of training. 85% of those trained in 2012 were not managers.

At constant scope, the number of employees trained in 2012 decreased by 8% compared with 2011, and by 22% compared with 2010. This trend reflects the Group's commitment to better target training, particularly for budgetary reasons, but also to provide a defined number of employees with training both of a high quality and focused on providing excellent service to customers, as for example *REVER* (receive, explore, sell, broaden, thank) training.

Data for 2012	**France**	**Iberian Peninsula**	**Brazil**	**Rest of the world**	**Total**
Total training expense (in euros)	3,428,882	636,653	79,610	308,282	4,453,427
Employees having received training..........	4,300	4,302	949	581	10,132
Managers..	*861*	*411*	*89*	*110*	*1,471*
Non-managers	*3,439*	*3,891*	*860*	*471*	*8,661*
Total number of hours of training..............	66,767	123,981	30,470	5,178	226,396
Average length of training course [1] (in hours)..	16	29	32	9	–

[1] Average length of training course on number of trained employees.

1.6. Equal Treatment

Employees are at the heart of Fnac's approach, whether it is gender equality, gender, social or ethnic mix, management of seniors or disabled, or developing skills and experience and managing professional career paths. The Group supports equal opportunity, champions diversity and fights discrimination, so as to take advantage of all talents, to encourage the commitment and creativity of its employees and remove the brakes to performance.

The internal opinion survey "What's the weather like?" highlighted employees' understanding of these issues, as well as their feeling of belonging to a company that is responsible when it comes to their welfare. Thus, 87% of them consider that within the company there is equal treatment irrespective of the employee's origin (84% participation rate).

Equal treatment within the Group is based in particular on rigorous processes in terms of human resources: recruitment procedures with awareness of non-discrimination, annual performance appraisal meetings, training needs analysis, etc.

1.6.1. Gender Equality

Diversity is key within the Group The Group has thus introduced a strategic program "Leadership and Diversity", aiming to promote women's access to the highest levels of management. Beyond the representation of women in the workforce (in France and abroad, 47.3% of new recruits were women, 42.5% of managers are women, 44.8% of workforce are women), it is a question of the Group also being an example in its executives and decision-making bodies.

The Group has made numerous commitments, notably through professional equality agreements, to promote equality when hiring and access to training and promotion. The Group has also undertaken to monitor remuneration indicators and, through measures, promote the work-life balance of its workforce. Lastly, Fnac regularly communicates on these initiatives to further their efficacy and effectiveness.

1.6.2. Supporting Seniors

The Group is committed to employing seniors. In France, 100% of those in charge received awareness training on employing seniors, and nearly 100% of employees of 50 or more had a meeting concerning the second half of their careers. The main axes of the Group's policy in terms of supporting seniors are job security and recruitment, including flexible work hours, with an option for part-time work starting at 57 years of age with an adjustment to pension contributions by the Group, and transitional support upon retirement, especially through workshops.

In 2009, the Group signed an agreement in favor of employing seniors, comprising targets for recruiting staff of 45 years of age or more and keeping staff of 55 years of age or more in their jobs. Since then, the Group has respected its commitments on recruitment, keeping seniors in employment and raising managers' awareness. Pursuant to its legal obligations, the Group will negotiate an "intergenerational" agreement addressing the issues of seniors.

1.6.3. Recruiting and Integrating Disabled Staff

Employing disabled staff is a historical component of the Group's diversity policy, which led to the "Mission Disabled" system being introduced in 2005. As of December 31, 2012, the Group employed 349 disabled staff in France whose employment comes under the law of February 11, 2005 that promotes the equality of rights and opportunities, involvement and citizenship of disabled persons.

Each year, during France's week promoting the employment of disabled persons, when it takes part in "Handichat", which is organized by the association managing the Fund for the professional integration of disabled people (AGEFIPH), the Group releases information on its initiatives in this area. In 2012, a campaign called "Continue to be different" was launched, alongside actions to raise employees' awareness. The Group is also active in dedicated job forums and publishes job offers on the website AGEFIPH.

The Disabled Mission informs and provides assistance to the disabled, during recruitment and throughout the career path, in administrative procedures, to develop their working conditions, access training, develop skills, as well as employees who become beneficiaries of the law on disability.

To promote the recruitment of disabled staff, the Group has introduced a tailored professionalization scheme with a course of more than 300 hours of block-release training, which is a great boost to long-term integration. In 2013, new training sessions are scheduled for the activities of customer service and technical product sales.

For 2013, the Group has set the ambitious goal for integration and job security for the disabled. In addition to the Group's participation in employment forums and dedicated employment websites, the Group wishes to expand the employment of disabled persons, in particular the hearing impaired, through internships.

In addition, the Group is developing numerous partnerships with the disabled sector (for example, the laundering of Fnac waistcoats entrusted to "help through work establishments and services" (ESAT).

1.6.4. Policy on the Fight Against Discrimination

Group subsidiaries have made commitments regarding the fight against discrimination on subjects as diverse as professional equality, seniors and union law. These commitments are designed to be applied to all stages of employees' careers. Thus, awareness training has been introduced, including at the level of recruitment and performance appraisal. Indeed, the Group bases its decisions on objective criteria, excluding all identified discriminatory criteria, including the Labor Code.

1.6.5. Promoting and Respecting the Provisions of the ILO Core Agreements

Through all its commitments and agreements in all countries in which it is present, Fnac respects and promotes the principles and rights recognized in the ILO.

In this respect, and drawing on the laws in each Fnac country, the Group respects the freedom of association, bans forced and child labor, and conducts a policy free of any discriminatory measure.

In addition, the freedom of association within the Group is reinforced by employee representation in staff representative bodies in each of its companies and the commitment to set up a European works council at Group level in the future.

2. Environmental Information

Environmental responsibility constitutes one of the main components of the Group's commitment. The Group has therefore chosen to define a global environmental policy, which aims to contain and reduce its various types of impact on the environment (CO_2 emissions linked to transport and to the various forms of energy consumed, eclectic and electronic waste, packaging, paper, cardboard, etc.) of all its activities.

2.1. General Environmental Policy

2.1.1. Organization of Assessment or Certification Systems

The Group plans to introduce in 2013 a centralized system comprising a steering committee, which will be in charge of monitoring environmental projects, CSR managers in each subsidiary and in each country of the Group as well as a CSR representative in each store.

Each department (maintenance department, CSR department, etc.) is subject to a CSR target, on which the variable part of the remuneration of the members of the Group's Management Committee depends.

The CSR department is in charge of implementing projects related to these targets, validating their operation and assessing their performance.

Because of the predominance of activities of distribution within the Group, Fnac Logistique, Group subsidiary, introduced in 2009 an environmental management system based on the approach of ISO 14001 certification.

The Group subsidiary SFL has also obtained (in 2011) the first level of ISO 14001 certification as part of its environmental management certification.

2.1.2. Staff Training and Information Initiatives

Group staff are made aware of good practices to reduce stores' environmental impact through the dissemination of the document called "GreenToolBox", which was created by Kering for all its subsidiaries. This document has been adapted for the Group under the name of "Ecoguide Fnac" and will be distributed to employees in June 2013.

The CSR department advises its staff of the Group's strategy in terms of social and environmental responsibility, measures taken and results obtained via a CSR space on the Group's intranet, in which the CSR reports and monthly updated information on the progress of projects are available.

2.1.3. Resources Allocated to the Prevention of Environmental and Pollution Risks

Although the Group mainly carries on the business of distribution, in which the environmental and pollution risks are low compared to other sectors, it strives to reduce to a maximum its environmental impact.

The Group set itself the target of cutting its energy footprint by 20% over five years beginning in 2009, which represents a decrease of 34 M kWh. The Group has cut its energy consumption by 29.4 M kWh since 2009, i.e. a reduction of 17.3% in three years.

Beyond this energy target, the Group is seeking to contain and reduce all its environmental impacts as described below.

2.2. Waste Pollution and Management

2.2.1. Waste

Waste in the air, water and ground does not constitute a material impact for the Group.

2.2.2. Waste Prevention, Recycling and Elimination Measures

The nature of the waste produced by the Group is mainly linked to its distribution activity. The packaging of its products or the use of pallets for transport generally produces non-hazardous waste (that is to say, cardboard, paper, scrap metal, plastic, glass and plaster). Fnac mainly produces packaging waste of low quantities of hazardous waste (i.e. waste including fluorescent light fixtures, batteries, electrical and electronic equipment waste, used oils, photo lab waste, paint, aerosols, soiled packaging and ink cartridges).

The table below shows the total production of waste in 2012 and 2011 in all countries where the Group is present.

Consumption in metric tons	**2011**	**2012**
Non-hazardous waste	9,630	7,973
Hazardous waste	1,355	1,533
Total waste	10,985	9,506

In 2012, the Group's total production of waste was 9,506 metric tons, 84% of which was non-hazardous waste.

The table below shows the Group's waste recycling rate in 2012 and 2011 in France and abroad.

	2011	**2012**
Waste recycling rate as %	89.75	69.44

A major initiative was undertaken in 2011, by placing recycling bins in 45 stores for the collection of electrical and electronic equipment waste, batteries, office equipment and mobile phones. These recycling bins are accessible by any person going to a Fnac store with no obligation to buy. Even though this initiative enabled the Group to increase by 20% its recycling rate between 2010 and 2011, this recycling rate fell sharply by 20% between 2012 and 2011. Placing these recycling bins in all stores in France not yet equipped with them is scheduled for 2013, which should enable the Group to obtain a recycling rate equivalent to that of 2011.

2.2.3. Noise Pollution

The Group's activities produce little noise pollution.

2.3. Sustainable Use of Resources

2.3.1. The Consumption and Sourcing of Water Depending on Local Restrictions

In 2012, the Group's water consumption amounted to around 139,030 m^3 in all countries where the Group is present. The Group only consumes clean water (no industrial water is consumed).

It is difficult to monitor water consumption because the stores have signed commercial leases that include water costs, which makes the volumes consumed invisible. The Group plans to define a monitoring and management tool for water consumption for 2013.

2.3.2. Consumption of Raw Materials and Measures Taken to Improve the Efficient Use.

2.3.2.1. Paper Consumption

Within the Group, three sources of consumption are differentiated:

(i) Direct purchase from paper makers for commercial publications (catalogs, magazines and brochures);

(ii) indirect purchases of paper ordered by providers outside the Group (printers, transformers, agencies) for printing communication literature (reports, posters, mail shots, advertising on point of sale); and

(iii) office paper.

Fnac thus consumed 3,181 metric tons of paper in 2012 in all countries where the Group is present. The breakdown of this consumption between the various types of paper bought is shown in the table below.

Consumption in metric tons	**2011**	**2012**
Paper – Direct purchases	778	0
Paper – Indirect purchases	3,618	2,875
Office paper	489	428
Total paper	4,885	3,303

Between 2011 and 2012, the Group's paper consumption decreased by 32%. This decrease was mainly due to discontinuation of direct paper purchases linked to the publication of technical files (now only in digital form), decrease in the volume of Group commercial publications and streamlining of our printing systems, with the removal of 50% of equipment between 2010 and 2011 in France (removal of individual printers and fax machines, replaced by multi-function machines) as well as rolling out the project in other European countries. The new equipment is also configured in recto-verso and black and white mode by default. Group employees are moreover invited to prioritize digital format (e-mails, press reviews, scanned documents, etc.) over paper.

2.3.2.2. Packaging Consumption

The Group consumes large quantities of cardboard and plastic to protect and transport the products distributed in stores or for sale by correspondence. The reporting makes a distinction between plastic bags and paper bags on the one hand, and other packaging on the other.

In 2012, Fnac consumed around 1,923 metric tons of packaging, compared with 2,679 metric tons in 2011, i.e. a decrease of 28% in all countries where the Group is present. This decrease is due to the use since 2010 of reusable bags, the practice of charging for bags, and to using less gift wrapping paper.

The table below shows the total consumption of packaging in 2012 and 2011 in France and abroad.

Consumption in metric tons	2011	2012
Plastic bags	746	176
Paper bags and gift paper	389	80
Total bags and gift paper	**1,135**	**256**
Plastic packaging	260	267
Cardboard	1,284	1,400
Total packaging excluding bags	**1,544**	**1,667**
Total packaging	**2,679**	**1,923**

2.3.2.3. Energy Consumption, Measures Taken to Improve Energy Efficiency and Use of Renewable Energies

Since 2010, the Group Maintenance Director has conducted a policy for streamlining energy consumption of equipment by introducing good practices synthesized in "GreenToolBox" and the choice of low-energy lighting and air conditioning equipment. This streamlining policy will be continued as part of Ecoguide Fnac, to be issued to all Group stores in June 2013.

Likewise, Fnac has sourced electricity generated from renewable sources from Belgium and implemented in Switzerland exclusive sourcing of electricity generated from renewable sources for its headquarters, a warehouse and two stores.

2.3.3. Ground Use

The Group is not concerned by environmental issues linked to ground use.

2.4. Climate Change

2.4.1. Greenhouse Gas Emissions

Energy consumption (mainly for heating, air conditioning and lighting of points of sale, warehouses and offices) and transport of goods and people constitute the Group's main two sources of CO_2 emissions.

In 2012, total CO_2 emissions linked to energy consumption and transport were 34,331 metric tons of CO_2, compared with 42,779 metric tons in 2011, i.e. a decrease of nearly 20%. The detailed breakdown of these emissions, main changes between 2011 and 2012 and action plans implemented to reduce the Group's carbon footprint are shown below.

The table below shows both the Group's direct energy consumption and greenhouse gas emissions (due to the combustion of natural gas) and indirect energy consumption and greenhouse gas emissions (due to electricity generation) in 2012 and 2011 in France and abroad.

	2011	2012
Electricity	163.0 GWh	145.0 GWh
Natural gas	8.2 GWh	9.1 GWh
Total energy	171.2 GWh	154.1 GWh
Direct emissions	1,796 TCO_2	1,986 TCO_2
Indirect emissions	28,837 TCO_2	19,805 TCO_2
Total energy-related emissions	30,633 TCO_2	21,791 TCO_2

In 2012, the Group's total energy consumption amounted to around 154 GWh. Electricity is the Group's main source of energy, and represents 94% of energy consumption. The Group's total CO_2 emissions in 2012 due to energy consumption are 21,791 metric tons of CO_2 and more than 90% of these emissions come from electricity (indirect emissions).

The table below shows the CO_2 emissions linked to BtoB transport (i.e. transport flows of goods between suppliers and distribution depots and between the latter and stores) and to BtoC transport (i.e. transport flows of goods directly between distribution depots and customers or between stores and customers).

	2011	2012
BtoB transport	7,922 TCO_2	7,518 TCO_2
BtoC transport	4,224 TCO_2	5,022 TCO_2
Total transport	12,146 TCO_2	12,540 TCO_2

Concerning BtoB transport, good results were obtained in provincial stores, due to the frequency of deliveries, which led to a decrease of 7.5% of CO_2 emissions in 2012. For BtoC transport, the increase in emissions is due to the increase in transported volumes.

For 2013, Fnac plans to reach an agreement with the company Geodis BMV committing the latter to reduce its CO_2 emissions by 4% subject to a penalty or purchase of carbon certificates. This measure should lead to reducing CO_2 emissions by around 250 metric tons. Fnac also plans to introduce electric Kangoo cars, as part of the SAV activity to have a shuttle service to stores in Paris and Ile-de-France, for a potential reduction in CO_2 of around seven metric tons. Lastly, the Group plans to put environmental notices on screens in store and on its website Fnac.com, in line with the guideline validated by the Ecology Ministry. These notices will enable the customer to compare screens according to their climatic impact (CO_2 emissions) and their impact on non-renewable natural resources.

2.4.2. Adaptation to Consequences of Climate Change

The Group's activity requires the introduction of measures for adapting to the consequences of climate change, in addition to its ongoing work to reduce greenhouse gas emissions, by targeting transport and electricity consumption.

2.5. Protecting Biodiversity

The Group's activity has no major impact on the biodiversity.

3. Information on Social Commitments in Favor of Sustainable Development

The development of the Group's activities also depends on the confidence in customers, shareholders and commercial and social partners of civil society as a whole. This confidence is built over time and relies on cooperation to facilitate social and environmental progress, respect of human rights, as well as pro-actively managing the risks related thereto.

3.1. Fnac's Territorial, Economic and Social Impact

Fnac is a major player in the local environment, both through its economic activity and by the jobs it has created and maintained since its establishment. In addition, the Group's stores, mainly in town centers, enable the Group to play a deciding role in the dynamism of the urban social fabric. Lastly, the stores' cultural initiatives, through the organization of events such as shows, concerts and local artist signings, give material substance to the Group's social policy and investments.

3.2. Relations with Individuals or Organizations Interested by Fnac's Business

3.2.1. Dialogue with Concerned Parties

In order to implant its business on a sustainable basis, particular attention is given to listening and dialogue with concerned parties.

The Group has a relatively centralized structure with its headquarters housing all operational and functional divisions and support functions; its local initiatives remain very important. To take into account regional and local specificities is in Fnac's genes, and Fnac is keen to remain in contact with its neighboring clientele. This approach is indispensable to reaching local populations according their interests, whether musical or literary, for example, or to conducting regional campaigns.

This link with the ground also exists as part of the social dialogue that allows the management of each store to discuss and interact with staff representatives, as well as with representatives of work administration or even the occupational medicine.

Lastly, the dialogue with concerned parties is also organized around initiatives that can be conducted in collaboration with or via a sponsor, including that of towns or associations. These initiatives enable Fnac to create strong links at the heart of the economic, associative, local and political fabric (concerts, cultural events, etc.).

3.2.2. Partnership and Patronage Initiatives

For a number of years, Fnac has sponsored the social integration company Emmaüs-Ateliers du Bocage, to which it has donated, to help its development, mobile telephones collected in store and computers of Group staff. Thus, a batch of 300 computers was given to Ateliers du Bocage in March 2013.

Fnac has planned to strengthen its partnership with Bibliothèques sans Frontières, by organizing in May 2013 a collection of books in store in France to the benefit of the association's educational and cultural projects.

Fnac has also introduced the "Adhérent & Solidaire" program, through which those taking part can support the partner associations of their choice by donating loyalty points.

Moreover, the launch of the GIVE scheme allows customers of the website Fnac.com to round up their purchase to the nearest euro to the benefit of the Group's partner associations, that is, Bibliothèques Sans Frontières, Ateliers du Bocage, Sport dans la Ville and ELA, is scheduled for April 2013.

3.3. Relations with Subcontractors and Suppliers

The Group carries on a business in distribution. The choice and management of relations with suppliers is thus of major importance to Fnac, both in terms of security of supplies (and therefore of conducting business), as well as in terms of adapting to the changes in regulation and customer needs.

Fnac endeavors to integrate these requirements into its purchasing policy. Thus, since 2009, the Group Purchasing Division has been committed to disseminating a "Fnac Suppliers CSR Charter" to all Fnac's commercial partners. Due to this charter, suppliers are invested and act alongside the Group in agreement with the main sections relating to the respect of human rights, labor law, conservation of the environment and fight against corruption.

Fnac also tends to favor social and responsible companies. Thus, since August 2012, it has entrusted the repurchase of its broken-down technical equipment resulting from the "100% Guarantee" to Emmaüs-Ateliers du Bocage rather than to brokers. Emmaüs-Ateliers du Bocage employees staff with subsidized employment contracts, enabling the equipment to be reused and manage the end of the service life of products in a responsible manner. For 2013, the Group aims to develop a green "Guarantee" and extend this principle of "second life" to all products leaving its distribution circuit.

3.4. Loyalty to Practices and Other Initiatives in Favor of Human Rights

In terms of ethical practices, Fnac has made in-house commitments with respect to the company's assets (prevention of misuse of company assets, vigilance in terms conflict of interests, etc.) and with respect to the rules of commerce (political neutrality, suppliers' gifts, etc.).

In addition, the Group has made commitments with respect to the principle of respect for human beings and human rights. In this respect, the Group respects all rules laid down by the International Labor Organization, and in particular the ban on child labor, ban on forced labor or still further the fight against discrimination of any type.

Fnac will establish these commitments in a Code of Business Conduct, which will be applied throughout the Group with a view to promoting integrated and responsible behavior.

ANNEX 3

Group Consolidated Financial Statements for the Years ended December 31, 2012, December 31, 2011 and December 31, 2010

GROUPE FNAC

French Limited Liability Company

10, avenue Hoche 75008 Paris

Statutory Auditor's report on the consolidated financial statements

Financial years ended December 31, 2010, 2011, and 2012

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GROUPE FNAC
French Limited Liability Company
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Statutory Auditor's report on the consolidated financial statements

Financial years ended December 31, 2010, 2011, and 2012

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with the terms of the assignment entrusted to us by your Annual General Meeting, we hereby submit our report on the financial year ended December 31,2012, together with our report on the financial years ended December 31, 2010 and 2011, at the request of your Senior Management, regarding:

- our audit of Groupe FNAC's consolidated financial statements, as appended to this report;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. These standards require that we perform tests and procedures so as to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as of December 31, 2012 and of the results of its operations for the period then ended in accordance with the IFRSs as adopted in the European Union.

II. Justification of our assessments

Pursuant to the provisions of Article L. 823-9 of the French Commercial Code (*Code de commerce*) regarding the justification of our assessments, we hereby draw the following matters to your attention:

- During the second half of the financial year, your Company systematically tested goodwill for impairment, and also assessed whether there was any evidence of impairment of long-term assets, in accordance with the procedures set out in Note 2.10 to the consolidated financial statements. We have reviewed the procedures for implementing these impairment tests, together with the forecast cash flows and the assumptions used, and have verified that Note 18 to the consolidated financial statements provides appropriate disclosures.
- Where applicable, your Company assesses the impairment of inventory in accordance with the procedures set out in Note 2.9 to the consolidated financial statements. We have ascertained the appropriateness of the method, and the reasonableness of the assumptions used to measure and impair inventory.
- Note 2.15 to the consolidated financial statements sets out the procedures for measuring employee benefits and similar payments. These commitments have been measured by external actuaries. Our work consisted in reviewing the data used, assessing the assumptions made, and verifying that Note 25 to the consolidated financial statements provides appropriate disclosures.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of our opinion in the first part of this report.

III. Specific verification

We have also performed the other procedures required by law on the information on the Group given in the management report, in accordance with professional standards applicable in France.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, March 15, 2013, Deloitte & Associés, Statutory Auditor

Antoine de Riedmatten

Consolidated financial statements
as of December 31,2012, 2011, and 2010

CONSOLIDATED PROFIT AND LOSS STATEMENT FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(€ (€ million)	Notes	2012	2011	2010
CONTINUING OPERATIONS				
Revenues	5	**4,061.1**	**4,162.5**	**4,305.1**
Cost of sales		(2,841.8)	(2,891.5)	(2,988.2)
Gross margin		**1,219.3**	**1,271.0**	**1,316.9**
Personnel expenses	6-7	(591.4)	(607.3)	(599.1)
Other current operating income and expense		(554.6)	(572.1)	(529.4)
Current operating income (before PPR management fee)	8	**73.3**	**91.6**	**188.4**
PPR management fee		(10.0)	(10.8)	(11.1)
Current operating income (after PPR management fee)	8	**63.3**	**80.8**	**177.3**
Other non-current operating income and expense	9	(130.2)	(38.5)	8.0
Operating income		**(66.9)**	**42.3**	**185.3**
Net financial expense	10	(15.0)	(18.0)	(15.1)
Pre-tax income		**(81.9)**	**24.3**	**170.2**
Income tax	11	(33.7)	(43.7)	(61.8)
Net income from continuing operations		**(115.6)**	**(19.4)**	**108.4**
of which attributable to owners of the Company		(115.6)	(19.4)	108.4
of which share attributable to non-controlling interests				
DISCONTINUED OPERATIONS				
Net income from discontinued operations	12	**(26.1)**	**(8.8)**	**(33.7)**
of which attributable to owners of the Company		(26.1)	(8.8)	(33.7)
of which share attributable to non-controlling interests				
Consolidated net income		**(141.7)**	**(28.2)**	**74.7**
Net income, attributable to owners of the Company		**(141.7)**	**(28.2)**	**74.7**
Earnings per share (in euros)	13.1	(151.81)	(32.19)	85.28
Diluted earnings per share (in euros)	13.1	(151.81)	(32.19)	85.28
Net income from continuing operations, attributable to Owners of the Company		**(115.6)**	**(19.4)**	**108.4**
Earnings per share (in euros)	13.1	(123.85)	(22.15)	123.75
Diluted earnings per share (in euros)	13.1	(123.85)	(22.15)	123.75
Net income from continuing operations, attributable to owners of the Company , excluding non-current items		**12.6**	**13.3**	**96.1**
Earnings per share (in euros)	13.2	13.50	15.18	109.71
Diluted earnings per share (in euros)	13.2	13.50	15.18	109.71

Consolidated comprehensive income statement

(€ million)	Notes	2012	2011	2010
Net income		**(141.7)**	**(28.2)**	**74.7**
Translation differences		(3.4)	(3.3)	(1.8)
Items that may be reclassified subsequently to profit or loss		**(3.4)**	**(3.3)**	**(1.8)**
Actuarial differences (1		(7.2)	0.7	(1.2)
Items that may not be reclassified subsequently to profit or loss		**(7.2)**	**0.7**	**(1.2)**
Other comprehensive income items, after tax	14	**(10.6)**	**(2.6)**	**(3.0)**
Total comprehensive income		**(152.3)**	**(30.8)**	**71.7**
of which attributable to owners of the Company		(152.3)	(30.8)	71.7
of which share attributable to non-controlling interests				

(1)Net of tax

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

ASSETS

(€ million)	Notes	2012	2011	2010
Goodwill	15	323.5	403.3	403.8
Intangible assets	16	73.3	73.9	63.6
Property, plant & equipment	17	197.3	209.3	228.6
Non-current financial assets	20	5.8	28.4	6.6
Deferred tax assets	11.2	33.9	26.2	27.3
Other non-current assets		0.1	0.5	0.8
Non-current assets		**633.9**	**741.6**	**730.7**
Inventory	21	495.2	530.7	566.2
Trade receivables	22	118.8	121.6	88.9
Tax receivables due	11.2	9.2	10.6	11.8
Other current financial assets	23	0.0	0.1	
Other current assets	23	162.6	170.5	250.6
Cash and cash equivalents	27	305.5	80.8	251.5
Current assets		**1,091.3**	**914.3**	**1,169.0**
Assets held for sale	**12**		**51.5**	
Total assets		**1,725.2**	**1,707.4**	**1,899.7**

LIABILITIES & EQUITY

(€ million)	Notes	2012	2011	2010
Share capital	24	545.7	6.1	6.1
Equity-related reserves		48.4	48.4	48.4
Translation reserves		2.6	6.0	9.3
Other reserves		(199.7)	(30.0)	325.0
Equity –attributable to owners of the Company	**24**	**397.0**	**30.5**	**388.8**
'Equity - share attributable to non-controlling interests		0.0		
Equity	**24**	**397.0**	**30.5**	**388.8**
Long-term borrowings and financial debt	28	0.7	0.4	0.8
Provisions for pensions and other equivalent benefits	25	63.2	49.9	47.6
Deferred tax liabilities	11.2	0.0		
Non-current liabilities		**63.9**	**50.3**	**48.4**
Short-term borrowings and financial debt	28	12.8	232.8	61.3
Other current financial liabilities	23-29	0.0		
Trade payables	23	717.1	730.5	844.1
Provisions	26	52.3	54.2	46.3
Tax liabilities payable	11.2	10.6	8.4	17.6
Other current liabilities	23	471.6	551.8	493.2
Current liabilities		**1,264.3**	**1,577.7**	**1,462.5**
Liabilities relating to assets held for sale	**12**		**48.9**	
Total liabilities and Equity		**1,725.2**	**1,707.4**	**1,899.7**

CONSOLIDATED CASH FLOW STATEMENT AS OF DECEMBER 31, 2012, 2011, AND 2010

(€ million)	Notes	2012	2011	2010
Net income from continuing operations		**(115.6)**	**(19.4)**	**108.4**
Net additions to depreciation, amortization and provisions		167.9	83.7	64.0
Other income and expense with no impact on cash		2.1	5.6	(31.3)
Cash flow from operations	32.1	**54.4**	**69.9**	**141.1**
Financial interest income and expense		5.2	10.0	5.0
Dividends received		(0.0)	(1.3)	
Net tax charge payable	11.1	37.8	43.0	62.2
Cash flow from operations before tax, dividends and interest		**97.4**	**121.6**	**208.3**
Change in working capital requirement		(25.1)	(41.6)	71.3
Income tax paid		(34.5)	(51.0)	(63.3)
Net cash flows from operating activities		**37.8**	**29.0**	**216.3**
Purchase of property, plant & equipment and intangible assets	32.2	(95.1)	(81.1)	(63.5)
Disposal of property, plant & equipment and intangible assets		0.2	16.1	0.1
Purchase of subsidiaries net of cash acquired	32.3	0.1		
Disposal of subsidiaries net of cash transferred	32.3		46.3	56.6
Purchase of other financial assets		(2.4)	(1.6)	(9.5)
Disposal of other financial assets		19.1	0.7	1.6
Interest and dividends received		0.7	2.4	0.1
Net cash flows from investing activities		**(77.6)**	**(17.2)**	**(14.6)**
Increase/Decrease in equity and other transactions with shareholders		539.6		
Dividends paid to shareholders		(20.5)	(325.9)	
Redemption of borrowings	28-32.4	(0.4)		
Increase/Decrease in other financial debt	28-32.4	(222.8)	222.4	(19.6)
Other interest and equivalent paid		(5.9)	(11.1)	(5.1)
Net cash flows from financing activities		**290.0**	**(114.6)**	**(24.7)**
Cash flows from discontinued operations	12	(31.7)	(9.2)	(29.9)
Impact of fluctuations in exchange rates		3.4	(7.3)	(1.3)
Net change in cash		**221.9**	**(119.3)**	**145.8**
Cash and cash equivalents at the beginning of the financial year	32	**71.5**	**190.8**	**45.0**
Cash and cash equivalents at the end of the financial year	32	**293.3**	**71.5**	**190.8**

CHANGE IN CONSOLIDATED EQUITY AS OF DECEMBER 31, 2012, 2011, AND 2010

(Before appropriation of earnings)								Equity		
(€ million)	Number of shares outstanding[1]	Share capital	Reserves Relating to Capital	Treasury shares	Translation reserves	Revaluation For financial instruments	Reserves and earnings	Attributable to the Company	Non-controlling interests	Total
As of January 1, 2010	**875,953**	**6.1**	**48.4**		**11.1**		**251.9**	**317.5**		**317.5**
Total comprehensive income					**(1.8)**		**73.5**	**71.7**		**71.7**
Valuation of share-based payments							(0.4)	(0.4)		(0.4)
As of January 1, 2011	**875,953**	**6.1**	**48.4**		**9.3**		**325.0**	**388.8**		**388.8**
Total comprehensive income					**(3.3)**		**(27.4)**	**(30.8)**		**(30.8)**
Valuation of share-based payments							(1.7)	(1.7)		(1.7)
Dividends paid							(325.9)	(325.9)		(325.9)
As of December 31, 2011	**875,953**	6.1	**48.4**		**6.0**		**(30.0)**	**30.5**		**30.5**
Total comprehensive income					**(3.4)**		**(148.9)**	**(152.3)**		**(152.3)**
Increase / Decrease in equity	5,255,718	539.6						539.6		539.6
Valuation of share-based payments							(0.2)	(0.2)		(0.2)
Dividends paid							(20.5)	(20.5)		(20.5)
As of December 31, 2012[1][2]	**6,131,671**	**545.7**	**48.4**		**2.6**		**(199.7)**	**397.0**		**397.0**

[1] Par value of shares as of December 31, 2012: €89

[2] Number of shares outstanding as of December 31, 2012: 6,131,671

Notes to the consolidated financial statements for the financial years ended December 31, 2012, 2011, and 2010

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NOTE 1 GENERAL INFORMATION

1.1. General information

The FNAC Group, the Group's parent company, is a Limited Liability Company *(Société Anonyme*) with a Board of Directors governed by French law; the company's registered office is located at 10 avenue Hoche, 75008 Paris, France. The Company is registered under No. 055,800,296 with the Paris Trade and Companies Registry. The FNAC Group is subject to all the legislation governing commercial companies in France, and specifically to the provisions of the French Commercial Code (*Code de commerce*).

The consolidated financial statements as of December 31, 2012 reflect the financial position of the FNAC Group and its subsidiaries, as well as the Group's investments in equity associates and joint ventures.

The Board of Directors approved the consolidated financial statements as of December 31, 2012, 2011, and 2010 on March 1, 2013.

1.2. Publication background

The PPR Group has initiated a process aimed at refocusing its business model, in order to become a world leader in the fashion and accessories sector, with a presence in Luxury Goods and Sport & Lifestyle.

Against this backdrop, the PPR Group announced the planned separation and stock market listing of FNAC on October 9, 2012, through the allocation of FNAC Group shares to PPR shareholders.

The completion of the separation transaction is conditional on the PPR General Meeting of Shareholders scheduled for June 18, 2013 approving the transaction.

The FNAC Group, which consists of the FNAC Group company and of its subsidiaries (jointly referred to as "FNAC Group"), is the leader in the leisure and technical goods retail market in France, and a major player on the other geographical markets where it operates, namely Spain, Portugal, Brazil, Belgium and Switzerland. The FNAC Group also has franchise operations in Morocco.

In view of its consolidation within the PPR Group (which has been drawing up and issuing consolidated financial statements according to IFRS guidelines since the 2005 financial year), the FNAC Group did not draw up separate financial statements prior to the 2012 financial year, in accordance with the exemption for sub-groups of groups that issue consolidated financial statements provided for in the French Commercial Code.

The planned admission of the FNAC Group's securities for trading on a regulated market (NYSE Euronext Paris) requires the drafting of consolidated financial statements according to IFRS. The consolidated financial statements drawn up for the financial years ending on December 31, 2012, 2011 and 2010 therefore amount to the first consolidated financial statements for the FNAC Group, and have been drawn up in accordance with the provisions of IFRS 1- *First-Time Adoption of International Financial Reporting Standards*, as adopted by the European Union on December 31, 2011. The procedures for drawing up these financial statements are detailed in Note 2 Accounting principles and policies.

The FNAC Group's consolidated financial statements are shown in millions of euros.

NOTE 2 ACCOUNTING PRINCIPLES AND POLICIES

2.1. General principles and statement of compliance

In accordance with European Regulation No. 1606/2002 of July 19, 2002, the FNAC Group's consolidated financial statements for the 2012 financial year have been drawn up in accordance with international accounting standards, as published and approved by the European Union and mandatorily applicable at that date, at the closing date for these financial statements.

International standards include IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards), as well as the interpretations of the IFRIC (International Financial Reporting Interpretation Committee).

The financial statements shown do not take into account draft standards and interpretations that were still at the exposure draft stage at the end of the period with IASB (International Accounting Standards Board) and IFRIC, or standards where the application was not mandatory in 2012.

All the standards adopted by the European Union are available on the European Commission's website, at the following address: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

2.2. IFRS guidelines applied

2.2.1. Standards, amendments and interpretations applicable as of January 1, 2012

The FNAC Group applies current IFRS, as adopted by the European Union on the date when the IFRS were adopted, i.e. December 31, 2012. The IFRS have been applied to the periods shown for comparison purposes, in accordance with IFRS 1.

The standards that are mandatorily applicable to financial years beginning from January 1, 2012 are as follows:

- Amendment to IFRS 7 – *Disclosures – transfers of financial assets*

This standard does not apply to the FNAC Group.

2.2.2. Standards where application was not mandatory as of January 1, 2012

Furthermore the FNAC Group has opted for early application of one of the standards and interpretations where application was not mandatory as of January 1, 2012, namely:

- the amendment to IAS 1- Presentation of Other Comprehensive Income (OCI) - presentation of other comprehensive income items, which was adopted by the European Union during 2012.

The FNAC Group did not opt for the early application of the standards published by the IASB and adopted by the European Union in late December 2012, which could be applied as of January 1, 2012:

- the amendment to IAS 19 - Employee Benefits;
- the new IFRS 13 - Fair Value Measurement;
- the new consolidation standards IFRS 10 - Consolidated financial statements, IFRS 11 – Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities,
- the amendments to IAS 28 - Investments in associates and joint ventures, and to IAS 27 - Separate Financial Statements.

The potential impact of the amendment to IAS 19 on the Group is limited; the abolition of the "corridor" method specified by IAS 19 (revised) has no impact, insofar as actuarial differences are already fully recognized under other 'comprehensive income' income items.

The impact of the new standards, and specifically the impact of IFRS 10, IFRS 11 and IFRS 12 on consolidation, and the amendments to IAS 28 R and IAS 27 R applicable as from January 1, 2014 at the latest are currently under review.

2.2.3. Options selected on first adoption of IFRS

The FNAC Group has drawn up its consolidated financial statements for the financial years ending December 31, 2012, 2011, and 2010 in accordance with the provisions of IFRS 1- *First-Time Adoption of International Financial Reporting Standards*.

Therefore, in the case of a subsidiary that becomes a first-time adopter after its parent company, IFRS 1 offers a choice when valuing its assets and liabilities in the opening balance sheet of the first IFRS period shown:

(a) either to value the assets and liabilities at the carrying amount resulting from the sub-group's contribution to the parent company's historical financial statements, after restating the adjustments relating to the consolidation process and to the potential impact of the parent company business combination on its subsidiary;

(b) or to value the assets and liabilities at IFRS carrying amounts by switching the subsidiary to IFRS independently of the carrying amount selected for the subsidiary in the parent company's consolidated financial statements. In this case, the transitional first-time adoption measures (IFRS 1 options) applied by the subsidiary may differ from those selected by the parent company when the subsidiary started to prepare its financial statements under IFRS.

The FNAC Group has chosen to draw up its first financial statements under IFRS as of January 1, 2010, based on the carrying amount of its assets and liabilities that results from its contribution to the PPR Group's consolidated financial statements, after eliminating the adjustments relating to the PPR Group's consolidation process.

As a result, the FNAC Group has retained the same options under IFRS 1 as those applied by the PPR Group, namely:

- **business combinations**: only business combinations that took place after January 1, 1999 have been restated in accordance with IFRS 3;
- **employee benefits**: the FNAC Group's aggregate actuarial differences were recognized at the transfer date via an offsetting amount in the opening equity of the PPR Group on the IFRS transition date ;
- **aggregate translation differences**: the FNAC Group's translation differences were reset to zero, via an offsetting amount in the opening equity of the PPR Group on the IFRS transition date. As a result, the translation differences shown in equity are those generated since January 1, 2004;
- **share-based payments**: in accordance with the option allowed under IFRS 2 for share-based plans, the FNAC Group has chosen to apply this option only to the plans issued by the PPR Group after November 7, 2002 and where the rights had not vested as of January 1, 2005.

- **a classification of previously recognized financial assets and liabilities at the transition date**, i.e. either at fair value through profit or loss, or as available for sale, was performed by the PPR Group at the IFRS transition date (January 1, 2005).

2.3. Basis of preparation for the consolidated financial statements

2.3.1 Valuation basis

The consolidated financial statements are drawn up according to the historical cost method, except for

- certain financial assets and liabilities, which are valued at fair value;
- the securities retained in a subsidiary or an associate, which are valued at fair value at the time of the loss of control or significant influence;
- non-current assets available for sale, which are valued and recognized at the lower amount between their net carrying amount and their fair value, less disposal costs, as soon as their sale is considered as highly likely. These assets are no longer amortized or depreciated once they are classified as assets (or a group of assets) available for sale

2.3.2 Use of estimates and judgment

The preparation of the consolidated financial statements implies that the FNAC Group's Management uses estimates and assumptions, which may have an impact on the carrying amount of certain assets and liabilities, and income and expenses together as well as on the disclosures provided in the Notes to the consolidated financial statements. FNAC Group Management reviews its estimates and assumptions on a regular basis, in order to ensure that they are appropriate in view of past experience and of the current economic environment. Depending on changes in these assumptions, the items shown in the Group's future financial statements may differ from current estimates. The impact of changes in accounting estimates is recognized in the period when the change occurs and in all the future periods affected.

The main estimates made by FNAC Group Management in order to prepare the financial statements concern the valuation and the useful lives of operating assets, items of property, plant & equipment and intangible assets, and goodwill, the amount of the provisions for contingencies and other provisions relating to the business activities, primarily in relation to inventory, as well as the assumptions used for the calculation of the obligations relating to employee benefits, share-based payments, deferred tax, and financial instruments. The FNAC Group also uses discount rate assumptions that are based on market data, in order to estimate its long-term assets and liabilities.

The main assumptions used by the FNAC Group are detailed in each of the dedicated paragraphs in the notes to the financial statements, and primarily in the following Notes:

Estimate		Nature of the estimate
Notes 2.10 and 18	Impairment test for non-financial assets	CGU grouping level for an impairment test Main assumptions used to establish value-in-use (discount rates, perpetual growth rate, and expected cash flows) Assessment of the economic and financial environment of the countries in which the Group operates
Notes 2.15 and 25	Employee benefits and equivalent	Discount rate, expected rate of return on the assets, and rate of increase in salaries
Notes 2.17 and 5	Revenue	The income relating to loyalty cards and to warranty extensions is spread over the period when the services are provided on a straight-line basis. Presentation of gross sales, as opposed to commissions, based on the assessment of whether the Group was operating as a principal or an agent
Notes 2.9 and 21	Inventory	Expected inventory run-down in order to calculate an impairment
Notes 2.13 and 11	Tax	Assumptions used in order to recognize deferred tax assets relating to tax-loss carry-forwards and timing differences
Notes 2.14 and 26	Provisions	Underlying assumptions used to assess the legal position and for risk assessment

2.3.3 Cash flow statement

The FNAC Group's cash flow statement is prepared in accordance with IAS 7 – *Cash flow statements*. The FNAC Group primarily uses the indirect method in order to prepare its cash flow statement.

2.4. Consolidation principles

The consolidated financial statements include the financial statements of acquired companies as from the date when control was acquired, and those of sold companies up until the date when control was lost.

2.4.1. Subsidiaries

Subsidiaries include all the entities (including special-purpose vehicles) over which the FNAC Group exercises control. Control means the power to direct the entity's financial and operating policy either directly or indirectly, in order to gain benefits from its business activities. This situation usually involved holding over 50% of the voting rights in the company, either directly or indirectly. The existence and impact of potentially exercisable or convertible voting rights are taken into account when assessing control.

Subsidiaries are consolidated as from the date when control over them is acquired.

Inter-company transactions and assets and liabilities are eliminated for fully consolidated companies. Gains and losses on internal transactions with controlled companies are also eliminated.

Where applicable, the subsidiaries' accounting principles and policies are altered, in order to ensure the consistency of the accounting methods used at the Group level.

2.4.2. Associates

The FNAC Group has no interests in joint ventures or associates.

2.4.3. Business combinations

Business combinations are recognized according to the purchase method in cases where the FNAC Group acquires control over one or several business activities.

Business combinations are assessed and recognized in accordance with the provisions of IFRS 3 (revised): the consideration transferred (acquisition cost) is assessed based on the fair value of the assets delivered, the equity issued and the liabilities incurred at the date of exchange. The acquired company's assets and liabilities are valued at fair value at the acquisition date. The costs directly attributable to the acquisition are expensed.

Any excess amount in the consideration transferred compared with the FNAC Group's share in the net fair value of the acquired company's identifiable assets and liabilities results in the recognition of a goodwill amount. The FNAC Group has the option to choose a fair value valuation of the non-controlling interests for each business combination. In this case, the FNAC Group recognizes a goodwill amount for all the identifiable assets and liabilities (full goodwill method).

Goodwill is determined on the date when control over the entity is acquired, and is not subject to any subsequent adjustment beyond the valuation period; the subsequent acquisition of non-controlling interests does not give rise to the recognition of additional goodwill. Transactions involving the acquisition and disposal of non-controlling interests are directly recognized in the FNAC Group's equity.

If the consideration transferred is lower than the FNAC Group's share in the net assets of the subsidiary acquired, when valued at fair value, this difference is recognized directly in profit or loss for the financial year.

The recognition of a business combination must be completed within a period of 12 months following the acquisition date. This timeframe applies to the valuation of identifiable assets and liabilities, of the consideration transferred, and of the non-controlling interests.

2.5. Conversion of foreign currencies

2.5.1. Functional currency and reporting currency

The items included in the financial statements of each FNAC Group entity are valued by using the currency of the main economic environment ("the functional currency") in which the entity operates. The FNAC Group's consolidated financial statements are shown in euros, which is the FNAC Group's functional and reporting currency.

2.5.2. Recognition of transactions in foreign currencies

Transactions denominated in foreign currencies are recognized in the entity's functional currency, at the exchange rate in effect at the transaction date.

Cash items in foreign currencies are translated at the end of each accounting period using the closing exchange rate. Translation differences that result or arise from the settlement of these cash items are recognized in income or expense for the period.

Non-cash items in foreign currencies valued at historical costs are translated at the rate on the date of the transaction, and non-cash items in foreign currencies valued at fair value are translated at the rate on the date when that fair value was determined. When a gain or loss on a non-cash item is recognized directly in other comprehensive income items, the "currency" component of this gain or loss is also recognized in other comprehensive income items. Otherwise, that component is recognized in income for the period.

The treatment of currency hedges in the form of derivatives is set out in the paragraph entitled Derivative instruments in Note 2.11.3 - Derivative Instruments.

2.5.3. Translation of the financial statements of foreign subsidiaries

The net income and financial position of the FNAC Group entities that have a functional currency that is different from the reporting currency are translated into euros as follows:

- balance sheet items other than shareholders' equity are translated at the exchange rate on the period-end date;
- income and cash flow statement items are translated at the average exchange rate for the period;
- exchange rate differences are recognized in translation differences in the statement of comprehensive income, within other comprehensive income items, primarily translation differences relating to borrowings in foreign currencies to hedge a foreign currency investment, or to ongoing advances to subsidiaries.

The goodwill and adjustments to fair value arising at the time of a business combination with a foreign business activity are recognized in the functional currency of the acquired entity. They are then translated at the closing rate in the FNAC Group's reporting currency, while the differences arising from this translation are carried to the statement of comprehensive income, within other comprehensive income items.

2.5.4. Net investment in a foreign business activity

The exchange rate differences recognized when translating a net investment in a foreign business activity are recognized as a separate component in the statement of comprehensive income in the consolidated financial statements, and are recognized in income on the date when control is lost.

Translation differences relating to foreign currency borrowings aimed at hedging an investment in foreign currency or ongoing advances to subsidiaries are also recognized within other comprehensive income items in the statement of comprehensive income for the efficient portion of the hedge, and are recognized in income when the net investment is sold.

2.6. Goodwill

Goodwill amounts to the excess consideration transferred in a business combination compared with the purchaser's share in the net fair value of the identifiable assets and liabilities at the acquisition date. In the event that the FNAC Group chooses to value non-controlling interests at fair value, goodwill is calculated on the basis of all the identifiable assets and liabilities.

Goodwill is allocated to the cash-generating units (CGUs) or groups of CGUs defined by the FNAC Group as from the acquisition date. The CGUs or groups of CGUs to which the goodwill is allocated are subject to an annual impairment test in the second half of the year, and where events or circumstances indicate that an impairment is likely to occur.

Potential impairments are recorded on the "Other non-current operating income and expense line" in the profit and loss statement, which is included in the FNAC Group's operating income.

2.7. Intangible assets

Intangible assets primarily consist of software valued at its acquisition or production cost, and of up-front fees paid when signing a lease agreement.

Software acquired as part of current operations, and software developed internally by the FNAC Group meets all the criteria required by IAS 38, and is amortized on a straight-line basis over its useful life, which ranges between one and five years.

The FNAC Group classifies its leasehold rights as non-current assets with an indefinite useful life. These non-current assets are therefore not amortized, and are subject to an annual impairment test.

2.8. Property, Plant & Equipment

Following their initial recognition, property, plant & equipment is recognized at cost less accumulated depreciation and impairment charges. The cost of an item of property, plant & equipment includes the expenditure that is directly related to the acquisition of that item.

Subsequent costs are included in the carrying amount of the asset or, where applicable, recognized separately, if it is likely that future economic benefits relating to this item will accrue to the FNAC Group, and the cost of the asset can be reliably measured. All other maintenance and repair costs are expensed during the period when they are incurred.

The depreciation applied to property, plant & equipment by the FNAC Group is calculated on a straight-line basis, using the acquisition cost, and over a period that corresponds to the useful life of each asset component, i.e. between 8 and 20 years for fixtures and fittings and land and building development, and between 3 and 10 years for equipment.

Property, plant & equipment is subject to an impairment test as soon as evidence of impairment is identified, such as a planned closure, for instance, or a headcount reduction or downward revision of the outlook for the market. Where the recoverable amount of the asset is lower than its net carrying amount, an impairment is recorded on the asset. In cases where the recoverable amount of the isolated asset cannot be accurately determined, the FNAC Group determines the recoverable amount of the CGU or the CGU group to which the asset belongs.

Lease agreements

Agreements, where the performance depends on the use of one or more specific assets, which grant the right to use that asset are classified as lease agreements.

Lease agreements that transfer almost all the risks and benefits inherent to ownership of an asset to the FNAC Group are classified as finance lease agreements.

Assets leased pursuant to agreements classified as finance leases are recorded under property, plant & equipment and offset by a financial liability of the same amount, either at the fair value of the leased asset or the discounted value of the minimum payments, if that value is lower. The corresponding assets are depreciated over a useful life that is identical to that of items of property, plant & equipment that are acquired outright, or over the term of the agreement, if that timeframe is lower.

Lease agreements that do not transfer almost all the risks and benefits inherent to ownership of an asset to the FNAC Group are classified as operating lease agreements. The payments made under these agreements are recognized under current operating costs on a straight-line basis over the term of the agreement.

The lessor incentives obtained as part of the performance or renewal of operating lease agreements are spread over the term of the lease on a straight-line basis, in accordance with the SIC 15 interpretation. They primarily involve the lessors' contribution to building works and rent-free periods.

The gains generated by disposals performed as part of leaseback transactions are recorded in income in full at the time of the leaseback, where the lease is classified as an operating lease, and insofar as the transaction was performed at fair value.

The same accounting treatment applies to agreements that grant the FNAC Group the right to use a specific item of property, plant & equipment in exchange for a payment or a series of payments, even if they do not take the legal form of a lease agreement.

2.9. Inventory

Inventory is valued at the lower of cost or net realizable value. The net realizable value is equal to the selling price, estimated according to the age of the products, net of the remaining costs to be incurred in order to complete the sale.

Inventory is valued according to the weighted average cost per unit method.

Inventory includes all the purchase and other costs incurred in order to bring the inventory to the place of sale in its current condition (parafiscal taxes, transportation costs, and provision for unidentified shrinkage between the last inventory date and the closing date). The benefits obtained from suppliers and recognized as a reduction of the cost of goods sold are deducted from the inventory value.

Financial expenses are not included in inventory. They are expensed during the financial year in which they are incurred.

The FNAC Group may be required to record an impairment on inventory, based on the likelihood of running it down, if it is damaged, partially or completely obsolete, of if the selling price has fallen.

2.10. Impairment of assets

Goodwill, intangible assets with an indefinite useful life, and CGUs or groups of CGUs that include such items are subject to an automatic annual impairment test during the second half of the year.

Furthermore, where events or circumstances show that an impairment is likely to occur in relation to goodwill, other intangible assets, an item of property, plant & equipment and CGUs or groups of CGUs, an impairment test is performed. Such events or circumstances may be related to material adverse changes that affect either the economic environment, or the assumptions and targets selected at the acquisition date.

An impairment test consists in determining whether the recoverable amount of an asset or of a CGU or group of CGUs is lower than its net carrying amount.

The recoverable amount of an asset or of a CGU or group of CGUs is the higher of its fair value less selling costs and its value-in-use.

Value-in-use is determined according to expected future cash flow forecasts, taking account of the time value and of the specific risks relating to the asset, or to the CGU or group of CGUs. Expected future cash flow forecasts are drawn up on the basis of budgets and medium-term plans. These plans are drawn up over a four-year time frame. To calculate the value-in-use, a terminal value equal to the capitalization in perpetuity of a standardized annual cash flow is added to the value of the future cash flows expected.

The fair value less selling costs corresponds to the amount that could be obtained from the sale of the asset or group of assets between knowledgeable and willing parties, under normal market conditions, less disposal costs. These values are determined based on market data (comparison with similar listed companies, value assigned during recent transactions, and stock prices).

Where the recoverable amount of the asset or the CGU or group of CGUs is lower than its net carrying amount, the asset or the group of assets is impaired.

In the case of a CGU or group of CGUs, the impairment is primarily allocated to goodwill, where applicable, and is recorded on the "Other non-current operating income and expense" line in the profit and loss statement.

The impairments recorded on property, plant & equipment and other intangible assets may be reversed at a later date, where the recoverable amount rises above net carrying amount once again. The impairment charges recorded on goodwill cannot be reversed.

During the partial disposal of a CGU, the value allocated to the goodwill that corresponds to the partial disposal is valued according to the relative values of the business sold and of the portion of the CGU that is retained, unless another method turns out to be more appropriate.

2.11. Financial assets and liabilities

Derivative instruments are recorded at fair value on the balance sheet, under assets (positive fair value) or liabilities (negative fair value).

2.11.1. Financial assets

Pursuant to IAS 39, financial assets are classified under one of the four following categories:

- financial instruments measured at fair value through profit and loss;
- loans and receivables;
- assets held to maturity;
- assets available for sale.

This classification determines the accounting treatment for these instruments. It is determined by the FNAC Group at the initial recognition date, depending on the purpose for which the assets were acquired. Purchases and disposals of financial assets are recognized at the transaction date, when the FNAC Group has committed to purchase or sell the asset. A financial asset is deconsolidated if the contractual rights to the cash flows attached to this financial asset expire, or if the asset has been transferred.

1. Financial assets at fair value through profit or loss

These are financial assets that the FNAC Group holds for the purpose of generating a short-term gain on disposal, as well as financial assets that have been voluntarily classified in this category.
These assets are valued at fair value, and the changes are recorded in profit or loss.

2. Loans and receivables

Loans and receivables are non-derivative financial assets with determined or determinable payments, which are not traded on an active market and are neither held for transaction purposes nor available for sale.

These assets are initially valued at fair value, and then at amortized cost using the effective interest-rate method. In the case of short-term receivables with no stated interest rate, fair value is assumed to be the amount of the original invoice, except if the effective interest rate has a material impact.

These assets are tested for impairment in the event that there is evidence of impairment. An impairment charge is recorded if the carrying amount is greater than the estimated recoverable amount. The criteria for impairing the Group's trade receivables and payables are as follows:

- 50% impairment charge is recorded on receivables outstanding for between six months and one year
- 100% impairment charge is recorded on receivables outstanding for over one year.

Receivables relating to investments, other loans and receivables, and commercial receivables are included in this category. They are shown under non-current financial assets, trade receivables, and other non-current financial assets.

3. Assets held to maturity

Assets held to maturity are non-derivative financial assets other than loans and receivables, with a fixed maturity, where the payments are determined or determinable, and which the FNAC Group has the intention and ability to hold until that maturity. These assets are initially recognized at fair value, and then at amortized cost using the effective interest-rate method.

They are tested for impairment in the event that there is evidence of impairment. An impairment charge is recorded if the carrying amount is greater than the estimated recoverable amount.

Assets held to maturity are shown under non-current financial assets.

4. Assets available for sale

Assets available for sale are non-derivative financial assets that do not fall under the aforementioned categories. They are valued at fair value. The unrealized gains or losses recorded are recognized under other comprehensive income items until they are sold. However, when there is objective evidence of impairment on an asset available for sale, the aggregate loss is recognized through profit or loss. The impairment charges recorded on variable-income securities cannot be reversed through the profit and loss statement at a subsequent period-end.

The fair value of listed securities corresponds to the market price. In the case of unlisted securities, the fair value is determined on the basis of recent transactions or via valuation techniques that include reliable and observable market data. However, where the fair value of a security cannot be determined on a reasonable basis, the security is valued at historical cost. These assets are then tested for impairment in order to assess their recoverability.

This category primarily includes non-consolidated investments and investment securities that do not meet the other definitions for financial assets. These assets are shown under non-current financial assets.

2.11.2. Financial liabilities

The valuation of financial liabilities depends on their classification under IAS 39. Within the FNAC Group, borrowings and financial debt, trade payables, and other liabilities are initially recorded at fair value less transaction costs, and then at amortized cost using the effective interest-rate method.

The effective interest rate is determined for each transaction, and corresponds to the rate that enables a net carrying amount to be calculated for a financial liability by discounting the future cash flows paid until maturity, or until the earliest date for resetting the price at the market rate. This calculation includes the transaction costs as well as any potential premiums and/or discounts. The transaction costs correspond to the costs that relate directly to the acquisition or issuance of a financial liability.

The net carrying amount of financial liabilities classified as hedged items under fair value hedging relationships and valued at amortized cost is adjusted according to the hedged risk.

Hedging relationships are detailed in the paragraph relating to "derivative instruments"

Financial liabilities classified under the fair value option, other than derivative liabilities, are valued at fair value. Changes in fair value are recognized in the profit and loss statement. The transaction costs relating to arranging these financial liabilities are immediately expensed. There was no impact on the FNAC Group's financial statements for the 2012, 2011, and 2010 financial years.

2.11.3. Derivative instruments

The FNAC Group uses various financial instruments in order to reduce its exposure to currency risk.

All these derivative instruments are recognized under current or non-current assets and liabilities on the balance sheet, depending on their maturity and their accounting classification, and are valued at fair value as from the transaction date. The change in the fair value of derivatives is always recorded in profit or loss except in the case of cash flow and net investment hedges.

Derivatives that are classified as hedging instruments are classified according to the hedge category, depending on the nature of the risk hedged.

- hedging cash flows enables the risk of fluctuations in the cash flows from recognized assets or liabilities or from a planned transaction that is highly likely and would have an impact on the consolidated profit and loss statement to be hedged;
- fair value hedges enable the risk of fluctuations in the fair value of a recognized asset or of a liability, or of a firm commitment that has not yet been recognized and may have an impact on consolidated net income to be hedged;
- net investment hedges primarily enable the currency risk of foreign operations to be hedged. Hedge accounting applies if, and only if, the following conditions are met:
- the hedging relationship is clearly identified, formalized and documented as from the date when it is entered into;
- the hedging relationship's efficiency is demonstrated on a forward-looking and retrospective basis. The results calculated in this way must fall within a confidence interval of between 80 and 125%.

Distinctions are made between the accounting treatment of financial instruments classified as hedging instruments, and their impact on the profit and loss statement and the balance sheet depending on the type of hedging relationship:

- in the case of cash flow and net investment hedges:
- the effective portion of the change in the fair value of the hedging instrument is offset directly in other comprehensive income items. These amounts are reclassified in the profit and loss statement in a way that mirrors the recognition method for the hedged items, i.e. mainly under gross margin for commercial transaction hedges and under net financial income for financial transaction hedges;
- the ineffective portion of the hedge is recognized in the profit and loss statement.

In the case of fair value hedges, the hedged component of these items is valued at fair value on the balance sheet. Fluctuations in this fair value are recorded in the profit and loss statement and offset, to the extent of the hedge's effectiveness, via recognizing the symmetrical fluctuations in the fair value of the financial instruments used as hedges in profit or loss.

Hedge accounting did not apply to the FNAC Group for the 2012, 2011, and 2010 financial years.

2.11.4. Cash and cash equivalents

The "Cash and cash equivalents" item shown under assets on the consolidated balance sheet includes available cash, units in money-market UCITS and short-term investments, together with other liquid and readily convertible instruments where the risk of a change in value is negligible, and which have a maturity of three months at most at the time when they are acquired.

Investments with a maturity of over three months, and frozen or pledged bank accounts are not included in cash. Bank overdrafts are shown in financial liabilities under balance sheet liabilities.

In the cash flow statement, the "Cash and cash equivalents item" includes the accrued interest not yet due on the assets shown under cash and cash equivalents, as well as bank overdrafts. A reconciliation table setting out the cash in the cash flow statement and balance sheet cash is provided in Note 27.

2.11.5. Definition of the Group's consolidated net financial debt

The concept of net financial debt used by the FNAC Group consists of gross financial debt, including accrued interest not yet due, less net cash, as set out in Recommendation No. 2009-R.03 issued by the French National Accounting Council.

2.12. Share-based payments

The PPR Group has awarded bonus shares and stock purchase and subscription options in the form of PPR shares to FNAC Group employees. In accordance with IFRS 2 – *Share-based payments*, the fair value of these plans, which corresponds to the fair value of the instruments delivered, is valued at the award date. The actuarial models used for these valuations are set out in Note 7. During the vesting period, the fair value of the options and bonus shares determined in this way is amortized in proportion to the rights vested. This expense is recorded under personnel expense, and offset by an increase in equity.

The re-invoicing of the expense relating to the award of bonus shares and share purchase and subscription options to FNAC Group employees by the PPR Group is recognized in consolidated reserves.

2.13. Tax

The tax charge for the financial year includes the tax payable and deferred tax.

Deferred tax is calculated according to the balance sheet liability method for all the timing differences that exist between the carrying amount recorded on the consolidated balance sheet and the taxable value of assets and liabilities, except for goodwill that is not tax deductible. The valuation of deferred tax is based on the way in which the FNAC Group expects to recover or settle the carrying amount of the assets and liabilities, using the tax rate adopted, or virtually adopted at the period-end date.

Deferred tax assets and liabilities are not discounted, and are classified as non-current assets and liabilities on the balance sheet.

A deferred tax asset is recognized for tax-deductible timing differences and for the carry-forward of tax losses and tax credits, insofar as their future realization appears likely.

A deferred tax liability is recognized on taxable timing differences relating to investments in subsidiaries, associates and joint ventures, unless the FNAC Group has control over the date when the timing difference will reverse, and it is likely that the timing difference will not reverse in the foreseeable future.

The 2010 Finance Act, which was voted on December 30, 2009, abolished the payment of the business tax by French tax entities as from 2010, and replaced it by two new contributions, which are treated as follows.

- The Corporate Real Estate Tax (CFE) which was based on the real estate rental values of the actual Business Tax is shown in operating income;

- Based on the FNAC Group's assessment, the Corporate Value-Added Tax (CVAE), which is based on the added value arising from parent company accounts, meets the definition of a tax, as set out in IAS 12. It is therefore shown on the "Income tax" line in the profit and loss statement.

2.14. Provisions

Provisions for litigation, disputes, and miscellaneous contingencies are recorded as from the time when an obligation resulting from a past event actually exists, and will probably result in an outflow of resources amounting to economic benefits, where the amount can be estimated on a reliable basis. Therefore, when estimating provisions relating to litigation, the FNAC Group assesses the likelihood of an adverse judgment, and estimates the amounts involved. This assessment is based on legal appraisals performed with the FNAC Group's advisors.

Provisions where the term is over one year are valued at a discounted amount that corresponds to the best estimate of the expenditure required to settle the current obligation at the period-end date. The discount rate used reflects current assessments of the time value of money and of the specific risks relating to the liability.

A restructuring provision is recorded as soon as a formal and detailed restructuring plan exists, and has been announced or begun to be executed before the period-end date. The restructuring costs provisioned primarily correspond to employee-related costs (redundancy payments, early retirement allowances, and allowances for non-serving of notice), to asset impairments and to compensate for the termination of contracts entered into with third parties. The other provisions correspond to specific contingencies and losses that have been identified.

2.15. Post-employment and other long-term employee benefits

The FNAC Group companies are involved in the provision of various kinds of benefits to their employees, in accordance with the laws and customs of each country.

In the case of defined benefit schemes, the FNAC Group is under no obligation to make any payments in addition to the contributions already paid into a fund, if that fund does not have sufficient assets to provide the benefits that correspond to the services provided by staff during the current period, or previous periods. Contributions to these schemes are expensed when incurred.

The commitments relating to defined benefit schemes are measured according to the projected unit credit method, on the basis of the arrangements or agreements in effect at each company. According to this method, each service period gives rise to an additional unit of entitlement to services, and each unit is valued separately in order to calculate the final obligation. This obligation is then discounted. The actuarial assumptions used as of March 1, 2013 to determine the commitments vary depending on the economic conditions of the country in which the scheme is located. These schemes and the end-of-employment benefits are the subject of an actuarial review by independent actuaries, which takes place every year for the larger schemes and at regular intervals for the other schemes. These reviews primarily factor in the future level of remuneration, employees' likely working life and life expectancy, and staff turnover.

Actuarial gains and losses result from changes to assumptions and from the difference between the results estimated according to actuarial assumptions and the actual results. These differences are recognized immediately under other comprehensive income items in the case of all the actuarial differences involving defined benefit schemes, in accordance with the option allowed under IAS 19.

The cost of past services, which refers to the increase in a commitment following the introduction of a new scheme or an alteration to an existing scheme, is spread over the average period remaining until the rights vest on a straight-line basis, or is immediately expensed if the rights to benefits have already vested.

Expenses relating to this type of scheme are recognized under current operating income (cost of past services) and net financial income (financial cost of and expected return on the assets). Reductions, payments, and the cost of past services are recognized in current operating income or net financial income depending on their nature. The provision recorded on the balance sheet corresponds to the discounted value of the commitments assessed in this way, after deducting the fair value of the scheme assets and the cost of past services that have not yet been amortized.

2.16. Non-current assets (or groups of assets) held for sale

IFRS 5 - *Non-current assets held for sale and discontinued operations* requires the specific recognition and presentation of assets (or groups of assets) held for sale and of operations that have been discontinued, disposed of, or are in the process of being disposed of.

Non-current assets or directly related groups of assets and liabilities are considered as held for sale if their carrying amount is recovered mainly via a disposal rather than via continuing use. For this to be the case, the asset (or group of assets) must be available for immediate sale and its sale must be highly likely. Non-current assets (or groups of assets) held for sale are valued and recognized at the lower of their net carrying amount and fair value less disposal costs. These assets are no longer amortized or depreciated once they are classified as assets (or a group of assets) available for sale. They are shown on a separate line of the FNAC Group's balance sheet, with no restatement of prior accounting periods.

An operation that has been discontinued, sold, or is about to be sold is defined as a component of an entity where the cash flows are distinguishable from the remainder of the entity, and which represents a business line or a major and separate region. The income from these operations is shown on a separate "Discontinued operations" line in the profit and loss statement for all the accounting periods reported, and is restated in the cash flow statement.

2.17. Recognition of revenue

Revenue primarily consists of the sale of goods and services performed by the stores and the Group's e-commerce websites.

Revenue is valued at the fair value of the consideration received in exchange for the goods and services sold, excluding tax, net of discounts and rebates, and after elimination of inter-company sales.

In accordance with the IFRIC 13 interpretation "*Customer Loyalty Programs",* the benefits awarded to customers as part of loyalty programs represent items that are separate from the initial sale. These benefits are valued at fair value and recognized as a deduction from the initial sale, after factoring in a redemption rate that corresponds to the likelihood of the benefits being used by members, which is estimated using a statistical method.

Meanwhile, revenue from the sale of loyalty cards is spread over the cards' validity period, in order to reflect the timeframe of the benefits provided.

Sales of goods are recognized where a FNAC Group entity has transferred the risks and benefits inherent to owning an asset to the buyer, usually once delivery has taken place, the amount of the income can be measured on a reliable basis and recovery is reasonably certain.

Following the sale of goods, and in accordance with the contractual clauses relating to these sales, provisions may be recorded as a deduction from Revenue, in order to handle any potential return of goods that is likely to occur after the financial year-end.

The provision of services, like the sale of warranty extensions or services relating directly to the sale of goods, is recognized over the period when the services are provided. Where the Group acts in the capacity of an agent for the sale of these services, revenues are recognized at the time of sale, and correspond to the margin generated or to the commission received. This process primarily involves ticket sales, the sale of gift boxes, and Internet sales performed on behalf of its service providers (Marketplace).

2.18. Operating income

Operating income includes all the income and expense that is directly related to the FNAC Group's business operations, regardless of whether the income and expense is recurring, or results from one-off decisions and transactions.

Current operating income is an intermediate line item, which is aimed at making the company's operating performance easier to understand.

Other non-current income and expense, as defined by Recommendation No. 2009-R.03 issued by the French National Accounting Council, and which is excluded from current operating income, includes:

- unusual and rare items that are of a nature that disrupts the monitoring of the Group's economic performance
- impairment of goodwill and intangible assets;
- the disposal and proceeds from disposals of items of property, plant & equipment and intangible assets or operating investments;
- restructuring costs and the costs relating to headcount adjustment measures.

2.19. Earnings per share

Net earnings per share are calculated by dividing net income, Group share by the weighted average number of shares outstanding during the financial year.

Diluted net earnings per share are calculated by adjusting net income, Group share, and the number of shares outstanding for all the instruments that grant deferred access to the capital of the consolidated entity, regardless of whether they are issued by that entity or one of its subsidiaries. The dilution is determined on an instrument-by-instrument basis. The FNAC Group has not issued any dilutive instruments.

In the event of material non-current items, net earnings per share excluding non-current items are calculated by adjusting net income, attributable to owners of the Company share for the non-current items, according to the amount of those items net of tax and non-controlling interests. The non-current items taken into account for this calculation correspond to the items included on the "Other non-current operating income and expense" line in the profit and loss statement.

2.20. Operating segments

In accordance with IFRS 8- Operating segments, the segment information provided is drawn up on the basis of the internal management data used to assess the performance of the business activities and to allocate resources by the Chairman and Chief Executive Officer and the Executive Board Directors, who make up the FNAC Group's main operational decision-making body.

An operating segment is a distinct component of the FNAC Group, which is engaged in activities that are likely to generate revenue and to incur expenses, where the operating income is reviewed by the operating decision-making body on a regular basis, and for which separate information is available. Each operating segment is the subject of individual monitoring from an internal reporting standpoint, according to performance indicators that are shared by all the segments.

The segments shown under segment information are operating segments or groups of operating segments. They correspond either to countries, or to geographical areas that consist of countries where the FNAC Group conducts its business activities through stores:

- France;
- the Iberian Peninsula (Spain and Portugal);
- Brazil;
- Other countries (Switzerland and Belgium).

The management data used to assess the performance of a segment are drawn up in accordance with the IFRS applied by the FNAC Group in its consolidated financial statements.

NOTE 3 SIGNIFICANT EVENTS

3.1. Changes in the scope of consolidation

The FNAC Group's consolidated financial statements drawn up as of December 31, 2012 include the financial statements of the companies listed in Note 36.

The FNAC Group sold its interest in FNAC Italy to the PPR Group in 2012, generating a total loss on disposal of €10.7 million.

The FNAC Group consolidated Kyro Concept, in which it owns a 100% interest as from January 1, 2012; the company's main business activity is the operation of the Aparté professional ticketing software.

In 2010, the FNAC Group sold its minority 3.90% interest in Conforama, as well as FNAC Eveil & Jeux and FNAC Greece, generating a net €38.8 million gain on disposal.

3.2. Other significant events

3.2.1 Launch of the FNAC 2015 plan

The FNAC Group has drawn up a new strategy plan, known as FNAC 2015, which was announced on July 19, 2011, and included the following areas:

- Launch of new product lines

To boost its customers' loyalty, the FNAC Group is developing an approach based on usage categories in its stores, including broader product ranges, in categories like FNAC Kids and Home & Design, as well as mobile telephony areas in partnership with SFR.

- Development of new retailing models

The FNAC Group is developing new retailing models through the expansion of its franchise network in railway stations and airports, as well as in duty-free areas, including an initial partnership with the Lagardère Group in 2011. The FNAC Group is also considering developing stores with traditional or small formats in order to boost its territorial coverage.

- Development of the multi-channel model

The FNAC Group wants to capitalize on its multi-channel sales model by increasing the synergies between its stores and its websites.

- Launch of a cost-cutting plan

In January 2012, the FNAC Group announced that it was launching a cost-cutting plan aimed at improving the Group's profitability by cutting 310 positions at the French organizations and 200 positions abroad, and by reducing operating costs.

3.2.2 Opening of franchises

In December 2011, the FNAC Group opened its first franchise store in Casablanca (Morocco) in partnership with the Aksal Group. Since 2012, the FNAC Group has opened several other franchises in Duty Free areas in several airports and railway stations in France, as well as two store franchises, one in a suburban store format, and the other in a proximity format.

3.2.3 Preparation of the FNAC Group's stock market listing

On October 9, 2012, the PPR Group announced the planned separation and stock market listing of the FNAC Group, the European leader in the leisure and technical products markets, via the allocation of FNAC Group shares to PPR shareholders. The FNAC Group's stock market listing is scheduled for June 2013.

As part of the preparation for the Group's stock market listing, the PPR Group recapitalized the FNAC Group via the injection of €539.587.048 in two stages on December 27, 2012:

- an initial recapitalization of €291.3 million on December 27, 2012 via the capitalization of receivables
- a second recapitalization of €248.3 million on December 27, 2012 via a cash capital increase

NOTE 4 OPERATING SEGMENTS

The principles for determining the operating segments shown are described in Note 2.20.

The information relating to the operating segments shown follows the same accounting rules as those used for the consolidated financial statements, and set out in the notes to the consolidated financial statements.

The assessment of the performance of each operating segment, as used by the main operating decision-maker, is based on current operating income.

Current additions to depreciation, amortization and provisions on non-current operating assets correspond to net additions to depreciation, amortization and provisions on intangible assets and property, plant & equipment recognized in current operating income. Purchases of intangible assets and property, plant & equipment correspond to purchases of gross non-current assets including any cash shortfall, and excluding any investment in non-current assets under finance lease agreements.

Non-current segment assets consist of goodwill and other intangible assets, of items of property, plant & equipment and of other non-current assets. Segment assets consist of non-current segment assets, inventory, trade receivables, customer loans and other current assets. Segment liabilities consist of the financing for customer loans, trade payables, and other current liabilities.

The Corporate Head Office costs are included in the France operating segment.

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4.1. Operating segment information

(€ million)	France	Iberian Peninsula	Brazil	Other countries	Total
December 31, 2012					
Revenue	2,838.8	683.3	227.5	311.5	4,061.1
Operating income	**(57.5)**	**15.6**	**(22.6)**	**(2.4)**	**(66.9)**
Current additions to depreciation, amortization and provisions on non-current operating assets	142.7	11.5	9.7	5.2	169.1
Other non-cash operating income and expense	0.9				0.9
Purchase of gross intangible assets and property, plant & equipment	80.6	9.7	2.5	2.4	95.1
Segment assets	**1,052.3**	**160.6**	**83.5**	**74.4**	**1,370.8**
Segment liabilities	**856.6**	**203.2**	**48.2**	**80.6**	**1,188.6**

(€ million)	France	Iberian Peninsula	Brazil	Other countries	Total
December 31, 2011					
Revenue	2,884.9	707.3	240.7	329.6	4,162.5
Operating income	**20.7**	**27.9**	**(13.8)**	**7.5**	**42.3**
Current additions to depreciation, amortization and provisions on non-current operating assets	58.8	11.9	9.0	4.0	83.7
Other non-cash operating income and expense	1.1		4.4	0.1	5.6
Purchase of gross intangible assets and property, plant & equipment	39.2	33.5	4.5	3.9	81.1
Segment assets	**1,121.4**	**188.2**	**118.6**	**81.7**	**1,509.9**
Segment liabilities	**913.2**	**213.8**	**67.7**	**87.6**	**1,282.3**

(€ million) December 31, 2010	France	Iberian Peninsula	Brazil	Other countries	Total
Revenues	3,015.5	732.3	232.1	325.2	4,305.1
Operating income	**148.7**	**48.1**	**(15.0)**	**3.5**	**185.3**
Current additions to depreciation, amortization and provisions on non-current operating assets	44.4	8.4	7.4	3.8	64.0
Other non-cash operating income and expense	(31.3)				(31.3)
Purchase of gross intangible assets and Property, Plant & Equipment	18.4	23.8	11.3	10.0	63.5
Segment assets	**1,164.9**	**194.2**	**108.8**	**134.6**	**1,602.5**
Segment liabilities	**892.1**	**226.5**	**79.2**	**139.5**	**1,337.3**

4.2. Reconciliation of segment assets and liabilities

The reconciliation between total segment assets and total non-current segment assets in total Group assets is as follows:

(€ million)	2012	2011	2010
Goodwill	323.5	403.3	403.8
Intangible assets	73.3	73.9	63.6
property, plant & equipment	197.3	209.3	228.6
Other non-current assets	0.1	0.5	0.8
Non-current segment assets	594.2	687.0	696.8
Inventory	495.2	530.7	566.2
Trade receivables	118.8	121.6	88.9
Other current assets	162.6	170.5	250.6
Segment assets	**1,370.8**	**1,509.9**	**1,602.5**
Non-current financial assets	5.8	28.4	6.6
Deferred tax assets	33.9	26.2	27.3
Tax receivables due	9.2	10.6	11.8
Other current financial assets	0.0	0.1	
Cash and cash equivalents	305.5	80.8	251.5
Assets held for sale		51.5	
Total assets	**1,725.2**	**1,707.4**	**1,899.7**

The reconciliation between total segment liabilities in total Group liabilities is as follows:

(€ million)	2012	2011	2010
Trade payables	717.1	730.5	844.1
Other current liabilities	471.5	551.8	493.2
Segment liabilities	**1,188.6**	**1,282.3**	**1,337.3**
Equity	397.0	30.5	388.8
Long-term borrowings and financial debt	0.7	0.4	0.8
Non-current provisions for pensions and other equivalent benefits	63.2	49.9	47.6
Short-term borrowings and financial debt	12.8	232.8	61.3
Current provisions	52.3	54.2	46.3
Tax liabilities payable	10.6	8.4	17.6
Liabilities relating to assets held for sale		48.9	
Total liabilities	**1,725.2**	**1,707.4**	**1,899.7**

NOTE 5 REVENUE

(€ million)	2012	2011	2010
Net sales of goods	3,843.6	3,946.5	4,087.0
Net sales of services	186.8	191.3	200.1
Other revenue	30.7	24.7	18.0
Total	**4,061.1**	**4162.5**	**4,305.1**

Sales of goods are shown net of the various commercial discounts awarded to customers, including deferred discounts relating to loyalty programs.

Sales of services include loyalty cards and warranty extension agreements, which are spread over the agreement period on a straight-line basis. They also include the commissions received on sales of goods or services where the Group acts as an agent (including tickets, telephony, gift boxes and Marketplace).

Other revenue primarily consists of the re-invoicing of shipping costs and commissions.

NOTE 6 PERSONNEL EXPENSES

Personnel expenses primarily include fixed and variable remuneration, social security contributions, expenses relating to employee profit sharing and other incentives, training expenses, and expenses relating to employee benefits recognized in current operating income (Note 25).

(€ million)	2012	2011	2010
France	(448.5)	(457.2)	(453.4)
Iberian Peninsula	(73.7)	(76.4)	(74.0)
Brazil	(21.1)	(21.4)	(21.0)
Other countries	(48.1)	(52.3)	(50.7)
Total	**(591.4)**	**(607.3)**	**(599.1)**

The personnel expenses shown above include the expense relating to the application of IFRS 2 regarding all the transactions based on PPR Group shares and re-invoiced by the PPR Group (Note 7), which amounted to €1.7 million in 2012 (€1.6 million in 2011, and €1.8 million in 2010).

The average headcount at the FNAC Group's continuing operations on a full-time equivalent basis broke down as follows:

	2012	2011	2010
France	8,809	9,206	9,129
Iberian Peninsula	3,059	3,065	2,877
Brazil	900	832	812
Other countries	888	979	987
Total	**13,656**	**14,082**	**13,805**

The registered headcount for the FNAC Group's continuing operations as of December 31, 2012 was as follows:

	2012	2011	2010
France	10,555	11,415	11,403
Iberian Peninsula	4,164	4,383	4,276
Brazil	918	874	892
Other countries	1,011	1,276	1,326
Total	**16,648**	**17,948**	**17,897**

NOTE 7 SHARE-BASED PAYMENTS

The FNAC Group grants certain staff member's share-based plans in exchange for services provided. The FNAC Group recognizes its commitment as and when the services are provided by the beneficiaries, from the date of award until the date when the rights vest.

The share purchase and subscription option plans, and the bonus share award plans described below are plans based on PPR shares. These plans remain linked to the PPR Group, and are therefore not intended to turn into FNAC Group shares. The PPR Group re-invoices the cost of these stock options to the FNAC Group, once the rights have vested, based on the actual cost incurred by the PPR Group.

- The date of award corresponds to the date when the plans were individually approved by the Management Board in the case of plans issued prior to May 19, 2005, or by the PPR Group's Board of Directors for plans issued after that date.
- The vesting date is the date when all the specific vesting conditions are met.
- The vesting period lasts between two and four years as from the award date.

Beneficiaries' vested rights can only be exercised following a holding period, the length of which varies depending on the type of plan.

In accordance with the transitional provisions of IFRS 2 regarding plans settled in equity instruments, only plans issued after November 7, 2002 and where the rights had not vested as of January 1, 2005 have been valued.

The nature of the eligible plans and their main features are shown in the table below:

Stock option and bonus share plans	2003/1 plan Subscription options	2004/1 plan Subscription options	2005/2 plan Subscription options	2005/3 plan Subscription options	2006/1 plan Purchase options	2007/1 plan Purchase options	2008/3 plan Bonus Shares	2009/2 plan Bonus Shares
Date of award	07/09/2003	05/25/2004	05/19/2005	05/19/2005	05/23/2006	05/14/2007	10/22/2008	05/17/2009
Expiry date	07/08/2013	05/24/2014	05/18/2015	05/18/2015	05/22/2014	05/13/2015	N.A.	N.A.
Vesting period	(a)	(a)	(b)	(b)	(b)	(b)	(d)	(d)
Number of beneficiaries	178	192	112	5	94	46	35	39
Number originally awarded	95,585	89,125	47,610	2,120	52,517	49,050	7,400	8,850
Number outstanding at 01.01.2012	5,520	17,587	12,878	400	21,799	37,515	6,600	7,205
Number cancelled in 2012		246	1,078		1,232	3,100	300	330
Number exercised in 2012	2,320	7,571	3,788	400	13,204	7,980		
Number of shares awarded							6,300	
Number expired in 2012								
Number outstanding as of 12.31.2012	3,200	9,770	8,012		7,363	26,435		6,875
Number exercisable as of 12.31.2012	3,200	9,770	8,012		7,363	26,435		
Exercise price (in euros)	66.00	85.57	78.01	78.97	101.83	127.58	N.A.	N.A.
Fair value at the valuation date (in euros)	15.37	15.75	11.19	10.98	13.62	20.99	21.39	32.21
Weighted average price of the options exercised & shares awarded (in euros)	118.,86	119.91	117.50	118.72	120.12	129.50		

Stock option and bonus share plans	2010/1 plan Bonus shares	2010/2 plan Bonus shares	2011/1 plan Bonus shares	2011/2 plan Bonus shares	2012/1 plan Bonus Shares	2012/2 plan Bonus Shares
Date of award	05/19/2010	05/19/2010	05/19/2011	05/19/2011	04/27/2012	04/27/2012
Expiry date	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Vesting period	(C)	(d)	(c)	(d)	(c)	(d)
Number of beneficiaries	89	42	81	43	76	38
Number originally awarded	18,716	5,585	15,297	5,110	15,991	3,685
Number outstanding at 01.01.2012	15,966	4,830	15,042	4,840		
Number cancelled in 2012	2,156	310	1,160	60	1,165	315
Number exercised in 2012						
Number of shares awarded	13,810					
Number expired in 2012						
Number outstanding as of 12.31..2012		4,520	13,882	4,780	14,826	3,370
Number exercisable as of 12.31..2012						
Exercise price (in euros)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Fair value at the valuation date (in euros)	72.63	60.62	83.53	69.91	88.73	74.62
Weighted average price of the options exercised						

The exercise of purchase options and the award of free shares do not give rise to a capital increase.

The holding period for all these plans lasts between two and four years as from the award date.

(a) The options vest at a rate of 25% for each full year of employment at the FNAC Group except in the event of retirement (when all the rights vest). In the event of dismissal for gross or of willful negligence, all the rights are forfeited, including any rights held after the expiration of the holding period.

(b) The options vest at a rate of 25% for each full year of employment at the FNAC Group except in the event of retirement (all the rights vest) or resignation (all the rights are forfeited). In the event of dismissal for gross or willful misconduct, all the rights are forfeited including any rights held after the expiration of the holding period.

(c) Shares vest two years after their award, except in the event of resignation or dismissal for gross or willful misconduct (all the rights are forfeited). The number of securities that is finally awarded is subject to stock market performance conditions. The vesting period is followed by a two-year lock-up period.

(d) Shares vest four years after their award, except in the event of resignation or dismissal for gross or willful misconduct (all the rights are forfeited). The number of securities that is finally awarded is subject to stock market performance conditions. There is no lock-up period.

The instruments awarded are valued on the date when the plans are awarded:

- share subscription and purchase options are valued using a Black & Scholes-type model with a trinomial algorithm and exercise thresholds, that specifically factor in the number of options that are potentially exercisable at the end of the vesting period;
- bonus share award plans are valued using a Black & Scholes-type model based on a Monte Carlo algorithm with two underlying simulations.

The exercise thresholds and the exercise probabilities selected as the assumptions for stock subscription and purchase plans are as follows:

Threshold as a % of the exercise price	Exercise probability
125%	15%
150%	20%
175%	20%
200%	20%

Given both these assumptions, 25% of the beneficiaries do not exercise their options early, before the expiration date.

The main valuation assumptions for the various plans are summarized in the table below:

Stock option and bonus share plans	2003/1 plan Subscription options	2004/1 plan Subscription options	2005/2 plan Subscription options	2005/3 plan Subscription options	2006/1 plan Purchase options	2007/1 plan Purchase options	2008/3 plan Bonus shares
Volatility	33.25%	25.65%	21.00%	21.00%	23.00%	23.00%	42.00%
Risk-free rate	4.08%	4.45%	3.49%	3.49%	4.08%	4.49%	4.06%

Stock option and bonus share plans	2009/2 plan Bonus shares	2010/1 plan Bonus shares	2010/2 plan Bonus shares	2011/1 plan Bonus shares	2011/2 plan Bonus shares	2012/1 plan Bonus shares	2012/2 plan Bonus shares
Volatility	40.00%	35.00%	35.00%	28.00%	28.00%	29.00%	29.00%
Risk-free rate	4.06%	1.85%	1.85%	2.32%	2.32%	0.97%	0.97%

The volatilities mentioned correspond to the expected volatility of each plan according to the maturities and exercise prices available at the award date. The dividends selected for the valuation correspond to the dividends expected by the market at the time of the award.

The risk-free rate corresponds to the 10-year inter-bank swap curve as at the award date.

The total expense recognized in connection with option and free share award plans in 2012 was €1.7 million (€1.6 million in 2011 and €1.8 million in 2010).

NOTE 8 CURRENT OPERATING INCOME

Current operating income is the main indicator for monitoring the FNAC Group's operating performance. It breaks down as follows:

(€ million)	2012	2011	2010
France	**55.6**	**62.1**	**144.2**
Iberian Peninsula	**17.7**	**27.9**	**39.2**
Brazil	**(5.7)**	**(5.8)**	**0.9**
Other countries	**5.7**	**7.4**	**4.1**
Current operating income (before PPR management fee)	**73.3**	**91.6**	**188.4**
PPR management fee	**(10.0)**	**(10.8)**	**(11.1)**
Current operating income (after PPR management fee)	**63.3**	**80.8**	**177.3**

Other operating income and expense amounted to -€554.6 million in 2012 (compared with -€572.1 million in 2011 and -€529.4 million in 2010).

Aside from depreciation, amortization and provisions, other operating income and expense primarily consists of rental expenses, transport costs, and external communication costs.

NOTE 9 OTHER NON-CURRENT OPERATING INCOME AND EXPENSE

(€ million)	2012	2011	2010
Non-current operating expense	**(138.5)**	**(38.6)**	**(21.7)**
Restructuring costs	(36.6)	(7.1)	3.9
Impairment of assets and proceeds from asset disposals	(93.4)	(4.6)	(3.3)
Litigation and disputes	(0.1)	(18.5)	(5.3)
Other risks	(8.4)	(8.4)	(17.0)
Non-current operating income	**8.3**	**0.1**	**29.7**
Gains on asset disposals		0.1	29.7
Other	8.3		
Total	**(130.2)**	**(38.5)**	**8.0**

The FNAC Group's other non-current operating income and expense, which includes unusual items that are likely to disrupt the monitoring of economic performance, amounted to -€130.2 million over the 2012 financial year, and included the following items:

- restructuring costs of -€36.6 million;
- -€93.4 million in asset impairments mainly involving France and Brazil CGUs' goodwill (see Note 18.3);
- litigation and disputes with third parties amounting to -€0.1 million;
- other risks amounting to -€8.4 million;
- €8.3 million gain on the reversal of provisions for litigation and disputes, from PPR taking back certain disputed rights.

This item amounted to -€38.5 million over the 2011 financial year, and included the following items:

- Restructuring costs of -€7.1 million;
- impairments amounting to -€4.6 million;
- disputes with third parties amounting to -€18.5 million;
- Other risks amounting to -€8.4 million;

This item amounted to €8.0 million over the 2010 financial year, and included the following items:

- a €3.9 million gain that was primarily due to a reversal of restructuring costs in Spain;
- impairments amounting to -€3.3 million;
- disputes with third parties amounting to -€5.3 million;
- other risks amounting to -€17.0 million;
- gains on asset disposals amounting to €29.7 million, which were mainly related to the disposals of Conforama and FNAC Greece.

NOTE 10 (NET) FINANCIAL EXPENSE

Net financial expense was broken down as follows:

(€ million)	2012	2011	2010
Cost of net financial debt	**(5.1)**	**(10.0)**	**(5.0)**
Income from cash and cash equivalents	0.8	1.1	0.1
Financial expense at amortized cost	(5.9)	(11.1)	(5.1)
Other financial income and expense	**(9.9)**	**(8.0)**	**(10.1)**
Foreign exchange gains and losses	(0.0)	0.1	0.1
Impact of discounting assets and liabilities	(2.5)	(3.3)	(2.5)
Other net financial expense	(7.4)	(4.8)	(7.7)
Total	**(15.0)**	**(18.0)**	**(15.1)**

The cost of net financial debt amounted to -€5.1 million in 2012 compared with -€10.0 million in 2011 and -€5.0 million in 2010, and primarily consisted of

• the cost of assigning receivables as part of the financing of the Brazilian business, which amounted to -€3.4 million in 2011 compared with -€2.2 million in 2010. There were no further receivable assignment transactions as from Q3 2011;
• the cost of the PPR Finance current account, which was -€4.6 million in 2012, compared with -€7.1 million in 2011 and -€3.1 million in 2010.

Other net financial income and expense amounted to-€9.9 million in 2012(compared with - €8.0 million in 2011 and -€10.1 million in 2010); this item primarily includes the cost of consumer credit, which amounted to -€7.8 million in 2012 (compared with -€7.0 million in 2011 and -€8.3 million in 2010), dividend income of nil in 2012 compared with €1.6 million in 2011) and the impact of discounting assets and liabilities, which amounted to -€2.5 million in 2012 (compared with -€3.3 million in 2011 and -€2.5 million in 2010).

NOTE 11 INCOME TAX

11.1 Breakdown of the tax charge for continuing operations

11.1.1 Tax charge

(€ million)	2012	2011	2010
Pre-tax income	(81.9)	24.3	170.2
Tax charge payable	(37.8)	(43.0)	(62.2)
Deferred tax income/(expense)	4.1	(0.7)	0.4
Total tax charge	(33.7)	(43.7)	(61.8)
Effective tax rate	-41.15%	179.84%	36.31%

All the FNAC Group's French subsidiaries, which are listed in Note 36, were consolidated by the PPR Group for tax purposes for the 2010, 2011 and 2012 financial years. The tax losses generated by these entities were used by the PPR Group in full, and no deferred tax was recognized on these tax losses.

11.1.2 Explanation of the tax rate

(as a % of pre-tax income)	2012	2011	2010
Tax rate applicable in France	36.10%	36.10%	34.43%
Impact of the taxation of foreign subsidiaries	-0.35%	-10.16%	-1.14%
Theoretical tax rate	35.75%	25.94%	33.29%
Impact of items taxed at a lower rate	-0.36%	14.49%	-6.48%
Impact of permanent timing differences	-44.37%	25.41%	6.63%
Impact of unrecognized timing differences	-4.24%	8.64%	2.44%
Impact of unrecognized tax-loss carry-forwards	-19.75%	80.41%	-3.05%
Impact of the Corporate Value-Added Tax	-8.22%	27.89%	4.23%
Other	0.04%	-2.94%	-0.75%
Effective tax rate	-41.15%	179.84%	36.31%

The tax rate applicable in France is the basic 33.33% tax rate, plus the social security contribution of 3.3% and an exceptional surcharge of 5% for French companies with revenues in excess of €250 million, i.e. 36.10%.

The "Impact of permanent differences" line primarily includes the impact of asset impairments amounting to €92.1 million in 2012, and of exceptional items amounting to €31.6 million in 2011.

11.1.3 Current tax rate

Excluding non-current items, the Group tax rate was as follows:

(€ million)	2012	2011	2010
Pre-tax income	(81.9)	24.3	170.2
Non-current items	(130.2)	(38.5)	8.0
Current income before tax	48.2	62.9	162.2
Total tax charge	(33.7)	(43.7)	(61.8)
Tax on non-current items	2.0	5.8	4.3
Current tax charge	(35.7)	(49.5)	(66.1)
Current tax rate	74.06%	78.70%	40.75%

The current tax rate amounted to 74.06% as of December 31, 2012, as the recognition of activated timing differences, like tax-loss carry-forwards, was restricted to differences that were considered recoverable.

11.2 Change in balance sheet items

11.2.1 Tax payable

(€ million)	2009	On Income	Cash outflows relating to operating activities	Assets held for sale, Operations sold or to be Sold	2010
Tax receivables due	8.0				11.8
Tax liabilities payable	(18.1)				(17.6)
Tax payable	(10.0)	(62.2)	63.3	3.1	(5.8)

(€ million)	2010	On Income	Cash outflows relating to operating activities	Assets held for for sale, operations sold or to be Sold	2011
Tax receivables due	11.8				10.6
Tax liabilities payable	(17.6)				(8.4)
Tax payable	(5.8)	(43.0)	50.9	0.1	2.2

(€ million)	2011	On income	Cash outflows relating to operating activities	Assets held for for sale, operations sold or to be sold	2012
Tax receivables due	10.6				9.2
Tax liabilities payable	(8.4)				(10.6)
Tax payable	2.2	(37.8)	34.5	(0.3)	(1.4)

11.2.2 Deferred Tax

(€ million)	2009	on Income	Other items recognized under equity (1)	2010
Deferred tax assets	25.3			27.3
Deferred tax liabilities	(0.0)			(0.0)
Deferred tax	**25.3**	**0.4**	**1.6**	**27.3**

(€ million)	2009	on Income	Other items recognized under equity (1)	2010
Intangible assets	(0.5)	(0.3)		(0.8)
Property, Plant & Equipment	(0.4)	0.3	0.2	0.1
Other current assets	3.2	0.1		3.3
Provisions for pensions and other equivalent benefits	12.6	1.3	0.7	14.6
Provisions	7.9	(4.4)	0.6	4.1
Recognized tax losses and tax credits	2.5	3.4	0.1	6.0
Net deferred tax assets (liabilities)	**25.3**	**0.4**	**1.6**	**27.3**

(1) including translation impact

(€ million)	2010	on Income	Other items recognized under equity (1)	2011
Deferred tax assets	**27.3**			**26.2**
Deferred tax liabilities	**(0.0)**			**(0.0)**
Deferred tax	**27.3**	**(0.7)**	**(0.4)**	**26.2**

(€ million)	2010	on Income	Other items recognized under equity (1)	2011
Intangible assets	**(0.8)**	**0.8**		
Property, plant & equipment	**0.1**	**0.7**		**0.8**
Other current assets	**3.3**	**(0.3)**		**3.0**
Provisions for retirement and other equivalent benefits	**14.6**	**1.3**	**0.1**	**16.0**
Provisions	**4.1**	**(1.9)**		**2.2**
Recognized tax losses and tax credits	**6.0**	**(1.3)**	**(0.5)**	**4.2**
Net deferred tax assets (liabilities)	**27.3**	**(0.7)**	**(0.4)**	**26.2**

(1) including translation impact

(€ million)	2011	on Income	Other items recognized under equity (1)	2012
Deferred tax assets	**26.2**			**33.9**
Deferred tax liabilities	**(0.0)**			**(0.0)**
Deferred tax	**26.2**	**4.1**	**3.6**	**33.9**

(€ million)	2011	on Income	Other items recognized under equity (1)	2012
Property, Plant & Equipment	**0.8**	**0.8**		**1.6**
Other current assets	**3.0**	**(0.1)**		**2.9**
Provisions for pensions and other equivalent benefits	**16.0**	**1.0**	**3.5**	**20.5**
Provisions	**2.2**			**2.2**
Tax losses and tax credits	**4.2**	**2.4**	**0.1**	**6.7**
Net deferred tax assets (liabilities)	**26.2**	**4.1**	**3.6**	**33.9**

(1) including translation impact

11.3 Unrecognized deferred tax

The changes in and the schedule for unused foreign tax losses and tax credits broke down as follows:

(€ million)	
As of January 1, 2010	**125.2**
Losses generated during the financial year	**8.6**
Losses deducted and time-barred during the financial year	**(40.0)**
Changes in scope of consolidation	**9.4**
As of January 1, 2011	**103.2**
Losses generated during the financial year	**32.6**
Losses deducted and time-barred during the financial year	**(52.3)**
Changes in scope of consolidation	**(3.8)**
As of December 31, 2011	**79.7**
Losses generated during the financial year	**9.9**
Losses deducted and time-barred during the financial year	**(34.2)**
Changes in scope of consolidation	**(4.6)**
As of December 31, 2012	**50.8**
Tax-loss carry-forwards with a set maturity	
Of less than five years	**0.7**
Over five years	**0.7**
Indefinite tax-loss carry-forwards	**50.1**
Total	**50.8**

Deductible timing differences for which no deferred tax asset was recorded as of December 31, 2012 amounted to €110.0 million (€88.8 million as of December 31, 2011 and €87.5 million as of December 31, 2010).

No deferred tax assets were recognized in connection with timing differences relating to investments in subsidiaries as of December 31, 2012.

NOTE 12 ASSETS HELD FOR SALE, AND OPERATIONS DISCONTINUED, SOLD OR TO BE SOLD

Operations discontinued, sold or to be sold over all the accounting periods shown included the following:

In 2012, FNAC Italy (sold in November 2012) and FNAC Service (discontinued in 2005) in 2011; FNAC Italy (to be sold) and FNAC Service (discontinued in 2005) in 2010; FNAC Italy (to be sold), FNAC Eveil & Jeux (sold in July 2010) and FNAC Service (discontinued in 2005) in 2010.

Pursuant to IFRS 5, the FNAC Group ceased to amortize these groups of assets and all the assets that they included as from the date when they were classified as "operations discontinued, sold or to be sold". The net income from these operations was shown on a separate "Discontinued operations" line in the profit and loss statement for all the accounting periods reported, and was restated in the cash flow statement. The assets and liabilities of the "operations sold or to be sold" were shown on a separate line of the FNAC Group's balance sheet, with no restatement of prior accounting periods. The assets and liabilities of "discontinued operations" were shown on a separate line of the FNAC Group's balance sheet.

Impact on the financial statements

The profit and loss and cash flow statements of the operations discontinued, sold or to be sold were as follows:

(€ million)	2012	2011	2010
Revenue	**104.6**	**159.1**	**235.9**
Cost of sales	(78.2)	(118.8)	(157.6)
Gross margin	**26.4**	**40.3**	**78.3**
Personnel expenses	(17.3)	(21.1)	(38.8)
Other current operating income and expense	(20.8)	(28.0)	(54.8)
Current operating income	**(11.7)**	**(8.8)**	**(15.3)**
Other non-current operating income and expense	(20.2)	(0.4)	(20.9)
Operating income	**(31.9)**	**(9.2)**	**(36.2)**
Net financial expense	0.9	(0.4)	(1.9)
Pre-tax income	**(31.0)**	**(9.6)**	**(38.1)**
Income tax	4.9	0.8	4.4
Net income	**(26.1)**	(8.8)	**(33.7)**

(€ million)	2012	2011	2010
Net cash flows from operating activities	(28.3)	(6.3)	10.9
Net cash flows from investing activities	(0.2)	(0.1)	(6.3)
Net cash flows from financing activities	(3.3)	7.8	5.3
Net cash flows	**(31.7)**	**1.4**	**9.9**
Opening cash balance or net cash flows and change in inter-company cash flows		(10.6)	(39.8)
Cash flows from discontinued operations	**(31.7)**	**(9.2)**	**(29.9)**

Operations sold or to be sold had the following impact on the Group's consolidated balance sheet:

(€ million)	2012	2011	2010
Assets held for sale		**51.5**	
Liabilities relating to assets held for sale		**48.9**	

Gross operating investments amounted to €0.2 million in 2012 (€1.6 million in 2011 and €8.4 million in 2010).

NOTE 13 EARNINGS PER SHARE

Net earnings per share are calculated on the basis of the weighted average number of shares outstanding.

Diluted earnings per share are equal to net earnings per share insofar as the FNAC Group has not issued any dilutive instruments.

The FNAC Group does not hold any treasury shares.

13.1 Earnings per share

Earnings per share as of December 31, 2012

(€ million)	Consolidated Entity	Discontinued operations	Discontinued operations
Net income attributable to ordinary shareholders	**(141.7)**	**(115.6)**	**(26.1)**
Weighted average number of ordinary shares	**933.393**	**933.393**	**933.393**
Basic earnings per share (in euros)	**(151.81)**	**(123.85)**	**(27.96)**
Diluted earnings per share (in euros)	**(151.81)**	**(123.85)**	**(27.96)**

Earnings per share as of December 31, 2011

(€ million)	Consolidated entity	Discontinued operations	Discontinued operations
Net income attributable to ordinary shareholders	**(28.2)**	**(19.4)**	**(8.8)**
Weighted average number of ordinary shares	**875,953**	**875,953**	**875,953**
Basic earnings per share (in euros)	**(32.19)**	**(22.15)**	**(10.04)**
Diluted earnings per share (in euros)	**(32.19)**	**(22.15)**	**(10.04)**

Earnings per share as of December 31, 2010

(€ million)	Consolidated entity	Discontinued operations	Discontinued Operations
Net income attributable to ordinary shareholders	**74.7**	**108.4**	**(33.7)**
Weighted average number of ordinary shares	**875.953**	**875.953**	**875.953**
Basic earnings per share (in euros)	**85.28**	**123.75**	**(38.47)**
Diluted earnings per share (in euros)	**85.28**	**123.75**	**(38.47)**

13.2 Net earnings per share from continuing operations, excluding non-current items

Non-current items involve the amount net of tax and non-controlling interests shown in the "Other non-current operating income and expense" line in the profit and loss statement.

(€ million)	2012	2011	2010
Net income attributable to ordinary shareholders	(115.6)	(19.4)	108.4
Other non-current operating income and expense	130.2	38.5	(8.0)
Tax on other non-current operating income and expense	(2.0)	(5.8)	(4.3)
Net income excluding non-current items	12.6	13.3	96.1
Weighted average number of ordinary shares	933.393	875.953	875.953
Basic earnings per share excluding non-current items (in euros)	13.50	15.18	109.71
Diluted earnings per share (in euros)	13.50	15.18	109.71

NOTE 14 OTHER COMPREHENSIVE INCOME ITEMS

Other comprehensive income items primarily consist of:

- gains and losses arising on the translation of a foreign operation's financial statements,
- items relating to the valuation of employee benefit commitments, i.e. unrecognized excess pension scheme assets and actuarial differences recorded on defined benefit schemes.

The amount of these assets, before and after the related tax impact, and the impact of reclassification through profit or loss, were as follows:

(€ million)	Gross	Tax	Net
Translation difference	(3.4)		(3.4)
Items that may be reclassified subsequently to profit or loss	**(3.4)**		**(3.4)**
Actuarial differences	(10.7)	3.6	(7.2)
Items that may not be reclassified subsequently to profit or loss	**(10.7)**	**3.6**	**(7.2)**
Other comprehensive income items as of December 31, 2012	**(14.1)**	**3.6**	**(10.6)**

(€ million)	Gross	Tax	Net
Translation difference	(3.3)		(3.3)
Items that may be reclassified subsequently to profit or loss	**(3.3)**		**(3.3)**
Actuarial differences	0.8	(0.1)	0.7
Items that may not be reclassified subsequently to profit or loss	**0.8**	**(0.1)**	**0.7**
Other comprehensive income items as of December 31, 2011	**(2.5)**	**(0.1)**	**(2.6)**

(€ million)	Gross	Tax	Net
Translation difference	(1.8)		**(1.8)**
Items that may be reclassified subsequently to profit or loss	**(1.8)**		**(1.8)**
Actuarial differences	(1.8)	0.6	(1.2)
Items that may not be reclassified subsequently to profit or loss	**(1.8)**	**0.6**	**(1.2)**
Other comprehensive income items as of December 31, 2010	**(3.6)**	**0.6**	**(3.0)**

NOTE 15 GOODWILL

(€ million)	Gross	Impairment	Net
Goodwill as of January 1, 2010	**432.6**	**(1.6)**	**431.0**
Recognition of an impairment		(28.0)	(28.0)
Foreign exchange fluctuations	0.7		0.7
Other changes	0.1		0.1
Goodwill as of January 1, 2011	**433.4**	**(29.6)**	**403.8**
Assets held for sale, operations sold or to be sold	(28.0)	28.0	
Foreign exchange fluctuations	(0.5)		(0.5)
Goodwill as of December 31, 2011	**404.9**	**(1.6)**	**403.3**
Acquisitions	1.1		1.1
Foreign exchange fluctuations	(0.5)	0.4	(0.1)
Other changes	(0.0)	(80.8)	(80.8)
Goodwill as of December 31, 2012	**405.5**	**(82.0)**	**323.5**

The allocation of goodwill to cash generating units was as follows:

(€ million)	2012	2011	2010
France	308.2	382.5	382.5
Brazil		5.5	6.0
Belgium	15.3	15.3	15.3
Total	**323.5**	**403.3**	**403.8**

The CGU grouping level selected by the FNAC Group corresponds to countries. There were therefore six CGU groups as of December 31, 2012: France, Spain, Portugal, Brazil, Switzerland and Belgium.

NOTE 16 INTANGIBLE ASSETS

(€ million)	Software	Other Intang. Assets	Total
Gross amount as of January 1, 2010	**240.4**	**15.2**	**255.6**
Acquisitions	17.6	5.3	22.9
Disposals	(2.9)	(0.1)	(3.0)
Foreign exchange fluctuations	0.8		0.8
Other changes	3.5	(1.4)	2.1
Gross amount as of , December 31, 2010	**259.4**	**19.0**	**278.4**

(€ million)	Amor. & Prov. on Software	Amort. & Prov. on Other Intang. Assets	Total
Amortization and impairment as of January 1, 2010	**(195.6)**	**(0.2)**	**(195.8)**
Other disposals	2.4	0.1	2.5
Amortization	(20.3)	(0.4)	(20.7)
Foreign exchange fluctuations	(0.4)		(0.4)
Other changes	0.1	(0.5)	(0.4)
Amortization and impairment as of December 31, 2010	**(213.8)**	**(1.0)**	**(214.8)**

(€ million)	Software	Other Intang. Assets	Total
Net amount as of January 1, 2010	**44.9**	**15.0**	**59.8**
Acquisitions / Amortizations	**17.6**	**5.3**	**22.9**
Disposals	**(0.5)**		**(0.5)**
Amortization	**(20.3)**	**(0.4)**	**(20.7)**
Foreign exchange fluctuations	**0.4**		**0.4**
Other changes	**3.6**	**(1.9)**	**1.7**
Net amount as of December 31, 2010	**45.6**	**18.0**	**63.6**

(€ million)	Software	Other Intang. Assets	Total
Gross amount as of January 1, 2011	**259.4**	**19.0**	**278.4**
Acquisitions	23.0	10.0	33.0
Assets held for sale, operations sold or to be sold	(0.9)	(1.3)	(2.2)
Disposals	(2.2)		(2.2)
Exchange rate fluctuations	(0.5)		(0.5)
Other changes	5.3	(1.6)	3.7
Gross amount as of December 31, 2011	**284.1**	**26.1**	**310.2**

(€ million)	Amor. & Prov. on Software	Amort. & Prov. on Other Intang. Assets	Total
Amortization and impairment as of January 1, 2011	**(213.8)**	**(1.0)**	**(214.8)**
Assets held for sale, operations sold or to be sold	0.9		0.9
Disposals	0.3		0.3
Amortization	(21.5)	(1.8)	(23.3)
Exchange rate fluctuations Other changes	0.3	0.4	0.7
Amortization and impairment as of December 31, 2011	**(233.8)**	**(2.5)**	**(236.3)**

(€ million)	Software	Other Intang. Assets	Total
Net amount as of January 1, 2011	**45.6**	**18.0**	**63.6**
Acquisitions	**23.0**	**10.0**	**33.0**
Assets held for sale, operations sold or to be sold		**(1.3)**	**(1.3)**
Disposals	**(1.9)**		**(1.9)**
Amortization	**(21.5)**	**(1.8)**	**(23.3)**
Foreign exchange fluctuations	**(0.3)**	**0.4**	**0.1**
Other changes	**5.3**	**(1.6)**	**3.7**
Net amount as of December 31, 2011	**50.3**	**23.7**	**73.9**

(€ million)	Software	Other Intang. Assets	Total
Gross amount as of January 1, 2012	**284.1**	**26.1**	**310.2**
Change in scope	0,3		0.3
Acquisitions	26,4	2.7	29.1
Disposals	(5.6)	(1.5)	(7.1)
Foreign exchange fluctuations	(0.7)	0.0	(0.7)
Other changes	11,4	(6.9)	4.5
Gross amount as of December 31, 2012	**315.9**	**20.5**	**336.4**

(€ million)	Amor. & Prov. on Software	Amort. & Prov. on Other Intang. Assets	Total
Amortization and impairment as of January 1, 2012	**(233.8)**	**(2.5)**	**(236.3)**
Change in scope	(0.1)	0.0	(0.1)
Disposals	3.0	2.6	5.7
Amortization	(25.4)	(3.1)	(28.5)
Exchange rate fluctuations	0.4	0.2	0.6
Other changes	(1.2)	(3.2)	(4.4)
Amortization and impairment as of December 31, 2012	**(257.1)**	**(6.0)**	**(263.1)**

(€ million)	Software	Other Intang. Assets	Total
Net amount as of January 1, 2012	**50.3**	**23.7**	**73.9**
Change in scope	**0.2**	**0.0**	**0.2**
Acquisitions	**26.4**	**2.7**	**29.1**
Disposals	**(2.6)**	**1.2**	**(1.4)**
Amortization	**(25.4)**	**(3.1)**	**(28.5)**
Exchange rate fluctuations	**(0.3)**	**0.2**	**(0.1)**
Other changes	**10.2**	**(10.1)**	**0.1**
Net amount as of December 31, 2012	**58.8**	**14.5**	**73.3**

NOTE 17 Property, Plant & Equipment

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Gross amount as of January 1, 2010	**592.2**	**129.5**	**53.8**	**775.6**
Acquisitions	32.7	7 8	13.1	53,6
Disposals	(8.6)	(2.1)	(1.2)	(11.8)
Foreign exchange fluctuations	6.4	1.5	0.3	8.2
Other changes	2.2	0.9	(5.4)	(2.3)
Gross amount as of December 31, 2010	**625.0**	**137.6**	**60.6**	**823.2**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Depreciation and impairment as of January 1, 2010	**(431.3)**	**(105.4)**	**(19.4)**	**(556,2)**
Disposals	8.4	2.0	1.1	11.6
Depreciation and impairment	(42.4)	(10.1)	(2.1)	(54.6)
Foreign exchange fluctuations	4.6	(1.2)	(0.2)	(5.9)
Other changes	7.5		3.0	10.5
Depreciation and impairment as of December 31, 2010	**(462.3)**	**(114.7)**	**(17.6)**	**(594.6)**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Net amount as of January 1, 2010	**160.9**	**24.1**	**34.4**	**219.4**
Acquisitions	**32.7**	**7.8**	**13.1**	**53.6**
Disposals	**(0,1)**	**(0.1)**	**(0.0)**	**(0,2)**
Depreciation and impairment	**(42.4)**	**(10.1)**	**(2.1)**	**(54.6)**
Recognition of an impairment charge (Note 18)				
Foreign exchange fluctuations	**1.9**	**0.3**	**0.1**	**2.2**
Other changes	**9.6**	**0.9**	**(2.4)**	**8.2**
Net amount as of December 31, 2010	**162.7**	**22.9**	**43.1**	**228.6**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Gross amount as of January 1, 2011	**625.0**	**137.6**	60.6	**823.2**
Acquisitions	37.7	8.6	**16.4**	62,6
Assets held for sale, operations sold or to be sold	(33.8)	(2.5)	(2.5)	(38.8)
Disposals	(11.7)	(2.6);	(15.5)	(29.9)
Foreign exchange fluctuations	(2.1)	(0.6)	(0.0)	(2.7)
Other changes	6.9	**0.9**	(7.6)	0.1
Gross amount as of December 31, 2011	**621.9**	**141.3**	**51.4**	**814.6**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Depreciation and impairment as of January 1, 2011	**(462.3)**	**(114.7)**	**(17.6)**	**(594.6)**
Assets held for sale, operations sold or to be sold	24.1	1.8	0.3	26.2
Disposals	11.1	**2. 4**	2.8	16.3
Depreciation and impairment	(42.7)	**(9.6)**	(1.9)	(54.2)
Foreign exchange fluctuations	1.2	0.5		1.7
Other changes	(0.7)			(0.7)
Depreciation and impairment as of December 31, 2011	**(469.3)**	**(119.5)**	**(16.4)**	**(605.2)**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Net amount as of January 1, 2011	**162.7**	**22.9**	**43.0**	**228.6**
Acquisitions	**37.7**	**8.6**	**16.4**	**62.6**
Assets held for sale, operations sold or to be sold	**(9.7)**	**(0.7)**	**(2.2)**	**(12.5)**
Disposals	**(0.7)**	**(0.2)**	**(12.7)**	**(13.5)**
Depreciation and impairment	**(42.7)**	**(9.6)**	**(1.9)**	**(54,2)**
Foreign exchange fluctuations	**(0.9)**	**(0.1)**	**(0.0)**	**(1.0)**
Other changes	**6.2**	**0.9**	**(7.6)**	**(0,5)**
Net amount as of December 31, 2011	**152.5**	**21.8**	**35.0**	**209.3**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items pf PP&E	Total
Gross amount as of January 1, 2012	**621.9**	**141.3**	**51.4**	**814.6**
Acquisitions	**36.7**	15.8	**(3.1)**	49.4
Disposals	(14.6)	(1.2)	(1.1)	{16.9)
Foreign exchange fluctuations	(3.2)	(0.8)	(0.1)	(4.0)
Other changes	2.8	(0.3)	(9.8)	(7.3)
Gross amount as of December 31, 2012	**643.5**	**154.8**	**37.4**	**835.7**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items pf PP&E	Total
Depreciation and impairment as of January 1, 2012	**(469.3)**	**(119.5)**	**(16.4)**	**(605.2)**
Disposals	14.3	1.2	1.2	16.6
Depreciation and impairment	(45.5)	(10.7)	(1.6)	(57.8)
Foreign exchange fluctuations	2.8	0.7	0.1	3.6
Other changes	3.2	1.2		**4.4**
Depreciation and impairment as of December 31, 2012	**(494.6)**	**(127.1)**	**(16.7)**	**(638.4)**

(€ million)	Fixtures, fittings and commercial facilities	Technical and telecommunications equipment	Other items of PP&E	Total
Net amount as of January 1, 2012	**152.5**	**21.8**	**35.0**	**209.3**
Acquisitions	**36.7**	**15.8**	**(3.1)**	**49.4**
Disposals	**(0.4)**	**(0.0)**	**0.1**	**(0.3)**
Depreciation and impairment	**(45.5)**	**(10.7)**	**(1.6)**	**(57.8)**
Foreign exchange fluctuations	**(0.4)**	**(0.0)**	**(0.0)**	**(0.4)**
Other changes	**6.0**	**0.9**	**(9.8)**	**(2.9)**
Net amount as of December 31, 2012	**149.0**	**27.7**	**20.7**	**197.3**

NOTE 18 IMPAIRMENT TESTS ON NON-FINANCIAL ASSETS

The principles for impairing non-financial assets are set out in Note 2.10.

The main goodwill amounts are broken down in Note 15.

18.1. Assumptions used for impairment tests

The perpetual growth and after-tax discount rate applied to the cash flows expected according to the economic assumptions and forecast operating conditions used by the FNAC Group are as follows:

	Discount			Perpetual growth		
	2012	2011	2010	2012	2011	2010
France	10.6%	8.3%	8.0%	0.50%	0.50%	0.50%
Brazil	11.5%	9.3%	9.0%	2.00%	4.00%	4.00%
Belgium	10.6%	8.3%	8.0%	0.50%	0.50%	0.50%

18.2. Impairment tests on significant amounts

The recoverable amount of a CGU has been determined based on its value-in-use for all CGUs. Value-in-use is determined according to expected future cash flow forecasts, taking account of the time value and of the specific risks relating to the CGU. Expected future cash flow forecasts were drawn up during the second half on the basis of budgets and medium-term plans over a three-year timeframe. To calculate the value-in-use, a terminal value equal to the capitalization in perpetuity of a standardized annual cash flow is added to the value of the future cash flows expected.

For 2012:
The growth rate used to extrapolate cash flow forecasts to infinity was 0.5% (+2.0 % for Brazil and 0.5% for Belgium). The implicit pre-tax discount rate applied to the cash flow forecasts was 19.9% for France, 11.5% for Brazil and 18.6% for Belgium.

For 2011:
The growth rate used to extrapolate cash flow forecasts to infinity was 0.5% (+4.0% for Brazil and 0.5% for Belgium). The implicit pre-tax discount rate applied to the cash flow forecasts was 16.2% for France, 10.4% for Brazil and 12.6% for Belgium.

For 2010:
The growth rate used to extrapolate cash flow forecasts to infinity was 0.5% (+4.0% for Brazil and 0.5% for Belgium). The implicit pre-tax discount rate applied to the cash flow forecasts was 12.9% for France, 15.7% for Brazil and 15.9% for Belgium.

The impairment tests performed in 2012 resulted in the Group recording a €92.1 million impairment charge on goodwill and intangible assets and property, plant & equipment in France and Brazil (see Note 18.3). In view of the current excess amount between value-in-use and carrying amount, the Group believes, based on events that are reasonably foreseeable at this time, that potential changes affecting the key assumptions mentioned above would not result in the recognition of an additional impairment charge for Brazil and Belgium. Specifically, a 5% decrease in the standardized cash flows used to calculate the terminal value would not have resulted in the recognition of an additional impairment charge for those countries.
In the case of France, a 5% decrease in the standardized cash flows used to calculate the terminal value would result in an additional impairment charge of €11.9 million.

18.3. Impairment charges recognized during the financial year

The asset impairment tests performed in 2012 resulted in the Group recognizing a €75.4 million impairment charge on the France CGU in 2012, and a €16.7 million impairment charge on the Brazil CGU, of which €5.5 million was specifically allocated to the residual value of the goodwill, while the remaining €11.2 million was allocated to intangible assets and property, plant & equipment.

The impairment recorded on goodwill for France primarily results from changes to the financial assumptions, including the discount rate, in order to factor in a consumption environment that is depressed by the economic environment.

The slowdown in the growth rate of the Brazilian economy seen in 2012 has led the Group to review the growth rate assumptions for this market. This outlook resulted in the recognition of an impairment on goodwill and intangible assets and property, plant & equipment in Brazil.

No impairment charge was recognized in 2011. A €28 million impairment charge for the Italy CGU was recognized in 2010; this CGU was subsequently reclassified under assets held for sale in 2011 (Note 12).

This charge was recognized in the "Other current operating income and expense" line in the profit and loss statement.

NOTE 19 INVESTMENTS IN EQUITY ASSOCIATES

The FNAC Group has no investments in equity associates.

NOTE 20 NON-CURRENT FINANCIAL ASSETS

Non-current financial assets consisted of the following items:

(€ million)	2012	2011	2010
Equity investments	0.1	22.4	0.4
Available-for-sale financial assets			0.1
Receivables and loans relating to investments			0.2
Deposits and guarantees	5.6	5.9	5.9
Other	0.1	0.1	
Total	**5.8**	**28.4**	**6.6**

The 2011 equity investments, which were sold in 2012, primarily corresponded to the FNAC Group's indirect 7.17% interest in a mutual investment fund.

NOTE 21 INVENTORY

(€ million)	2012	2011	2010
Commercial inventory	527.8	566.9	603.6
Gross amount	**527.8**	**566.9**	**603.6**
Impairment	(32.6)	(36.2)	(37.4)
Net amount	**495.2**	**530.7**	**566.2**

Changes in impairment	2012	2011	2010
As of January 1	**(36.2)**	**(37.4)**	**(35.9)**
(Additions / reversals)	3.1	(0.7)	(1.0)
Assets held for sale, operations sold or to be sold		1.5	
Foreign exchange differences	0.5	0.4	(0.5)
As of December 31	**(32.6)**	**(36.2)**	**(37.4)**

NOTE 22 TRADE RECEIVABLES

(€ million)	2012	2011	2010
Trade receivables	125.2	127.6	95.8
Impairment of trade receivables	(6.4)	(6.0)	(6.9)
Net amount	**118.8**	**121.6**	**88.9**

Changes in impairment	2012	2011	2010
As of January 1	**(6.0)**	(6.9)	(5.0)
(Additions) / reversals	(0.5)	0.7	(1.8)
Assets held for sale, operations sold or to be sold		0.1	
Foreign exchange differences	0.1	**0.1**	(0.1)
As of December 31	**(6.4)**	**(6.0)**	**(6.9)**

The impairment is calculated according to the length of time the receivables concerned have been outstanding (see Note 2.11.1). The length of time trade receivables have been outstanding breaks down as follows:

(€ million)	2012	2011	2010
Receivables not in arrears	103.8	105.6	78.7
Arrears not exceeding one month	12.3	8.3	4.7
Arrears of between one and six months	5.0	8.6	7.1
Arrears of over six months	4.1	5.1	5.3
Impairment of doubtful receivables	(6.4)	(6.0)	(6.9)
Net amount	**118.8**	**121.6**	**88.9**

NOTE 23 OTHER FINANCIAL ASSETS AND LIABILITIES

(€ million)	2010	Cash flows relating to working capital	Other cash flows	Assets held for sale, operations sold or to be sold	Change in consolidation scope	Exchange rate difference & other	2011
Inventory	566.2	(6.0)		(26.8)		**(2.7)**	530.7
Trade receivables due (1)	88.9	32.8		(1.7)		**1.6**	121.6
Trade receivables payable (2)	(4.1)	(6.1)		0.2		**(0.1)**	(10.1)
Net trade receivables (1)+(2)	**84.8**	26.7		(1.5)		**1.5**	111.5
Other current assets and liabilities						**0.1**	0.1
Tax receivables and payables due	(5.8)		7.9	0.1			2.2
Trade payables due (3)	(844.1)	62.7		41.0		**9.8**	(730.5)
Trade payables receivable and provisions (4)	112.6	5.0		(6.7)		**(10.3)**	100.6
Net trade payables due (3)+(4)	**(731.5)**	**67.7**		**34.3**		**(0.4)**	**(629.9)**
Payroll liabilities	(132.8)	5.9		3.4		**0,2**	(123.4)
Tax payables and receivables (excluding corporation tax)	(49.8)	(13.9)		0.9		**(0.7)**	(63.5)
Liabilities relating to commercial operations	(191.9)	0.6		5.7		**(1.0)**	(186.6)
Other	23.3	(39.3)	**(84.1)**	2.2		**(0.6)**	(98.4)
Other current assets and liabilities	**(437.4)**	**41.6**	**(76.2)**	**18.3**		**(3.6)**	**(457.3)**

(€ million)	2011	Cash flows relating to working capital	Other cash flows	Assets held for sale, operations sold or to be sold	Change in consolidation scope	Exchange rate difference & other	2012
Inventory	530.7	(31.9)				(3.5)	495.2
Trade receivables	121.6	(9.3)				6.5	118.8
Trade receivables payable	(10.1)	(4.3)				(0.0)	(14.4)
Net trade receivables	**111.5**	**(13.6)**				6.6	**104.4**
Other current assets and liabilities	0.1					(0.1)	(0.0)
Tax receivables and payables due	2.2		1.6			(5.2)	(1.4)
Trade payables	(730.5)	5.0				8.5	(717.1)
Trade payables receivable and provisions	100.6	(11.2)				(0.2)	89.2
Net trade payables	**(629.9)**	**(6.3)**				**8.3**	**(627.8)**
Payroll liabilities	(123.4)	1.8				(0.0)	(121.6)
Tax payables and receivables (excluding corporation tax)	(63.5)	48.2				3.4	(12.0)
Liabilities relating to commercial operations	(186.6)	5.7				2.8	(178.2)
Other	(98.4)	21.3	5.6			(0.6)	(72.1)
Other current assets and liabilities	**(457.3)**	**25.2**	7.2			**11.5**	**(413.4)**

Given the nature of its business activities, the FNAC Group's exposure to the risk of its debtors defaulting has no material impact on the Group's business, financial position, or net assets. The "Liabilities relating to commercial operations" item includes the customer Given the nature of its business activities, the FNAC Group's exposure to the risk of its debtors defaulting has no material impact on the Group's business, financial position, or net assets. The "Liabilities relating to commercial operations" item includes the customer membership, warranty extension, ticketing and gift box activities.

NOTE 24 EQUITY

24.1. Share capital

As of December 31, 2012, the share capital amounted to €545,718,719 following a capital increase for a total amount of €539,587,048 dated December 27, 2012, which was performed in two stages (an initial recapitalization of €291.3 million via the capitalization of receivables, and a second recapitalization of €248.3 million via a cash capital increase). The share capital consisted of 6,131,671 fully paid-up shares with a par value of €89 (875,953 shares with a par value of €7 as of December 31, 2011 and 2010).

There were no financial commitments involving the FNAC Group's consolidated ' equity as of December 31, 2012.

24.2. Appropriation of earnings

An exceptional dividend of €20.5 million was paid in 2012. No dividend was paid in respect of the 2011 financial year in 2012. The dividend paid in 2011 in respect of the 2010 financial year amounted to €325.9 million, i.e. €372 per share. No dividend was paid in 2010 in respect of the 2009 financial year.

NOTE 25 EMPLOYEE AND EQUIVALENT BENEFITS

The FNAC Group's staff enjoys long-term and post-employment benefits in addition to their short-term remuneration, according to each country's specific laws and practices. These additional benefits take the form of either defined contribution or defined benefit schemes.

In the case of defined contribution schemes, the FNAC Group is under no obligation to make any payments in addition to the contributions already paid. Contributions to these schemes are expensed when incurred.

Defined benefit schemes give rise to an actuarial valuation by independent experts. These benefits mainly involve end-of-career allowances and long-service awards in France, compensation for statutory dismissal (TFR) in Italy, and mandatory supplementary pension schemes (LPP) in Switzerland.

The FNAC Group has no medical expense obligations.

25.1. Changes during the financial year

The current value of the defined benefit scheme obligation is as follows:

(€ million)	2012	2011	2010
Discounted value of the commitment as of January 1	**64.0**	**60.9**	**54.7**
Cost of services provided during the period	**4.1**	**4.1**	**3.8**
Contributions paid by the members	**0.6**	**0.7**	**0.5**
Financial interest expense	**2.6**	**2.6**	**2.5**
Cost of past services		**0.7**	
Actuarial differences	**10.9**	**(1.2)**	**0.7**
Decreases and payments	**(6.1)**	**(4.1)**	**(3.0)**
Change in scope	**(1.6)**		
Fluctuations in foreign currency exchange rates	**(0.0)**	**0.4**	**1.7**
Discounted value of the commitment as of December 31	**74.5**	**64.0**	**60.9**
including the discounted value of the commitment for discontinued operations as of December 31		**1.4**	

The current value of the obligation amounted to €74.5 million as of December 31, 2012, and broke down as follows:

- €5.5 million relating to wholly unfunded schemes (€5.8 million in 2011 and €4.7 million in 2010);
- €69.0 million relating to wholly or partially funded schemes (€58.2 million in 2011 and €56.2 million in 2010).

The breakdown of the discounted value of the commitment by scheme type and by country, as of December 31, 2012, was as follows:

(€ million)	2012	2011	2010
End-of-career allowances – France	64.1	51.1	48.3
Long-service awards – France	1.5	1.4	0.8
Compensation for statutory dismissal (TFR) - Italy		1.4	1.6
Supplementary pension schemes (LPP) - Switzerland	8.8	10.1	10.2
Discounted value of the commitment as of December 31	**74.5**	**64.0**	**60.9**
including the discounted value of the commitment for discontinued operations as of December 31		1.4	

The change in the fair value of the defined benefit scheme assets was as follows:

(€ million)	2012	2011	2010
Fair value of the defined benefit scheme assets as of January 1	**12.7**	**13.3**	**13.2**
Contributions paid by the employer	1.4	2.1	1.3
Contributions paid by the members	0.6	0.5	0.5
Expected return on assets	0.4	0.6	0.6
Benefits paid	(3.4)	(3.4)	(2.5)
Actuarial differences	(0.3)	(0.6)	(1.0)
Payments	(0.3)		
Fluctuations in foreign currency exchange rates	0.2	0.2	1.1
Fair value of the defined benefit schemes as of December 31	**11.3**	**12.7**	**13.3**

The expenses that the FNAC Group expects to pay in 2013 are estimated at €6.4 million.

The funded defined benefit scheme funds broke down as follows as of December 31, 2012:

- equity instruments: 10% (5.93% as of December 31, 2011);
- loan instruments: 85% (91.21% as of December 31, 2011);
- and various other assets: 5% (2.86% as of December 31, 2011).

The reconciliation between the balance sheet data and the actuarial obligation relating to the defined benefit schemes is as follows:

(€ million)	2012	2011	2010	As of January 1, 2010
Discounted value of the commitment	74.5	64.0	60.9	54.7
Fair value of the defined benefit scheme assets	(11.3)	(12.7)	(13.3)	(13.2)
Shortfall/(Excess)	63.2	51.3	47.6	41.5
Provisions (net assets) recognized on the balance sheet	63.2	51.3	47.6	41.5
of which provisions for continuing operations of which provisions for discontinued operations	63.2	49.9 1.4	47.6	41.5
Experience-related adjustments relating to the scheme liabilities	-2.1%	4.8%	-0.5%	
Experience-related adjustments relating to the scheme assets	2.5%	5.1%	7.4%	

25.2. Expenses recognized

The total expense of €4.0 million (€6.2 million in 2011 and €5.2 million in 2010) recognized in respect of the defined benefit schemes broke down as follows:

(€ million)	2012	2011	2010
Cost of services provided	4.3	4.2	3.7
Financial expense	2.6	2.6	2.5
Expected return on scheme assets	(0.4)	(0.6)	(0.5)
Cost of past services taken to income		0.7	
Decreases and payments	(2.5)	(0.7)	(0.5)
Total expense	4.0	6.2	5.2
Of which recognized under operating costs	1.4	3.6	2.6
under net financial expense	2.5	2.5	2.5
under discontinued operations	0.1	0.1	0.1

In accordance with the option offered by IAS 19, as revised in December 2004, the FNAC Group recognizes the actuarial gains and losses on its defined benefit schemes under other comprehensive income items for the financial year.

The actuarial losses recognized for the 2012 financial year amounted to €11.0 million (gain of €0.8 million in 2011 and loss of €1.8 million in 2010).

The aggregate amount of the actuarial differences recognized under other comprehensive income items since January1, 2004 amounted to €15.5 million as of December 31, 2012 (€6.0 million as of December 31, 2011 and €6.6 million as of December 31, 2010)

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25.3. Actuarial assumptions

The main actuarial assumptions used to estimate the FNAC Group's obligations are as follows:

	2012	2011	2010
Discount rate	2.00% - 3.00%	2.50% - 4.50%	2.00% - 4.50%
Expected rate of return on assets	2.44% - 4.50%	2.50% - 4.50%	4.00% - 4.50%
Expected rate of increase in salaries	2.00% - 3.00%	2.00% - 3.60%	2.00% - 3.60%

The expected rates of return on assets are determined for each fund based on historical performance, the current and long-term outlook, and the breakdown of the fund assets under management. These assumptions are reviewed on an annual basis according to changes in the allocation of the funds under management and to changes in long-term market expectations for each category of assets under management.

Compared with the actuarial assumptions shown in the table above, sensitivity analyses show that a 25 basis point fall in the euro zone discount rate is not material, and amounts to less than 0.5% of the Group's total equity.

NOTE 26 PROVISIONS

(€ million)	January 1, 2010	Addition	Reversal Used	Reversal unused	Foreign exchange differences	Other	December 31, 2010
Non-current provisions							
Provisions for restructuring	20.1	7.5	(8.8)	(11.0)	0.1	1.3	9.2
Provisions for litigation and disputes	25.1	8.6			3.4		37.1
Other provisions							
Current provisions	**45.2**	**16.1**	(8.8)	**(11.0)**	**3.5**	**1.3**	**46.3**
Total	**45.2**	**16.1**	(8.8)	**(11.0)**	**3.5**	**1.3**	**46.3**
Impact on		**(16.1)**		**11.0**			**(5.1)**
- current operating income		(0.3)		11.0			(0.3)
- other non-current operating income and expense		(15.8)					(4.8)

(€ million)	January 1, 2011	Addition	Reversal Used	Reversal Unused	Foreign exchange differences	Other	December 31, 2011
Non-current provisions							
Provisions for restructuring	9.2	7.7	(11.8)	(0.4)	(0.5)		4.2
Provisions for litigation and disputes	37.1	16.8	(1.7)	(1.1)	(1.9)	(0.7)	48.5
Other provisions		1.5					1.5
Current provisions	**46.3**	**26.1**	**(13.5)**	**(1.5)**	**(2.4)**	**(0.7)**	**54.2**
Total	**46.3**	**26.1**	**(13.5)**	**(1.5)**	**(2.4)**	**(0.7)**	**54.2**
Impact on		**(26.1)**		**1.5**			**(24.6)**
- current operating income		(1.2)					(1.2)
- other non-current operating income and expense		(24.9)		1.5			(23.4)

(€ million)	January 1, 2012	Addition	Reversal used	Reversal unused	Foreign-exchange differences	Other	December 31, 2012
Non-current provisions							
Provisions for restructuring	**4.2**	**23.7**	**(4.9)**	**(0.2)**			**22.8**
Provisions for litigation and disputes	**48.5**	**0.8**	**(13.4)**	**(4.1)**	**(3.1)**		**28.7**
Other provisions	**1.5**		**(0.4)**	**(0.3)**			**0.8**
Current provisions	**54.2**	**24.5**	**(18.7)**	**(4.6)**	**(3.1)**		**52.3**
Total	**54.2**	**24.5**	**(18.7)**	**(4.6)**	**(3.1)**		**52.3**
Impact on		**(24.5)**		**4.6**			**(19.9)**
- current operating income		**(2.6)**		**0.2**			**(2.4)**
- other non-current operating income and expense		**(21.9)**		**4.4**			**(17.5)**

Provisions for litigation and disputes primarily correspond to third-party litigation and to disputes with the tax authorities in various countries (Note 33.4).

NOTE 27 CASH AND CASH EQUIVALENTS

27.1. Breakdown by category of cash

This item broke down as follows:

(€ million)	2012	2011	2010
Cash	86.6	76.5	56.7
Cash equivalents	218.9	4.3	194.8
Total	**305.5**	**80.8**	**251.5**

As of December 31, 2012 and 2011, cash equivalents included the current account with PPR Finance and certificates of deposit (in Brazil) with a maturity of less than three months.

The PPR Finance current account amounted to €216.1 million as of December 31, 2012 (compared with a credit balance of -€222.3 million as of December 31, 2011 which was therefore shown under other financial liabilities (see Note 28.1), and compared with a debit balance of €194.7 million as of December 31, 2010).

The items that the FNAC Group recognizes as "Cash and cash equivalents" meet the strict criteria listed in the AMF Position issued in 2008 and updated in 2011. In particular, investments are reviewed on a regular basis, in accordance with the FNAC Group's procedures, and in strict compliance with the classification criteria determined by IAS 7 and the AMF's recommendations. These assessments did not result in any changes to the accounting classification previously adopted as of December 31, 2012.

27.2. Breakdown by currency

(€ million)	2012	%	2011	%	2010	%
Euro	271.7	88.9%	50.4	62.4%	231.2	91.9%
Swiss franc	27.2	8.9%	24.5	30.3%	15.7	6.2%
Other currencies	6.6	2.2%	5.9	7.3%	4.6	1.9%
Total	305.5		80.8		251.5	

NOTE 28 FINANCIAL DEBT

28.1. Breakdown of debt by redemption maturity

(€ million)	2012	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond that date
Long-term borrowings and financial debt	**0.7**		**0.3**	**0.2**	**0.2**	**0.0**	
Finance lease agreement liabilities	0.7		0.3	0.2	0.2	0.0	
Short-term borrowings and financial debt	**12.8**	**12.8**					
Finance lease agreement liabilities	0.3	0.3					
Bank overdrafts	12.2	12.2					
Other financial liabilities	0.3	0.3					
Total	**13.5**	**12.8**	**0.3**	**0.2**	**0.2**	**0.0**	
%		**94.9%**	12.2	**1.2%**	**1.2%**	**0.3%**	

(€ million)	2011	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond that date
Long-term borrowings and financial debt	**0.4**		**0.2**	**0.1**	**0.1**		
Finance lease agreement liabilities	0.4		0.2	0.1	0.1		
Short-term borrowings and financial debt	**232.8**	**232.8**					
Finance lease agreement liabilities	0.4	0.4					
Bank overdrafts	9.3	9.3					
Other financial liabilities	223.1	223.1					
Total	**233.2**	**232.8**	**0.2**	**0.1**	**0.1**		
%		**99.8%**	**0.1%**	**0.1%**	**0.0%**		

(€ million)	2010	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond that date
Long-term borrowings and financial debt	**0.8**		**0.4**	**0.2**	**0.1**	**0.1**	
Finance lease agreement liabilities	0.8		0.4	0.2	0.1	0.1	
Short-term borrowings and financial debt	**61.3**	**61.3**					
Finance lease agreement liabilities	0.4	0.4					
Bank overdrafts	60.7	60.7					
Other financial liabilities	0.3	0.3					
Total	**62.1**	**61.3**	**0.4**	**0.2**	**0.1**	**0.1**	
%		**98.7%**	**0.6%**	**0.3%**	**0.2%**	**0.1%**	

All gross debt was recognized at amortized cost at the effective interest rate as of December 31, 2012.

Other financial liabilities primarily consist of the current account liabilities payable to PPR Finance, which amounted to -€216.1 million, (a debit balance and therefore shown under cash and cash equivalents Note 27.1) as of December 31, 2012 (compared with a credit balance of €222.3 million as of December 31, 2012 and a debit balance of -€194.7 million as of December 31, 2010, which was shown under cash and cash equivalents (see Note 27.1).

Interest accrued is shown under the "Other financial debt" heading.

Most of the FNAC Group's debt had a maturity of less than one year as of December 31, 2012, 2011, and 2010.

28.2. Breakdown by redemption currency

(€ million)	2012	Long-term borrowings and financial debt	Short-term borrowings and financial debt	%	2011	%	2010	%
Euro	11.3	0.7	10.6	83.7%	207.6	89.0%	38.0	61.1%
Swiss franc	2.2		2.2	16.3%	25.4	10.9%	22.9	36.8%
Other currencies					0.3	0.1%	1.3	2.0%
Total	**13.5**	**0.7**	**12.8**		**233.3**		**62.2**	

Liabilities denominated in currencies other than the euro are spread across the Group's subsidiaries to meet their local financing requirements.

28.3. Gross debt by category

The FNAC Group's gross debt broke down as follows:

(€ million)	2012	2011	2010
Other borrowings from credit institutions			0.1
Finance lease agreement liabilities	1.0	0.7	1.0
Bank overdrafts	12.2	9.3	60.7
Other financial liabilities	0.3	223.2	0.3
Total	13.5	233.2	62.1

NOTE 29 EXPOSURE TO MARKET, INTEREST RATE, AND CURRENCY RISK AND TO STOCK MARKET FLUCTUATIONS

The FNAC Group uses financial derivatives in order to reduce its exposure to currency risk.

The exposure to various market risks broke down as follows as of December 31, 2012:

29.1. Exposure to interest rate risk

Exposure to interest rate risk consists of floating-rate financial assets and liabilities that are exposed to a cash flow risk, as follows:

		2012 schedule		
(€ million)	2012	Less one year	One to five years	Over five years
Investment securities and cash	305.5	305.5		
Floating-rate financial assets	305.5	305.5		
Other financial liabilities	13.5	12.8	0.7	
Floating-rate financial liabilities	13.5	12.8	0.7	

		2011 schedule		
(€ million)	2011	Less of one	One to five years	Over five Years
Investment securities and cash	80.8	80.8		
Floating-rate financial assets	80.8	80.8		
Other financial liabilities	233.2	232.8	0.4	
Floating-rate financial liabilities	233.2	232.8	0.4	

		2010 schedule		
(€ million)	2010	Less of one	One to five years	Over five years
Investment securities and cash	251.5	251.5		
Floating-rate financial assets	251.5	251.5		
Other financial liabilities	62.1	61.3	0.8	
Floating-rate financial liabilities	62.1	61.3	0.8	

Interest rate risk sensitivity analysis

Based on the items shown above, an immediate 50 basis point change in interest rates would have a full-year impact of €1.5 million on the FNAC Group's consolidated pre-tax income as of December 31, 2012, based on the FNAC Group's net exposure. As of December 31, 2011, this impact had been estimated at €0.7 million in the event of an immediate 50 basis point change in interest rates, and at €0.9 million as of December 31, 2010 (assumption in line with the relative interest rates observed at the period-end date).

(€ million)	Impact on Income
As of December 31, 2012	
Increase of 50 basis points	1.5
Decrease of 50 basis points	(1.5)
As of December 31, 2011	
Increase of 50 basis points	(0.7)
Decrease of 50 basis points	0.7
As of December 31, 2010	
Increase of 50 basis points	0.9
Decrease of 50 basis points	(0.9)

All other market variables are deemed to be constant when determining the sensitivity.
These amounts are shown excluding the tax impact.

29.2. Exposure to currency risk

The FNAC Group uses forward currency instruments to manage currency risk in order to hedge its commercial export and import risks; these instruments amounted to €2.1 million as of December 31, 2012 (compared with €0.1 million as of December 31, 2011 and €0.3 million as of December 31, 2010).

Moreover, the FNAC Group may be required to implement simple option strategies (option or tunnel purchases) to hedge future exposure. The derivatives are traded with the PPR Group.

Pursuant to the application of IAS 39, these derivatives were assessed according to hedge accounting eligibility criteria. FNAC Group does not hold any derivatives eligible for hedge accounting.

As of December 31, 2012, the hedging derivatives were as follows:

(€ million)	2012	Euro	US dollar	Pound sterling	Swiss franc	Other
Hedging derivatives at fair value through profit or loss	2.1		2.1			0.0
Forward purchases & forward swaps	2.1		2.1			**0.0**

(€ million)	2011	Euro	US dollar	Pound sterling	Swiss franc	Other
Hedging derivatives at fair value through profit or loss	0.1			0.1		
Forward purchases & forward swaps	0.1			0.1		

(€ million)	2010	Euro	US dollar	Pound sterling	Swiss franc	Other
Hedging derivatives at fair value through profit or loss	**0.3**		0.1	0.2		0.0
Forward purchases & forward swaps	**0.3**		0.1	0.2		0.0

These derivatives are recognized on the balance sheet at their closing market value.

The FNAC Group's currency derivatives that are managed for hedging purposes are not documented under hedge accounting in accordance with IAS 39, and are therefore recognized as derivatives where the change in fair value has an impact on net financial income.

The exposure to currency risk on the balance sheet broke down as follows as of December 31, 2012:

(€ million)	2012	Euro	US dollar	Yen	Pound sterling	Swiss franc	Other
Monetary assets	**33.8**		0.1		**0.0**	27.2	6.6
Monetary liabilities	**5.5**	**5.4**			**0.0**	0.0	0.0
Gross balance sheet exposure	**28.4**	**(5.4)**	**0.1**		(0,0)	27.2	6.5
Forecast gross exposure	**(31.7)**	**(5.1)**	(24,6)	(0.2)	(1.6)		(0.2)
Gross exposure before management	**(3.3)**	**(10.5)**	**(24.5)**	**(0.2)**	**(1.6)**	**27.2**	**6.3**
Hedging instruments	**1.6**		1.6				0.0
Gross exposure after management	(1.7)	**(10.5)**	**(22.9)**	**(0.2)**	**(1.6)**	**27.2**	**6.4**

(€ million)	2011	Euro	US dollar	Yen	Pound sterling	Swiss franc	Other
Monetary assets	**0.2**	**0,1**	**0,1**	**0.0**			
Monetary liabilities	**0.3**	**0.3**	**0.0**	**0.0**			
Gross balance sheet exposure	**(0.1)**	**(0.2)**	**0.1**	**0.0**			
Forecast gross exposure	**(9.3)**	**(5.0)**	**(1.1)**	**(0.2)**	**(2.7)**		**(0.3)**
Gross exposure before management	**(9.4)**	**(5.2)**	**(1.0)**	**(0.2)**	**(2.7)**		**(0.3)**
Hedging instruments	**0.1**				**0.1**		
Gross exposure after management	**(9.3)**	**(5.2)**	**(1.0)**	**(0.2)**	**(2.6)**		**(0.3)**

(€ million)	2010	Euro	US dollar	Yen	Pound sterling	Swiss franc	Other
Monetary assets	(0.1)		(0.1)				
Monetary liabilities	3.4	3.2			0.1		
Gross balance sheet exposure	(3.5)	(3.2)	(0.1)		(0.1)		
Forecast gross exposure	(13.8)	(9.8)	(1.4)	(0,3)	(2,0)		(0.4)
Gross exposure before management	**(17.3)**	**(13.0)**	**(1.5)**	**(0.3)**	**(2.1)**		**(0.3)**
Hedging instruments	0.3				0.2		0.1
Gross exposure after management	**(17.0)**	**(13.0)**	**(1.5)**	**(0.3)**	**(1.9)**		**(0.3)**

Monetary assets consist of loans and receivables, as well as of bank balances, investments, and cash equivalents where the maturity is less than three months at the acquisition date.

Monetary liabilities consist of financial liabilities and of operating and miscellaneous liabilities.

These monetary items are mostly denominated in the functional currencies in which the subsidiaries operate, or are translated into the FNAC Group's functional currency through foreign exchange derivatives in compliance with current procedures.

Currency risk sensitivity analysis

This analysis includes the impact relating to the translation of each FNAC Group entity's financial statements into its reporting currency (the euro) as well as the valuation of the balance sheet foreign exchange position, which was considered as immaterial at the year-end date.

Based on market data at the closing date, the impact of foreign exchange derivatives would be immaterial in the event of an immediate 10% change in the euro exchange rate compared with the currencies to which the FNAC Group has the most significant exposure (the US dollar, the Swiss franc and the Brazilian real).

29.3. Exposure to the risk of share price fluctuations

The FNAC Group was not exposed to the risk of fluctuations in the price of shares issued by the FNAC Group as of December 31, 2012.

29.4. Other market risks - Credit risk

Given its large number of customers, there is no concentration of credit risk for the receivables held by the FNAC Group. Generally speaking, the FNAC Group does not believe that it is exposed to a specific credit risk on these financial assets.

29.5. Liquidity risk

The management of the FNAC Group and each of its subsidiaries' liquidity risk is assessed in detail by the FNAC Group on a regular basis, using the FNAC Group's financial reporting procedures.

The following analysis involves contractual commitments in terms of financial liabilities and trade payables, and specifically includes interest payable. The future cash flows shown have not been discounted.

Based on the data at the year-end date, the cash flows shown are not expected to be generated early and in significantly different amounts than those shown in the maturity schedule.

This analysis specifically excludes cash and cash equivalents, which amounted to €86.6 million, and €218.9 million respectively as of December 31, 2012.

Cash flows relating to currency derivatives were immaterial.

(€ million)	2012 Carrying amount	Cash flows	Less than one year	One to five years	Over five years
Other financial liabilities	12.8	(12.8)	(12.1)	(0.7)	
Trade payables	717.1	(717.1)	(717.1)		
Total	729.9	(729.9)	(729.2)	(0.7)	

(€ million)	2011 Carrying amount	Cash flows	Less than one year	One to five years	Over five years
Other financial liabilities	232.8	(232.8)	(232.5)	(0.3)	
Trade payables	730.5	(730,5)	(730.5)		
Total	963.3	(963.3)	(963.0)	(0.3)	

(€ million)	2010 Carrying amount	Cash flows	Less than one year	One to five years	Over five Years
Other financial liabilities	61.3	(61.3)	(60.6)	(0.7)	
Trade payables	844.1	(844.1)	(844.1)		
Total	905.4	(905.4)	(904.7)	(0.7)	

NOTE 30 ACCOUNTING CLASSIFICATION AND MARKET VALUE OF FINANCIAL INSTRUMENTS

The principles for valuing financial instruments and their market value as of December 31, 2012 were as follows:

2012			Breakdown by accounting classification			
(€ million)	Carrying amount	Market value	Fair value profit and loss	Assets available for sale	Loans and receivables	cost
Non-current assets						
Non-current financial assets	5.8	5.8		0.1	5.7	
Current assets						
Trade receivables	118.8	118.8				118.8
Cash and cash equivalents	305.5	305.5	305.5			
Non-current liabilities						
Long-term borrowings and financial debt	0.7	0.7				0.7
Current liabilities						
Short-term borrowings and financial debt	12.8	12.8				12.8
Trade payables	717.1	717.1				717.1

2011			Breakdown by accounting classification			
(€ million)	Carrying amount	Market value	Fair value profit and loss	Assets available for sale	Loans and receivables	Amortized cost
Non-current assets						
Non-current financial assets	28.4	28.4		22.4	6.0	
Current assets						
Trade receivables	121.6	121.6				121.6
Other current financial assets	0.1	0.1			0.1	
Cash and cash equivalents	80.8	80.8	80.8			
Non-current liabilities						
Long-term borrowings and financial debt	0.4	0.4				0.4
Current liabilities						
Short-term borrowings and financial debt	232.8	232.8				232.8
Trade payables	730.5	730.5				730.5

2010			Breakdown by accounting classification			
(€ million)	Carrying amount	Market value	Fair value profit and loss	Assets available for sale	Loans and receivables	Amortized cost
Non-current assets						
Non-current financial assets	6.6	6.6		0.5	6.1	
Current assets						
Trade receivables	88.9	88.9				88.9
Cash and cash equivalents	251.5	251.5	251.5			
Non-current liabilities						
Long-term borrowings and financial debt	0.8	0.8				0.8
Current liabilities						
Short-term borrowings and financial debt	61.3	61.3				61.3
Trade payables	844.1	844.1				844.1

The methods used to value financial instruments as of December 31, 2012 were as follows:

- In the case of financial instruments recorded under balance sheet assets, the carrying amounts used were reasonable estimates of their market value.
- In the case of financial instruments recorded under balance sheet liabilities, and more specifically other borrowings, the valuation method was determined on the basis of other valuation methods such as the value of discounted cash flows, factoring in the FNAC Group's credit risk and interest rate conditions at the closing date.

The FNAC Group distinguishes between three categories of financial instruments based on the two valuation methods used (listed prices and valuation techniques) and relies on this classification to set out the characteristic features of the financial instruments recorded at fair value on the balance sheet at the period-end date, in compliance with international accounting standards:

Level 1 category: financial instruments that are listed on an active market;
Level 2 category: financial instruments where the fair value valuation uses valuation techniques based on observable market parameters;

Level 3 category: financial instruments where the fair value valuation uses valuation techniques based on non-observable parameters (parameters where the value results from assumptions that are not based on transaction prices that can be observed on markets in the same instrument or on observable market data available at the closing date) or on parameters that are only partially observable.

The valuation of all the FNAC Group's financial instruments falls under the Level 2 category.

NOTE 31 NET FINANCIAL DEBT

The FNAC Group's net financial debt breaks down as follows:

(€ million)	2012	2011	2010
Gross financial debt	**13.5**	**233.2**	**62.1**
Cash and cash equivalents	**(305.5)**	**(80.8)**	**(251.5)**
Net financial debt	**(292.0)**	**152.4**	**(189.4)**

NOTE 32 CASH FLOW STATEMENT

Cash net of bank overdrafts amounted to €293.3 million as of December 31, 2012, and corresponded to the cash and cash equivalents amount shown in the cash flow statement.

(€ million)	2012	2011	2010
Balance sheet cash and cash equivalents	**305.5**	**80.8**	**251.5**
Bank overdrafts	**12.2**	**9.3**	**60.8**
Cash and cash equivalents in the cash flow statement	**293.3**	**71.5**	**190.8**

32.1. Cash flow from operations

The composition of cash flow from operations was as follows:

(€ million)	2012	2011	2010
Net income from continuing operations	**(115.6)**	**(19.4)**	**108.4**
Net additions to depreciation, amortization and provisions	**73.6**	**90.8**	**66.3**
Expenses calculated for stock options and equivalent items	**(0.2)**	**(1.7)**	**(0.4)**
Impairment of non-current operating assets	**93.5**		
Proceeds from asset disposals	**7.2**	**(0.5)**	**(32.9)**
Deferred tax	**(4.1)**	**0.7**	**(0.4)**
Other non-cash income and expense			
Cash flow from operations	**54.4**	**69.9**	**141.1**

32.2. Purchase and disposal of non-current tangible and intangible assets

(€ million)	2012	2011	2010
Purchase of intangible assets	**(29.1)**	**(33.0)**	**(22,9)**
Purchase of property, plant & equipment	**(49.4)**	**(62.6)**	**(53.6)**
Change in liabilities relating to non-current assets	**(16.6)**	**14.5**	**13.0**
Total non-current asset purchases	**(95.1)**	**(81.1)**	**(63.5)**
Disposal of non-current assets	**0.2**	**16.1**	**0.1**
Total disposals of non-current assets	**0.2**	**16.1**	**0.1**
Total purchases and disposals of non-current assets	**(94.9)**	**(65.0)**	**(63.4)**

Purchases of property, plant & equipment and intangible assets in the 2012 fiscal year mainly involved investments in retail outlets and logistics platforms. Disposals of non-current assets primarily involved the scrapping of non-current assets that had become obsolete in France and Belgium.

Purchases of property, plant & equipment and intangible assets in the 2011 fiscal year mainly involved investments in retail outlets and logistics platforms. Disposals of non-current assets primarily involved the disposal of the Herblay facility.
Purchases of property, plant & equipment and intangible assets in the 2010 fiscal year mainly involved investments in retail outlets and logistics platforms.

32.3. Acquisitions and disposals of subsidiaries

(€ million)	2012	2011	2010
Acquisition of subsidiaries net of cash acquired	0.1		
Disposal of subsidiaries net of cash transferred		46.3	56.6
Total	0.1	46.3	56.6

In the 2011 and 2010 fiscal years, disposals of subsidiaries primarily included the cash inflows received from the disposal of FNAC Eveil & Jeux and Conforama.

In the case of sold operations that have been restated according to IFRS 5, the impact of the cash transferred is shown on the "Net cash flows relating to discontinued operations" line.

32.4. Issuance and redemption of borrowings

(€ million)	2012	2011	2010
Redemption of borrowings	(0.4)		
Increase / Decrease in other financial debt	(222.8)	222.4	(19.6)
Total	(223.2)	222.4	(19.6)

The change in other liabilities primarily involves the change in the FNAC Group's current account with PPR Finance (see Notes 27.1 and 28.1).

NOTE 33 CONTINGENT LIABILITIES, UNRECOGNISED CONTRACTUAL COMMITMENTS AND CONTINGENT RISKS

33.1. Commitments given or received following asset disposals

No commitments were given or received following asset disposals.

33.2. Other commitments given

33.2.1. Contractual obligations

The table below sets out all the FNAC Group's contractual commitments and obligations, except for commitments relating to employee benefits, which have been detailed in previous notes.

(€ million)	Payments due according to maturity			2012
	Less than one year	Between one within five years	Over five years	
Operating lease agreements	126.5	270.9	70.5	467.9
Irrevocable purchase obligations	7.6	19.7		27.4
Total commitments given	134.1	290.7	70.5	495.3
Total commitments received				

	Payments due according to maturity			
(€ million)	Less than one year	Between one within five years	Over five years	2011
Operating lease agreements	125.9	256.3	93.5	475.6
Irrevocable purchase obligations	8.4	6.5		14.9
Total commitments given	134.3	262.8	93.5	490.5
Total commitments received				

	Payments due according to maturity			
(€ million)	Less than one year	Between one within five years	Over five years	2010
Operating lease agreements	124.2	238.2	104.2	466.6
Irrevocable purchase obligations	1.1	0.8		1.9
Total commitments given	125.3	239.0	104.2	468.5
Total commitments received				

Operating leases

The amount of the contractual obligations featured on the "Operating lease agreement" line corresponds to the amount of the minimum future payments due under operating lease agreements over the period that cannot be cancelled by the lessee. They mainly correspond to non-cancellable lease payments for stores, logistics platforms and other buildings (head office and administrative buildings).

The lease expense for the 2012 fiscal year that corresponds to minimum payments amounted to €143.8 million (€147.9 million in 2011 and €133.1 million in 2010), while the expense relating to conditional payments amounted to €2.0 million (€3.3 million in 2011 and €6.6 million in 2010), based on the revenues generated.

The amount of sub-letting revenue was nil in 2012 (€1.5 million in 2011 and €1.3 million in 2010).

Finance leases

The discounted value of future lease payments included in "Financial borrowings and debt", which involves activated assets that meet the IAS 17 definition of finance leases was as follows:

(€ million)	2012	2011	2010
Less than one year	(0.4)	(0.4)	(0.4)
One to five years	(0.7)	(0.4)	(0.7)
Over five years			
	(1.0)	(0.8)	(1.1)
Financial expenses included	0.1	0.1	0.1
Discounted value of future lease payments	(0.9)	(0.7)	(1.0)

The FNAC Group did not expect to receive any future minimum revenue under non-cancellable sub-letting agreements as of December 31, 2012.

33.2.2. Pledges and charges on real estate

There were no pledges and charges on real estate as of December 31, 2012.

33.2.3. Individual Training Entitlement (DIF)

In accordance with Law No. 2004-391 of May 4, 2004 regarding vocational training, employees at the FNAC Group's French companies benefit from an allowance of 20 training hours per year, which can be carried forward for up to six years, and is capped at 120 hours. Any training followed as part of the DIF is deducted from the training allowance earned.

The number of training hours earned by employees and not used as of December 31, 2012 amounted to 958, 427 (943,723 hours as of December 31, 2011 and 921.244 hours as of December 31, 2010).

33.2.4. Other commitments

Other commitments were as follows:

	Payments due in	each period				
(€ million)	**of one year**	**within five years**	**over five years**	**2012**	**2011**	**2010**
Other guarantees received	**19.9**	**0.0**	**1.1**	**21.0**	**18.7**	**2.1**
Total commitments received	**19.9**	**0.0**	**1.1**	**21.0**	**18.7**	**2.1**
Lease payment guarantees, and real estate guarantees	**9.7**	**11.4**	**12.1**	**33.2**	**38.3**	**23.0**
Other commitments	**43.8**	**0.2**	**0.1**	**44.1**	**41.9**	**7.4**
Total commitments given	**53.5**	**11.6**	**12.2**	**77.3**	**80.2**	**30.4**

Other commitments given consist mainly of operating guarantees.

To the FNAC Group's knowledge, no other commitments were given, nor were there any other material contingent liabilities.

33.3. The Group's dependency on patents, licenses, and supply agreements

The FNAC Group is not heavily dependent on patents, licenses, or supply agreements.

33.4. Proceedings and litigation

The FNAC Group's companies and businesses are involved in a certain number of proceedings and litigation cases during the normal course of business, including disputes with tax, employment and customs authorities. A provision has been recorded for any expenses that may arise and are considered likely by those companies and businesses and their experts.

According to their experts, none of the disputes in which the FNAC Group companies or businesses are involved threatens the FNAC Group's normal and foreseeable course of business or its planned development.

The FNAC Group believes that a provision has been recorded at year-end for any litigation of which it is aware and which involves material risks that are likely to affect its net assets, income or financial position. No litigation is material at the Company or FNAC Group level, when considered on a stand-alone basis.

The FNAC Group is not aware of any other litigation or arbitration proceedings that are likely to have a material impact on the Company or the FNAC Group's financial position, business or income, or have had such an impact in the recent past.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1. Related party with control over the FNAC Group

The PPR Group owned 100% of the FNAC Group's share capital and voting rights as of December 31, 2012.

The main transactions between all the PPR Group's consolidated companies and the FNAC Group during the fiscal year were as follows:

- payment of an exceptional dividend of €20.5 million in 2012 (payment of a €325.9 million dividend in 2011 in respect of the 2010 financial year);
- recognition of a €10.0 million fee (€10.8 million paid in respect of 2011 and €11.1 million paid in respect of 2010) for an advisory and research assignment involving development and assistance with the execution of complex transactions, as well as the provision of development, business, and cost reduction opportunities;
- re-invoicing of the cost of bonus PPR shares and stock purchase and subscription options for an amount of €1.9 million in 2012 (€3.3 million in 2011 and €2.2 million in 2010);
- recognition of a financial expense of €4.6 million (€7.1 million in respect of 2011 and €7.4 million in respect of 2010) in respect of interest on current accounts, where the balance amounted to €216.1 million in 2012 (-€222.3 million in 2011 and €194.7 million in 2010);
- reinvoicing of the FNAC SA Chairman's salaries for 2012, 2011, and 2010 by the PPR Group.

34.2. Directors' remuneration

The remuneration of the Management Board members and of the FNAC Group's main executive directors recorded as an expense was as follows:

(€ million)	2012	2011	2010
Short-term benefits	5.6	6.1	4.6
Post-employment benefits			
Other long-term benefits			
End-of-employment allowances	0.5	3.0	0.3
Share-based payments	1.0	2.0	1.5
Total	7.1	11.1	6.4

NOTE 35 POST-BALANCE SHEET EVENTS

The FNAC Group has been an independent tax group since January 1, 2013.

In keeping with its FNAC 2015 plan, and the refocusing of its operations on its core businesses, the FNAC Group has announced the sale of Form@Home, a wholly owned subsidiary, to Solution 30. The sale will take place on March 31, 2013.

The FNAC Group is planning to merge FNAC Service with FNAC Direct via a universal contribution of assets, in order to optimize its legal structure and reduce its cost structure. This universal contribution of assets will take place on March 6, 2013.

NOTE 36 LIST OF SUBSIDIARIES CONSOLIDATED AS OF DECEMBER 31, 2012

The list of the Group's subsidiaries was as follows:

All the subsidiaries were fully consolidated.

Company		% interest held		
		12/31//2012	12/31//2011	12/31//2010
France				
Groupe FNAC		Parent company	Parent company	Parent company
FNAC SA		100.00	100.00	100.00
Alize – SFL		100.00	100.00	100.00
Attitude		100.00	100.00	10000
Codirep		100.00	100.00	100.00
FNAC Appro Group		100.00	Creation	
FNAC Direct		100.00	100.00	100.00
FNAC Global Services		100.00	100.00	100.00
FNAC Logistique		100.00	100.00	100.00
FNAC Monaco		100.00	100.00	100.00
FNAC Paris		100.00	100.00	100.00
FNAC Périphérie		100.00	100.00	100.00
FNAC Service		100.00	100.00	100.00
FNAC Spectacles		100.00	Creation	
FNAC Tourisme		100.00	100.00	100.00
FORM@HOME		100.00	100.00	100.00
France Billet		100.00	100.00	100.00
Kyro Concept		1st-time consolidation	Acquisition	
Lysiane Thomas Diffusion		100.00	1st-time consolidation	
MSS		100.00	100.00	100.00
Relais FNAC		100.00	100.00	100.00
FNAC Eveil et Jeux				Disposal
Iberian Peninsula				
	Spain			
Grandes Almacenes FNAC España		100.00	100.00	100.00
	Portugal			
FNAC Portugal		100.00	100.00	100.00
Brazil				
	Brazil			
FNAC Brasil		100.00	100.00	100.00
Other countries				
	Belgium			
FNAC Belgium		100.00	100.00	100.00
	Switzerland			
FNAC Suisse SA		100.00	100.00	100.00
	Italy			
FNAC Italia		Disposal	100.00	100.00
	Greece			
FNAC Greece				Disposal