# Eutelsat Communications Group

**_Société anonyme_ with a capital of 215 626 632 euros**
**Registered office: 70, rue Balard 75 015 Paris**
**481 043 040 R.C.S. Paris**

# INTERIM CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2005

## CONSOLIDATED BALANCE SHEETS
*(in thousands of euros)*

| ASSETS | Note | 30 June 2005 | 31 December 2005 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 2 | 728 694 | 748 986 |
| Intangible assets | | 918 688 | 896 462 |
| Satellites and other property plant and equipment, net | 3 | 1 834 001 | 1 693 363 |
| Satellites under construction | 3 | 236 341 | 299 251 |
| Equity investments | | 111 425 | 112 674 |
| Financial assets | | 1 585 | 1 844 |
| Deferred tax assets | | 38 111 | 33 658 |
| **TOTAL NON-CURRENT ASSETS** | | **3 868 845** | **3 786 238** |
| **Current assets** | | | |
| Inventories | | 1 371 | 2 622 |
| Accounts receivable | | 212 183 | 219 444 |
| Other current assets | | 29 828 | 35 325 |
| Financial instruments | 9 | 1 499 | 12 023 |
| Cash and cash-equivalents | | 37 043 | 246 009 |
| **TOTAL CURRENT ASSETS** | | **281 924** | **515 423** |
| **TOTAL ASSETS** | | **4 150 769** | **4 301 661** |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | 30 June 2005 | 31 December 2005 |
|---|---|---|---|
| **Shareholders' equity** | 4 | | |
| Share capital | | 278 733 | 215 627 |
| Additional paid-in capital | | - | 907 552 |
| Retained earning and reserves | | (25 488) | (51 114) |
| Minority interests | | 125 158 | 84 501 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **378 402** | **1 156 566** |
| **Non-current liabilities** | | | |
| Long-term bank debt | 5 | 2 921 550 | 2 395 779 |
| Financial instruments | 9 | 35 027 | 8 782 |
| Other long-term liabilities | | 115 587 | 78 486 |
| Provisions (long-term portion) | | 49 387 | 45 994 |
| Deferred tax liabilities | | 316 304 | 308 652 |
| **TOTAL NON-CURRENT LIABILITIES** | | **3 437 855** | **2 837 693** |
| **Current liabilities** | | | |
| Current portion of bank debt | 5 | 77 811 | 66 687 |
| Current portion of other liabilities | | 54 892 | 19 440 |
| Accounts payable | | 46 283 | 48 137 |
| Fixed assets payable | | 25 630 | 25 045 |
| Taxes payable | | 22 468 | 10 522 |
| Other payables and deferred revenues | | 100 291 | 130 786 |
| Provisions (current portion) | | 7 137 | 6 785 |
| **TOTAL CURRENT LIABILITIES** | | **334 512** | **307 402** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **4 150 769** | **4 301 661** |

**The Notes are an integral part of the interim consolidated accounts**

## CONSOLIDATED INCOME STATEMENT
***(in thousands of euros, except for share data)***

| | Note | Six-month period ended 31 December 2005 |
|---|---|---|
| Revenues | 6 | 394 948 |
| **Revenues from operations** | | **394 948** |
| Operating costs | | (33 697) |
| Selling and administrative expenses | | (50 268) |
| Depreciation and amortisation | | (146 584) |
| Other operating charges | | (31 484) |
| **Operating income** | | **132 915** |
| Financial revenues | | 14 952 |
| Financial expenses | | (132 936) |
| **Financial result** | | **(117 984)** |
| Income from equity investments | | 1 249 |
| **Income before tax and minority interests** | | **16 180** |
| Income tax expense | 7 | (37 344) |
| **Net income (loss)** | | **(21 164)** |
| Group share of net income (loss) | | (25 631) |
| Minority interests' share of net income (loss) | | 4 467 |
| **Earnings per share attributable to Eutelsat Communications' shareholders** | 8 | |
| Basic earnings per share in € | | (0.16) |
| Diluted earnings per share in € | | (0.16) |

**The Notes are an integral part of the interim consolidated accounts**

**CONSOLIDATED STATEMENT OF CASH FLOWS**
***(in thousands of euros)***

| | Note | Six-month period ended 31 December 2005 |
|---|---|---|
| **Cash-flow from operating activities** | | |
| Net income (loss) | | (21 164) |
| *Elimination of income and expenses not related to operating cash-flows* | | |
| Income from equity investments | | (1 249) |
| Loss on disposal of assets | | 25 |
| Interest expense and other financial expenses | | 104 647 |
| Other non-operating items | | 2 015 |
| Depreciation, amortisation and provisions | | 178 780 |
| Deferred taxes | | (9 137) |
| *Changes in working capital requirements* | | |
| Changes in accounts receivable | | (11 880) |
| Changes in other assets | | (6 494) |
| Changes in accounts payable | | 7 377 |
| Changes in other payables and deferred revenues | | 43 757 |
| Taxes paid | | (58 427) |
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | | **228 250** |
| **Cash-flow from investing activities** | | |
| Acquisition of satellites and other property, plant and equipment | | (73 102) |
| Proceeds from disposal of assets | | (7) |
| Acquisition of investments | | (61 460) |
| Changes in other long-term assets | | 48 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(134 521)** |
| **Cash-flow from financing activities** | | |
| Capital increase | | 839 364 |
| Distribution | | (7 629) |
| Additional long-term and short-term debt | | 246 227 |
| Repayment of debt | | (800 278) |
| Repayments in respect of performance incentives and long-term leases | | (59 793) |
| Interest and other fees paid | | (104 647) |
| Interest received | | 1 511 |
| Other cash-flows | | 3 507 |
| **NET CASH INFLOW FROM FINANCING ACTIVITIES** | | **118 262** |
| Impact of exchange rate on cash and cash equivalents | | 15 |
| **Increase in cash and cash equivalents** | | **212 006** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | 32 606 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | 244 612 |
| Cash reconciliation | | |
| Cash and cash equivalents | | 246 004 |
| Bank overdraft included under debt | 5 | (1 392) |
| **Cash and cash equivalents as per cash-flow statement** | | **244 612** |

**The Notes are an integral part of the interim consolidated accounts**

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

***(in thousands of euros, except for share data)***

| | | Share capital | | | Retained earnings and reserves | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| | **Note** | **Number** | **Amount** | **Additional paid-in capital** | | | |
| **At 30 June 2005** | | **278 732 598** | **278 733** | | **(25 487)** | **125 157** | **378 403** |
| Result for six-month period | | | | | (25 631) | 4 467 | (21 164) |
| Transactions affecting share capital | 4.1 | (63 105 966) | (63 106) | 907 552 | 79 | | 844 525 |
| Distribution of reserves | 4.2 | | | | | (7 629) | (7 629) |
| Changes in the scope of the consolidation | | | | | | (37 351) | (37 351) |
| Translation adjustment | | | | | 23 | 1 | 24 |
| Changes in fair value of cash-flow hedges | | | | | 20 225 | 618 | 20 843 |
| Employee benefits on share subscription and free shares | | | | | 531 | 28 | 559 |
| Shares with warrants attached (ABSAs) | 4.1 | | | | (20 854) | (790) | (21 644) |
| **At 31 December 2005** | | **215 626 632** | **215 627** | **907 552** | **(51 114)** | **84 501** | **1 156 566** |

**The Notes are an integral part of the interim consolidated accounts**

## NOTES TO THE INTERIM CONSOLIDATED ACCOUNTS

### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

*Accounting standards*

The interim consolidated accounts of Eutelsat Communications (also called "the Group") are prepared in accordance with IFRS standards, as adopted by the European Union and published by the IASB (International Accounting Standards Board), at 31 December 2005.

They are prepared in accordance with IAS 34 "Interim Financial Reporting" and do not therefore contain all the information and Notes required by the IFRS for the preparation of annual consolidated financial statements.

The accounting policies and measurement methods applied for these interim accounts are identical to those used for the annual consolidated financial statements at 30 June 2005.

The Group did not apply any standards or interpretations in advance and, in particular, none of the following standards which have already been published but whose application is only compulsory after 31 December 2005:

- The amendment to IAS 19 on actuarial gains and losses, group plans and disclosure, applicable from 1 January 2006;
- The amendment to IAS 39 on the fair value option, applicable from 1 January 2006;
- The amendment to IAS 39 on cash-flow hedges for future intra-group transactions, applicable from 1 January 2006;
- The amendment to IAS 1 on disclosures relating to share capital, applicable from 1 January 2007;
- Standard IFRS 7 "Financial Instruments – Disclosure", applicable from 1 January 2007;
- Interpretation IFRIC 4 "Determining Whether an Arrangement Contains a Lease", applicable from 1 January 2006.

The interim consolidated accounts have been prepared in accordance with the historical cost convention, except for items where the standards require measurement at fair value.

*Length of reporting period and comparability*

The financial year of Eutelsat Communications lasts for the twelve-month period ending 30 June. Due to the fact that the Group was created on 25 February 2005, the interim consolidated accounts for the six-month period ended 31 December 2005 include no comparative accounts.

The functional currency of the Group, and the currency used in the presentation of the financial statements, is the euro.

*The use of estimates*

The preparation of consolidated accounts requires Management to make assumptions and estimates that may affect the amounts of assets, liabilities, income and expenses appearing in these accounts and in their accompanying notes.

Eutelsat Communications constantly updates its estimates and measurements, using past experience as well as other relevant factors related to the economic environment. Based upon any changes in these assumptions or other factors, amounts that will be part of future financial statements and accounts may differ from the present estimates.

*Accounting treatment for business combinations*

Under IFRS 3, in the event of a business combination, the acquired identifiable assets, liabilities, and contingent liabilities meeting the criteria defined under IFRS are measured initially at their fair values at the acquisition date, with the exception of non-current assets classified as assets held for sale, which are measured at fair value less costs to sell.

Only the acquiree's identifiable liabilities satisfying the criteria specified by IFRS are recognised following a business combination. Restructuring costs are only recognised as liabilities of the acquired entity if it has a present obligation to restructure at the date of acquisition.

Provisional fair values assigned at the date of acquisition to identifiable assets and liabilities may require adjustment as and when additional evidence becomes available to assist with the estimation (expert assessments still in progress at the acquisition date or additional analyses). When such adjustments are made prior to the end of a twelve-month period commencing on the date of acquisition, goodwill or negative goodwill is adjusted retroactively. When the carrying amounts are adjusted after the end of the twelve-month period, income or expense is recognised instead, except where the adjustments correspond to corrections of errors.

Minority interests are recognised on the basis of the fair value of the net assets acquired.

*Acquisition of minority interests*

No accounting treatment for the acquisition of additional minority interests is currently specified under IFRS, and the IASB is currently examining possible methods for the treatment of this type of transaction, expected to be among the proposed amendments to IFRS 3, "*Business combinations*." Therefore, in the absence of specific guidelines, the Group is applying the following method: in the event of an acquisition of additional interests in a subsidiary, the difference between the purchase price and the carrying amount of acquired minority interests as indicated in the consolidated accounts of the Group prior to the acquisition is recognised as goodwill.

*Shareholders' equity*

External costs directly related to increases in capital, reduction of capital and share buy-backs are allocated to additional paid-in capital (net of taxes when an income tax saving is generated).

*Stock options*

Benefits granted to employees in the form of stock options are measured at the date of grant of the options and constitute additional compensation awarded to employees. These costs are recorded under personnel expenses, offset by increases in equity, over the vesting period of the rights corresponding to the benefits granted.

*Earnings per share*

Earnings per share are calculated by dividing the net income for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated using the treasury stock method, assuming (i) the exercise of outstanding options and (ii) the conversion of financial instruments giving access to capital, after taking into account the theoretical impact on net income of these transactions.

*Tax*

The interim tax expense is calculated by applying the average effective rate estimated for the financial year to earnings before taxes for the period.

## NOTE 2: IMPACT OF THE ACQUISITION OF EUTELSAT S.A.

### *2.1- Evolution of the goodwill*

| **(in thousands of euros)** | **Note** | **Goodwill** |
|---|---|---|
| **Initial goodwill at 4 April 2005 (published)** | **2.2** | **731 101** |
| Impact related to ATLANTIC BIRD™1 (AB1) (1) | 2.2 | (58 890) |
| Acquisition expenses (2) | 2.2 | (1 004) |
| **Restated goodwill at 4 April 2005** | **2.2** | **671 207** |
| Acquisition of minority interests at 30 June 2005 | 2.3 | 59 895 |
| Impact related to ATLANTIC BIRD™1 (AB1) (1) | 2.3 | (5 342) |
| Additional acquisition expenses (2) | 2.3 | 2 933 |
| **Sub total** | **2.3** | **57 487** |
| **Restated goodwill at 30 June 2005** | **2.4** | **728 694** |
| Acquisition of minority interests in the six-month period ended 31 December 2005 | 2.5 | 20 292 |
| **Goodwill at 31 December 2005** | | **748 986** |

[(1)] the overall impact of the changes in the fair value of the ATLANTIC BIRD™1 satellite is € 64 231 thousand.
[(2)] the total additional amount of acquisition expenses is € 1 929 thousand

*2.2 - Adjustments of provisional values applied to certain assets resulting from the acquisition of Eutelsat S.A.*

At 30 June 2005, fair values were determined with the assistance of independent valuers, based on the situation of Eutelsat S.A. at the acquisition date. Some of these values were of a provisional nature and have been adjusted on the basis of additional information obtained in December 2005.

This additional information mainly concerns the value of the ATLANTIC BIRD™1 satellite (the subject of several claims relating to numerous service interruptions that have required corrective actions to be taken since it was first brought into operational service) financed through a finance lease.

During the six-month period ended 31 December 2005, discussions continued between Eutelsat S.A. and ALS S.p.A on the subject of the ATLANTIC BIRD™1 satellite. These discussions resulted in an agreement on 19 December 2005 on a final-settlement transaction covering the purchase of the satellite for € 48 million, which resulted in an adjustment to the satellite's value and to the corresponding debt.

This agreement confirmed that Eutelsat S.A. and ALS S.p.A. were abandoning their reciprocal claims (notably the claim for payment of past instalments unpaid by Eutelsat S.A.) and resulted in the recognition of non-recurring income of € 17.4 million of compensation for late delivery and service interruption, and by a € 1.6 million reduction in the insurance expense.

As a result of the additional information obtained concerning allocation of the purchase price, the new value of the Eutelsat S.A. net assets as of 4 April 2005, and of the goodwill, are corrected as follows:

| (in thousands of euros) | Provisional values at the acquisition date | Adjustments to provisional values | Adjusted values |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 929 800 | | 929 800 |
| Satellites and other property, plant and equipment, net (including assets under construction) | 2 085 478 | 5 895 (1) | 2 091 373 |
| Equity investments | 111 359 | | 111 359 |
| Financial assets | 3 133 | | 3 133 |
| Deferred tax assets, net | 61 416 | (34 730) (3) | 26 686 |
| **Total non current assets** | **3 191 186** | **(28 835)** | **3 162 351** |
| **Current assets** | | | |
| Inventories | 2 336 | | 2 336 |
| Accounts receivable | 217 847 | | 217 847 |
| Other current assets | 28 378 | | 28 378 |
| Financial instruments | 849 | | 849 |
| Cash and cash equivalents | 50 613 | | 50 613 |
| **Total current assets** | **300 023** | | **300 023** |
| **TOTAL ASSETS** | **3 491 209** | **(28 835)** | **3 462 374** |
| **Non-current liabilities** | | | |
| Long-term bank debt | 772 430 | | 772 430 |
| Financial instruments | 5 104 | | 5 104 |
| Other long-term liabilities | 203 766 | (80 072) (2) | 123 694 |
| Provisions (long-term portion) | 49 000 | | 49 000 |
| Deferred tax liabilities | 312 349 | | 312 349 |
| **Total non-current liabilities** | **1 342 649** | **(80 072)** | **1 262 577** |
| **Current liabilities** | | | |
| Current portion of bank debt | 144 033 | | 144 033 |
| Current portion of other liabilities | 89 894 | (17 521) (2) | 72 373 |
| Accounts payable | 34 343 | | 34 343 |
| Fixed assets payable | 13 885 | | 13 885 |
| Taxes payable | 19 569 | | 19 569 |
| Other payables and deferred revenues | 97 756 | | 97 756 |
| Provisions (current portion) | 9 408 | | 9 408 |
| **Total current liabilities** | **408 888** | **(17 521)** | **391 367** |
| **TOTAL LIABILITIES** | **1 751 537** | **(97 593)** | **1 653 944** |
| **Fair value of net assets acquired** | **1 739 672** | **68 758** | **1 808 430** |
| % interest acquired | 85.648% | 85.648% | 85.648% |
| Eutelsat Communications' share of the fair value of net assets acquired | 1 489 994 | 58 890 | 1 548 884 |
| Acquisition cost | 2 221 095 | (1 004) | 2 220 091 |
| Goodwill | 731 101 | (59 894) | 671 207 |

(1) Adjustment of the value of the ATLANTIC BIRD™1 satellite on the basis of the procurement price, and after taking into account the time value of money between 4 April 2005 and the date of the transaction.
(2) Adjustment of the fair value of the debt (principal and interest) related to the financing of the ATLANTIC BIRD™1 satellite on the basis of the agreement reached in December 2005 and the payments made since 4 April 2005.
(3) Change to deferred taxes to take account of the above adjustments.

### *2.3 – Impact of the adjustments to provisional values on the acquisition of minority interests at 30 June 2005*

At June 30 2005, the acquisition of an additional 7.67% of the capital of Eutelsat S.A. resulted in the recognition of additional goodwill in the consolidated financial statements of Eutelsat Communications at 30 June 2005 amounting to € 59 895 thousand.

As a result of the new value obtained for the net assets acquired from Eutelsat S.A. at 30 June 2005, and the adjustments relating to the acquisition expenses for shares, the goodwill has been adjusted downwards by € 2 409 thousand, comprising (i) € 5 342 thousand related to the adjustments, net of deferred tax, of the values of ATLANTIC BIRD™1 and of the corresponding debt and (ii) € 2 933 thousand in respect of additional acquisition expenses. Additional goodwill at 30 June 2005 is € 57 487 thousand after this downward adjustment.

Total goodwill at 30 June 2005 is therefore € 728 694 thousand.

### *2.4 - Consolidated financial statements at 30 June 2005*

The adjustments to acquisition accounting for Eutelsat S.A. modify the consolidated financial statements at 30 June 2005 as follows:

## CONSOLIDATED BALANCE SHEET

| (in thousands of euros) | 30 June 2005 published | AB1 change | Acquisition expenses | 30 June 2005 restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | 790 996 | (64 231) | 1 929 | 728 694 |
| Intangible assets | 918 688 | | | 918 688 |
| Satellites and other property plant and equipment, net | 1 827 903 | 6 098 | | 1 834 001 |
| Satellites under construction | 236 341 | | | 236 341 |
| Equity investments | 111 425 | | | 111 425 |
| Financial assets | 1 585 | | | 1 585 |
| Deferred tax assets, net | 72 841 | (34 730) | | 38 111 |
| **Total non-current assets** | **3 959 779** | **(92 863)** | **1 929** | **3 868 845** |
| **Current assets** | | | | |
| Inventories | 1 371 | | | 1 371 |
| Accounts receivable | 212 183 | | | 212 183 |
| Other current assets | 29 828 | | | 29 828 |
| Current tax receivable | | | | |
| Financial instruments | 1 499 | | | 1 499 |
| Cash and cash equivalents | 37 043 | | | 37 043 |
| **Total current assets** | **281 924** | | | **281 924** |
| **TOTAL ASSETS** | **4 241 703** | **(92 863)** | **1 929** | **4 150 769** |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | |
| **Shareholders' equity** | | | | |
| Share capital | 278 733 | | | 278 733 |
| Additional paid-in capital | - | | | |
| Retained earnings and reserves | (26 281) | 792 | | (25 489) |
| Minority interests | 120 400 | 4 758 | | 125 158 |
| **Total shareholders' equity** | **372 852** | **5 550** | | **378 402** |
| **Non-current liabilities** | | | | |
| Long-term bank debt | 2 921 550 | | | 2 921 550 |
| Financial instruments | 35 027 | | | 35 027 |
| Other long-term liabilities | 195 659 | (80 072) | | 115 587 |
| Provisions (long-term portion) | 49 387 | | | 49 387 |
| Deferred tax liabilities | 316 304 | | | 316 304 |
| **Total non-current liabilities** | **3 517 927** | **(80 072)** | | **3 437 855** |
| **Current liabilities** | | | | |
| Current portion of bank debt | 77 811 | | | 77 811 |
| Current portion of other liabilities | 73 233 | (18 341) | | 54 892 |
| Accounts payable | 44 354 | | 1 929 | 46 283 |
| Fixed assets payable | 25 630 | | | 25 630 |
| Taxes payable | 22 468 | | | 22 468 |
| Other payables and deferred revenues | 100 291 | | | 100 291 |
| Financial instruments | | | | |
| Provisions (current portion) | 7 137 | | | 7 137 |
| **Total current liabilities** | **350 924** | **(18 341)** | **1 929** | **334 512** |
| **TOTAL LABILITIES AND SHAREHOLDERS' EQUITY** | **4 241 703** | **(92 863)** | **1 929** | **4 150 769** |

**CONSOLIDATED INCOME STATEMENT**

(in thousands of euros, except data per share)

| | 30 June 2005 published | AB1 change | 30 June 2005 restated |
|---|---|---|---|
| Revenues | 188 680 | | 188 680 |
| **Revenues from operations** | **188 680** | | **188 680** |
| Operating costs | (19 351) | | (19 351) |
| Other operating income | | | |
| Selling and administrative expenses | (32 949) | | (32 949) |
| Depreciation and amortisation | (73 241) | 203 | (73 038) |
| Other operating charges | (695) | | (695) |
| **Operating income** | **62 444** | **203** | **62 647** |
| Financial income | 3 035 | | 3 035 |
| Financial expenses | (59 640) | 820 | (58 820) |
| **Financial result** | **(56 605)** | **820** | **(55 785)** |
| Income from equity investments | 66 | | 66 |
| **Income before tax and minority interests** | **5 905** | **1 023** | **6 928** |
| Income tax expense | (14 250) | | (14 250) |
| **Net income (loss)** | **(8 345)** | **1 023** | **7 322** |
| Group share of net income (loss) | (13 428) | 876 | (12 552) |
| Minority interests' share of net income (loss) | 5 083 | 147 | 5 230 |
| **Earnings per share attributable to Eutelsat Communications' shareholders** | | | |
| Basic earnings per share in € | (0.056) | | (0.053) |
| Diluted earnings per share in € | (0.057) | | (0.054) |

### *2.5 - Acquisition of minority interests since 30 June 2005*

Since 30 June 2005, Eutelsat S.A. employee or minority shareholders representing a total of 2.19% of Eutelsat S.A.'s capital have sold and/or contributed their Eutelsat S.A. shares to the Group.

These additional acquisitions of minority interests resulted in the recognition of additional goodwill totalling € 20 292 thousand.

The additional acquisition cost paid to Eutelsat S.A. minority shareholders was € 61 233 thousand (including € 2 622 thousand in acquisition expenses before tax).

In particular (see Note 27 to the consolidated financial statements at 30 June 2005) the offer made by the Group in July 2005 to repurchase shares held as a result of the exercise, prior to 30 June, of options under Eutelsat S.A.'s "Partners" stock-option plan was cancelled.

Following the IPO, the Group made an offer of liquidity to beneficiaries of stock options under the “Partners” and “Managers” stock-option plans and under the stock-option plans put in place by Eutelsat S.A. The offer closed on 15 December 2005 and led to the acquisition of 1 696 973 Eutelsat S.A. shares for a total amount of € 7 246 thousand.

## NOTE 3: SATELLITES AND OTHER PROPERTY, PLANT AND EQUIPMENT, NET

### Change in gross value of assets

| *(in thousands of euros)* | Satellites | Other property, plant and equipment | Satellites under construction | Total |
|---|---|---|---|---|
| **30 June 2005** | **1 826 155** | **69 771** | **236 341** | **2 132 267** |
| Additions | - | 11 452 | 65 541 | 76 993 |
| Disposals | - | (21) | - | (21) |
| Transfers | 2 631 | - | (2 631) | - |
| **31 December 2005** | **1 826 786** | **81 202** | **299 251** | **2 209 239** |

### Changes in depreciation and impairment

| *(in thousands of euros)* | Satellites | Other property, plant and equipment | Satellites under construction | Total |
|---|---|---|---|---|
| **30 June 2005** | **57 270** | **4 655** | **-** | **61 925** |
| Depreciation expense | 114 336 | 9 961 | - | 124 297 |
| Reversals | - | - | - | |
| Impairment | 30 400 | 3 | - | 30 403 |
| **31 December 2005** | **202 006** | **14 619** | **-** | **216 625** |
| **Net value at 31 December 2005** | **1 626 780** | **66 583** | **299 251** | **1 992 614** |

As of 31 December 2005, two satellites, called HOT BIRD™ 7A and HOT BIRD™8, were under construction.

On 10 August 2005, the W1 satellite was affected by a technical incident leading to a service interruption that lasted several hours. On 11 August, service was restored for the majority of customers under acceptable operational conditions. The failure resulted in the loss of half of the satellite's available power and an estimated 50% reduction of its residual operational life.

At 30 June 2005, the net book value of the satellite was € 114.8 million, including in-orbit incentive payments.

Subsequent to this incident, the Company carried out an assessment of the damage sustained and, before taking account of the launch insurance payments, remeasured the present value of the future cash flows generated by W1. On this basis, Eutelsat S.A. recognised an impairment of W1's value amounting to € 30.4 million.

At the date that the consolidated interim accounts at 31 December 2005 were authorised for issue, the Company was unaware of any factor that might call this new measurement of the satellite's value into question.

## NOTE 4: SHAREHOLDERS' EQUITY

### *4.1- Eutelsat Communications*

a) Shareholders' equity

As of 31 December 2005, the share capital of Eutelsat Communications consists of 215 626 632 shares with a par value of 1 € per share. The Eutelsat Communications Company does not hold any treasury shares.

Changes in the share capital and additional paid-in capital of the Company since 30 June 2005 are presented hereafter:

| Definitive date of each operation | Operation | Number of shares issued/ cancelled | Nominal capital increase/reduction (in thousands of euros) | Additional paid-in capital (in thousands of euros) | Nominal share capital after operation (in thousands of euros) | Cumulative number of shares | Nominal value of shares (in euros) |
|---|---|---|---|---|---|---|---|
| 30/06/2005 | | | | - | 278 733 | 278 732 598 | 1 |
| 20/07/2005 | Capital reduction (reduction of nominal value from 1 euro to 0.5 euro per share – GM of 20/07/2005) | - | (139 366) | 139 366 | 139 366 | 278 732 598 | 0. 5 |
| 02/08/2005 | Capital increase (issue of ABSAs – GM of 30/06/2005) | 1 717 580 | 859 | 1 651 | 140 225 | 280 450 178 | 0. 5 |
| 02/08/2005 | Constitution of legal reserve (GM of 20/07/2005) | N/A | N/A | (79) | N/A | N/A | N/A |
| 31/08/2005 | Consolidation of shares (two former 0.5 euro shares for one new 1 euro share - GM of 31/08/2005) | (140 225 089) | - | - | 140 225 | 140 225 089 | 1 |
| 06/10/2005 | Capital increase (contributions in kind – GM of 06/10/2005) | 2 938 777 | 2 939 | 2 939 | 143 164 | 143 163 866 | 1 |
| 14/12/2005 | Capital increase (exercise of BSA 1) | 600 000 | 600 | 600 | 143 764 | 143 763 866 | 1 |
| 19/12/2005 | Capital increase (reserved for employees - GM of 06/10/2005 and BD of 29/11/2005) | 196 099 | 196 | 1 686 | 143 960 | 143 959 965 | 1 |
| 30/12/2005 | Capital increase (public offering – GM of 06/10/2005 and BD of 29/11/2005) | 71 666 667 | 71 667 | 761 389[(1)] | 215 627 | 215 626 632 | 1 |
| 31/12/2005 | CLOSING POSITION | (63 105 966) | (63 106) | 907 552 | 215 627 | 215 626 632 | 1 |

[(1)] After deduction of costs related to the capital increase

The Board of Directors' meetings of 27 November 2005 and 29 November 2005 decided:

- A capital increase via a public offering to repay the Group's debt. The Company, after its *document de base* was filed on 7 September 2005 and a *note d'opération* was registered by the *Autorité des Marchés Financiers* on 28 November 2005, began trading on the Paris *Bourse* on 2 December 2005 at a subscription price of € 12.00 per share, thereby raising a gross amount of € 860 million comprising € 71.7 million in capital and € 788.3 million of additional paid-in capital. The costs of the operation were charged to additional paid-in capital. They amount to € 26.9 million, which comprises € 17.6 million of compensation to the financial arrangers and € 9.3 million in legal and administrative costs.

- A capital increase on the occasion of the IPO, reserved for present and former employee-members of the Eutelsat S.A. corporate savings plan. The subscription price was set at € 9.60 per share, applying a 20% reduction on the price offered to the general public, and the maximum number of shares was fixed at one million. The subscription period was from 2 December 2005 to 9 December 2005 and resulted in the issue of 196 099 new shares on 19 December 2005.

- An allocation of free shares to the Group's employees amounting to 341 shares per beneficiary. The number of beneficiaries was fixed at 439, which corresponds to the number of employees who were not shareholders in the Company as of 29 November 2005. The qualifying period for definitive acquisition of the shares was fixed at 2 years thereafter, with a requirement that the employee should still be working for the Group. Beneficiaries are required to keep their shares for a period of 2 years after the effective date of acquisition.

The charge to shareholders' equity resulting from these last two decisions is € 559 thousand, which is composed of € 480 thousand for the 20% reduction and € 79 thousand for the free share allocation (in this latter case, as a result of the condition that the employee should still be working for the Group at the date of acquisition of the shares, the total charge of € 1.8 million is written off over 2 years).

b) Other securities giving access to the share capital

On 30 June 2005, the shareholders delegated authority to the Chairman of the Board of Directors to undertake one or more issues of ABSAs (shares with warrants attached) reserved for managers and *mandataires sociaux* of the Group, within the limits of a maximum nominal upper ceiling on the immediate or ultimate capital increase of 6 660 000 euros, subject to prior authorisation by the Board of Directors.

At its meeting of 15 July 2005, the Board of Directors authorised the Chairman to issue 835 200 ABSA1s and 882 380 ABSA2s, as follows:

- ABSA1: unit price € 1.378
- ABSA2: unit price € 1.54
- 2.7 BSA per ABSA
- Each BSA conferring the right to subscribe for 1 Company share

The ABSAs were issued on 2 August 2005 and fully paid-up in cash, with the difference between the unit subscription price for the ABSAs and the nominal value being recognised as additional paid-in capital.

The BSAs were detached from the shares when the ABSAs were issued.

The Board of Directors met on 31 August 2005 and decided that, in order to take account of the consolidation of shares decided by the General Meeting of 31 August 2005, two BSAs would confer the right to subscribe for one Company share as from 21 September 2005, with a unit subscription price of two euros.

The table below describes movements in respect of the BSAs:

| ***Type*** | **BSAs issued** | **BSAs exercised** | **Shares issued** | **Subscription price per share in euros** | **Expiry date** |
|---|---|---|---|---|---|
| BSA 1 | 2 255 040 | 1 200 000 | 600 000 | 2 | 31/03/2008 |
| BSA 2 | 2 382 426 | - | - | 2 | 02/08/2015 |
| **Total** | **4 637 466** | **1 200 000** | **600 000** | | |

The operation is related to the signature of a formal commitment to buy and a formal commitment to sell with each of the managers and *mandataires sociaux* in question, relating to the Eutelsat S.A. shares that result from or are liable to result from the exercise of stock options granted by Eutelsat S.A. under the different "Managers" stock-option plans (see Note 4.2). Almost 18.3 million Eutelsat S.A. shares are concerned. The formal commitments to buy and sell have the following characteristics:

Commitment to sell:
- Given by each of the managers and *mandataires sociaux* to Eutelsat Communications
- Exercise price per share: € 2.80 (subject to adjustments to take account of operations affecting Eutelsat S.A.'s capital or shareholders' equity)
- Exercise period: for 3 months after the end of the period of fiscal unavailability for each tranche of shares concerned

Commitment to buy:
- Given by Eutelsat Communications
- Exercise price determined on the basis of a Eutelsat S.A. valuation of 8.5 times the group's consolidated EBITDA, after deducting the group's net debt (or adding the net cash position)
- Exercise period: for each tranche of shares concerned, for 1 month after the end of the period for exercising the corresponding promise to sell

In accordance with IFRS 2, the company's obligation with respect to liquidity has been treated as a change to the initial plans and recognised as a forward repayment of a shareholders' equity instrument. The obligation was measured at the date of the operation and recognised as debt, offset by an equivalent reduction in shareholders' equity. The debt was measured at present value as of 31 December 2005 on the basis of the timetable for purchasing the securities and the effect of the increase in debt was recognised in financial expenses (discount effect).

At 31 December 2005, the amount deducted from shareholders' equity is € 21.6 million. The figure for the debt is € 22.3 million, with € 0.7 million as a financial expense.

*4.2- Eutelsat S.A.*

*The information contained in this note only concerns the Eutelsat S.A. sub-group and the governing bodies of that sub-group.*

a) Shareholders' equity

On 22 December 2005, the Ordinary and Extraordinary General Meeting of Shareholders decided to distribute a gross sum of € 0.16 per share, i.e. a total of € 158 625 171.68, made up of € 156 540 853.26 taken from the "free reserve", which reduces the balance of the free reserve to zero, and € 2 084 318.42 taken from "Additional paid-in capital". The meeting further decided to allocate € 0.16 for each "Partners" stock-option not yet exercised, i.e. a total sum of € 45 559.36, to a special reserve account assigned to the holders of such options, by deducting the relevant amount from "Additional paid-in capital".
The sums were distributed within eight days after the Ordinary and Extraordinary General Meeting, including € 150 996 308 paid to companies in the Eutelsat Communications Group.

The Ordinary and Extraordinary General Meeting also decided to reduce the nominal value of the shares comprising the Company's share capital by € 0.35 per share, the nominal value of each share being reduced from € 1.00 to € 0.65, and to allocate the capital reduction of € 346 922 563.05 to "Additional paid-in capital", so guaranteeing the company's ability to distribute to its shareholders.

b) Stock-option plans

Following the decision of the Ordinary and Extraordinary General Meeting of Shareholders on 22 December 2005 to make an exceptional distribution from the distributable reserves and "Additional paid-in capital", in application of the Regulations of the "Partners" and "Managers" stock-option plans and in accordance with legal and regulatory provisions, the Board of Directors implemented protective measures in respect of the rights of holders of stock options granted but not yet exercised as of the date of the General Meeting of 22 December 2005.

These protective measures generally consist of an adjustment to the subscription conditions, the conversion bases, and the procedures for exchange or grant of the options as originally determined, the purpose being to reflect the impact of making a distribution of reserves.

Under the regulatory provisions in force, this adjustment resulted in:

- A downward adjustment of the exercise price for options granted but not yet exercised, and
- An upward adjustment of the number of underlying shares for each of the options not yet exercised, so that their holders are each able to invest the amount originally specified.

It should also be noted that holders of “Partners” options not yet exercised as of the date of the General Meeting have benefited from specific protective measures, since the downward adjustment of the subscription price (previously fixed at € 1.00 for this plan) cannot have the effect of reducing the subscription price to less than the nominal value of the shares (fixed at € 1.00).

Application of the formula specified in Article D. 174-12 would have resulted in reducing the subscription price for the shares subject to the option to below € 1.00.

The Ordinary and Extraordinary General Meeting consequently voted a resolution whereby € 0.16 per "Partners" plan option not yet exercised, amounting to a total of € 45 559.36, is being allocated to a special purpose reserve account to the benefit of those holding such options, with the amount being deducted from “Additional paid-in capital”. The reserve so constituted will be used as and when the options are exercised by their holders.

The following table summarises movements in respect of these plans:

| Plans | Granted | Exercised | Cancelled | Balance | Exercise price (in € ) |
|---|---|---|---|---|---|
| **Before the distribution of 10 December 2004** | | | | | |
| Partners | 4 233 788 | (2 515 497) | (156 539) | 1 561 752 | 1.10 |
| Managers | 2 010 000 | - | - | 2 010 000 | 2.00 |
| Managers II | | | | | |
| - 13/12/02 | 3 150 180 | (58 266) | - | 3 091 914 | 1.79 |
| - 24/02/03 | 56 000 | - | - | 56 000 | 1.79 |
| Managers III | | | | | |
| - 17/12/03 | 8 011 938 | - | - | 8 011 938 | 1.70 |
| - 08/04/04 | 1 102 000 | - | - | 1 102 000 | 1.70 |
| - 28/06/04 | 325 000 | - | - | 325 000 | 2.00 |
| Managers IV | 3 000 000 | - | - | 3 000 000 | 2.20 |
| **Total** | **21 888 906** | **(2 573 763)** | **(156 539)** | **19 158 604** | - |
| **Status as of 30 June 2005 after the distribution of 10 December 2004** | | | | | |
| Partners | 4 389 963 | (3 545 738) | (191 878) | 652 347 | 1.00 |
| Managers | 2 603 627 | (97 151) | - | 2 506 476 | 1.54 |
| Managers II | | | | | |
| - 13/12/02 | 4 063 336 | (154 555) | - | 3 908 781 | 1.38 |
| - 24/02/03 | 72 539 | - | - | 72 539 | 1.38 |
| Managers III | | | | | |
| - 17/12/03 | 10 378 158 | - | - | 10 378 158 | 1.31 |
| - 08/04/04 | 1 427 461 | (64 042) | (64 767) | 1 298 652 | 1.31 |
| - 28/06/04 | 420 985 | - | - | 420 985 | 1.54 |
| Managers IV | 3 886 033 | (113 628) | - | 3 772 405 | 1.70 |
| **Total** | **27 242 102** | **(3 975 114)** | **(256 645)** | **23 010 343** | - |
| **Status as of 31 December 2005 after the distribution of 22 December 2005** | | | | | |
| Partners | 4 389 963 | (3 913 339) | (191 878) | 284 746 | 1.00 |
| Managers | 2 665 914 | (1 003 890) | - | 1 662 024 | 1.48 |
| Managers II | | | | | |
| - 13/12/02 | 4 198 098 | (602 134) | - | 3 595 964 | 1.33 |
| - 24/02/03 | 75 171 | (4 927) | - | 70 244 | 1.33 |
| Managers III | | | | | |
| - 17/12/03 | 10 782 174 | - | - | 10 782 174 | 1.26 |
| - 08/04/04 | 1 476 130 | (112 971) | (64 767) | 1 298 392 | 1.26 |
| - 28/06/04 | 437 374 | - | - | 437 374 | 1.48 |
| Managers IV | 4 028 215 | (233 741) | - | 3 794 474 | 1.64 |
| **Total** | **28 053 039** | **(5 871 002)** | **(256 645)** | **21 925 392** | - |

A summary of movements in respect of stock-option plans is presented below:

| | Shares reserved for future grants | Stock options outstanding | Weighted average exercise price (in € ) after distribution |
|---|---|---|---|
| Balance as of 1 July 2005 | 5 946 498 | 23 010 343 | 1.41 |
| Authorised | - | - | - |
| Granted | (810 937) | 810 937 | 1.36 |
| Exercised | - | (1 895 888) | 1.40 |
| Cancelled | - | - | - |
| **Balance as of 31 December 2005** | **5 135 561** | **21 925 392** | **1.36** |

The weighted average remaining contractual life of options outstanding is 5.79 years: 3.51 years for “Partners” plan options, 3.82 years for "Managers" plan options, 4.96 years for "Managers II" plan options, 6.01 years for "Managers III" plan options and 6.91 years for "Managers IV" plan options.

All options exercised during the six-month period closed 31 December 2005 were exercised before the distribution. The share capital of Eutelsat S.A. therefore increased by 1 895 888 shares, of which 367 601 were from “Partners” plan options, generating payment of € 172 772.47 taken from the special reserve.

This capital increase generated a 0.182% reduction in Eutelsat Communications’ interest in Eutelsat S.A. and a € 1 084 thousand loss on dilution, which has been recognised under “Other operating charges”.

**NOTE 5: BANK DEBT**

*5.1 – Non-current portion*

a) Change since 30 June 2005:

Eutelsat Communications' IPO took place on 2 December 2005. The funds were paid on 6 December 2005.

As at the date the funds were received, the Group made early repayment of the following bank loans:-

- The Floating Rate Senior PIK Loan Facility for € 300 million entered into as of 30 March 2005 and repayable at maturity at 1 May 2014 was redeemed early (6 December 2005).
- The 8-year Second Lien Credit Facility, on which a total of € 475 million had been drawn, contracted on 4 April 2005, was redeemed early (6 December 2005), following an agreement with the lenders to accept a 100% repayment of this credit facility.

Following these loan redemptions, the Group's IPO was termed "qualifying" (see Note 13 to the consolidated financial statements for the period ended 30 June 2005) and certain conditions regarding reimbursement and financial ratios were modified.

At 31 December 2005, the Group had access to the following credit facilities.

- In SatBirds Finance Sarl, a Senior credit facility agreement signed on 4 April 2005, comprising:

- a 7-year Term "A" loan for a maximum principal amount of € 750 million.
- an 8-year Term "B" loan for a maximum principal amount of € 875 million.
- a 7-year revolving credit facility for a maximum principal amount of € 150 million.

The table below presents the relevant financial ratios applicable at 30 June 2006 and 2007.

| | **Prior to a "qualifying" IPO** | | **Subsequent to a "qualifying" IPO** | |
|---|---|---|---|---|
| | **At 30 June** | | | |
| | **2006** | **2007** | **2006** | **2007** |
| Maximum ratio of total net debt[1] to consolidated EBITDA[2] | 6.10 | 5.70 | – | – |
| Maximum ratio of senior net debt[3] to consolidated EBITDA[2] | 5.15 | 4.80 | 5.15 | 4.80 |
| Minimum fixed charge coverage ratio [4] | 1.00 | 1.00 | – | – |
| Minimum ratio of consolidated EBITDA[2] to net cash interest payable[5] | 3.20 | 3.25 | 3.20 | 3.25 |

1 The total consolidated debt of SatBirds Capital Participations S.C.A. and its subsidiaries, less the PIK Loan and cash on hand; the total net debt of Eutelsat S.A. and its subsidiaries being multiplied by the percentage of Eutelsat S.A. shares held directly or indirectly by SatBirds Capital Participations S.C.A. at the test date.

2 The EBITDA of Eutelsat S.A. and its subsidiaries multiplied by the percentage of Eutelsat S.A. shares held directly or indirectly by SatBirds Capital Participations S.C.A. at the test date.

3 The total net debt as defined above, less any amounts owed under the Second Lien Credit Facility.

4 All distributions made by Eutelsat S.A. to its shareholders, multiplied by the percentage of Eutelsat S.A. shares held directly or indirectly by SatBirds Capital Participations S.C.A. at the test date, plus certain amounts that may have been drawn on the revolving credit facility component of the Senior Credit Facilities, plus certain accrued interest amounts on cash balances, divided by the net interest expense related to the Senior Credit Facilities and the Second Lien Credit Facility.

5 The net interest payable in cash of SatBirds Capital Participations S.C.A. and its subsidiaries (with the exception of Eutelsat S.A. and its subsidiaries).

All of these ratios are defined for the entire term of the various credit facilities and decrease over the period, except for the “minimum ratio of consolidated EBITDA to net cash interest payable”, which increases over the period. They are tested every six months as and when the ratio of total net debt to EBITDA is less than 5.00 to 1.

At 31 December 2005, the Group complies with these ratios.

In the Eutelsat S.A. sub-group, a 7-year syndicated credit facility entered into in November 2004 for an amount of € 1.3 billion, comprising:

- a € 650 million loan repayable at maturity
- a € 650 million revolving credit facility

The amounts drawn on this credit facility bear interest at EURIBOR (or LIBOR for amounts drawn in U.S. dollars) plus a margin of between 0.25 and 0.75%, depending on Eutelsat S.A.'s long-term rating assigned by Standard & Poor's.

Under the terms of this credit facility, Eutelsat S.A. is required to maintain a ratio of total net debt to annualised EBITDA (as these terms are defined contractually) of less than or equal to 3.75 to 1, and this ratio is tested at 30 June and 31 December each year

At 31 December 2005, the Eutelsat S.A. sub-group complies with this ratio.

b) Financial data as of 31 December 2005

The non-current portion of the Group's bank debt at 31 December 2005 breaks down as follows:

| ***(in thousands of euros)*** | **30 June 2005** | | **31 December 2005** | |
|---|---|---|---|---|
| | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** |
| Senior Term "A" loan (Variable rate) | 585 293 | 585 293 | 638 021 | 638 021 |
| Senior Term "B" loan (Variable rate) | 875 000 | 875 000 | 875 000 | 875 000 |
| Revolving credit facility (Variable rate) | 8 000 | 8 000 | 61 500 | 61 500 |
| Second lien credit facility (Variable rate) | 475 000 | 475 000 | - | - |
| Senior PIK loan (Variable rate) | 300 000 | 300 000 | - | - |
| Credit lines facility (Variable rate) | 70 000 | 70 000 | 210 000 | 210 000 |
| Loan repayable at maturity (Variable rate) | 650 000 | 650 000 | 650 000 | 650 000 |
| Loan (fixed rate) | 26 072 | 26 527 | - | - |
| **Sub-total of debt (non-current portion)** | **2 989 365** | **2 989 820** | **2 434 521** | **2 434 521** |
| Issue costs | | (68 270) | | (38 742) |
| **Total** | | **2 921 550** | | **2 395 779** |

Issue costs for the loans contracted for the acquisition of Eutelsat S.A. shares were amortised using the effective interest rate method. Following repayment of the PIK loan and the second lien credit facility, the corresponding issue costs as of the repayment date, i.e. € 25.1 million were fully charged to financial expenses. Costs remaining to be amortised at 31 December 2005 were deducted from the carrying amount of the loans. At 31 December 2005, they represent a balance of € 38.7 million.

At 31 December 2005, maturities of non-current debt are as follows:

| *(in thousands of euros)* | 31 December 2005 | Maturity within 1 year | Maturity between 1 and 5 years | Maturity after 5 years |
|---|---|---|---|---|
| Senior Term "A" loan | 638 021 | | | 638 021 |
| Senior Term "B" loan | 875 000 | | | 875 000 |
| Revolving credit facility | 61 500 | | | 61 500 |
| Loan repayable at maturity | 650 000 | - | | 650 000 |
| Revolving credit facility | 210 000 | | | 210 000 |
| **Total** | **2 434 521** | | | **2 434 521** |

### *5.2 – Current portion*

Current debts include accrued interest on the credit lines described above. These current debts consist of the following:

| *(in thousands of euros)* | 31 December 2005 |
|---|---|
| Bank overdrafts | 1 392 |
| Accrued interest | 12 866 |
| Portion of the fixed-rate loan due within one year | 52 429 |
| ***Total*** | **66 687** |

The fixed-rate loan corresponds to a € 150 million loan at a fixed rate of 4.8% contracted on 24 December 2001. Repayment was scheduled at six-monthly intervals beginning on 24 June 2004. The loan reaches maturity on 24 December 2006.

## NOTE 6: SEGMENT INFORMATION

The Group operates in a single industry segment, providing satellite-based video, business and broadband networks, and mobile services, primarily to major international telecommunication operators and broadcasters, corporate network integrators, and companies for their own needs. With the exception of the satellites in orbit, most of the Group's operating facilities are located in France.

The Group's revenues by geographical zone, based on invoicing addresses, for the period ended 31 December 2005 were as follows:

| ***(in thousands of euros and as a percentage)*** | **Six-month period ended 31 December 2005** | |
|---|---|---|
| ***Region*** | ***Amount*** | ***%*** |
| France | 59 007 | 14.9 |
| Italy | 55 682 | 14.1 |
| United Kingdom | 67 467 | 17.1 |
| Europe (other) | 129 750 | 32.9 |
| Americas | 33 579 | 8.5 |
| Middle East | 19 145 | 4.8 |
| Other (*) | 30 318 | 7.7 |
| **Total** | **394 948** | **100.0** |

(*) Revenues include compensation for late delivery of satellite and service interruption amounting to € 17.4 million.

**NOTE 7: INCOME TAX**

*7.1 – Taxes recognised in the income statement*

"Income tax expense" comprises current and deferred tax expenses of consolidated entities.

The Group's income tax expense is as follows:

| ***(in thousands of euros*** | **Six-month period ended 31 December 2005** |
|---|---|
| Current tax expense (income) | (46 481) |
| Deferred tax expense (income) | 9 137 |
| **Total income tax expense** | **(37 344)** |

The theoretical corporate income tax expense, based on application to income before tax (excluding income from equity investments) of the standard French corporate income tax rate, can be reconciled to the actual tax expense as follows:

| *(in thousands of euros)* | **31 December 2005** |
|---|---|
| Income before tax and income from equity investments | 14 931 |
| *Standard French corporate income tax rate* | *34.43%* |
| Theoretical income tax charge | (5 141) |
| Impact of transitional provisions | 5 246 |
| Tax losses in respect of which no tax asset was recognised and other | 37 449 |
| **Tax expense recognised in the income statement** | **(37 344)** |
| *Effective corporate income tax rate* | *250%* |

The effective corporate income tax rate of 250% recorded in Eutelsat Communications Group's consolidated accounts is mainly the result of not recognising a deferred tax asset in respect of the interest expense incurred by the companies which carry the debt related to the acquisition of Eutelsat shares. This interest expense gives rise to tax losses whose recovery is uncertain. The unrecognised tax asset in relation to this item amounts to € 34 507 thousand.

*7.2 – Taxes shown in the balance sheet*

On 12 December 2003, Eutelsat S.A. transferred its shares in the Spanish company, Hispasat S.A., to its German subsidiary, Eutelsat Services & Beteiligungen GmbH. As a result of this transfer, Eutelsat S.A. recognised a capital loss of € 140.4 million, which generated a tax saving on the companies of € 34.8 million for the financial year ended 30 June 2004. The transfer price was based on the valuation of an independent expert, which reflected corporate valuation methods habitually employed.

Eutelsat S.A. underwent an accounting audit by the French fiscal authorities in respect of the financial years ended 30 June 2002, 2003 and 2004. Following this audit, the fiscal authorities notified Eutelsat S.A., in a letter dated 19 December 2005, of their intention to reassess Eutelsat S.A.'s taxable income for the year ended 30 June 2004. The fiscal authorities are rejecting any deductibility for tax purposes of the capital loss arising from transfer of the Hispasat shares to the German subsidiary and, questioning the valuation assigned to the shares, take the view that Eutelsat S.A. should have recognised a capital gain.

The total amount of the tax reassessments notified is € 69.9 million, including interest for late payment.

Eutelsat S.A. is contesting the grounds for these tax reassessments and, in the light of the information in the Company's possession at the date on which the interim accounts were authorised for issue, has not recognised a corresponding provision for risk.

**NOTE 8: EARNINGS PER SHARE**

The reconciliation between the number of ordinary shares used to compute basic and diluted earnings per share as of 31 December 2005 is provided below:

| | 31 December 2005 |
|---|---|
| Weighted average number of ordinary shares outstanding used to compute basic earnings per share | 198 345 905 |
| Incremental number of additional shares that would result from the exercise of outstanding stock options | 1 434 645 |
| **Weighted average number of ordinary shares used to compute diluted earnings per share** | **199 780 550** |

As of 31 December 2005, there are dilutive instruments originating from Eutelsat Communications and from its subsidiary Eutelsat S.A. (see Note 4).

The number of incremental shares that could be issued upon the exercise of outstanding stock options is computed using the average market price during the related period.

As its subsidiary Eutelsat S.A. is not listed, Management estimated the average market price based on the latest evaluations performed and the latest transactions between shareholders.

**Basic earnings per share:**

| | 31 December 2005 |
|---|---|
| Net earnings as calculated (in thousands of euros) | (31 268) |
| Weighted average number of ordinary shares outstanding | 198 345 905 |
| **Basic earnings per share (euros)** | **(0.16)** |

**Diluted earnings per share:**

| | 31 December 2005 |
|---|---|
| Net earnings as calculated (in thousands of euros) | (32 619) |
| Weighted average number of ordinary shares used to compute diluted earnings per share | 199 780 550 |
| **Diluted earnings per share (euros)** | **(0.16)** |

**NOTE 9: FINANCIAL INSTRUMENTS**

The Group has exposure to market risks, in particular with regard to foreign exchange and interest rates. Such risks are actively managed by Management, and for this purpose the Group employs a certain number of derivatives, the objective of which is to limit the exposure of revenues and cash flows to interest-rate and foreign-exchange risks, as appropriate. The Group does not engage in financial transactions where the associated risk cannot be quantified at the outset, i.e. the Group never sells assets it does not possess or does not know it will subsequently possess.

*9.1 – Foreign-exchange risk*

The Group's functional currency is the euro and the Group is therefore principally exposed to fluctuations in the value of the US dollar. As a means of preserving the value of assets, commitments and forecast transactions, therefore, the Group enters into contracts whose value fluctuates in line with changes in the euro/dollar exchange rate. The Company's policy is to use derivatives to manage exposure to such risks. In particular, the Group hedges certain future US dollar revenues by means of financial instruments such as options, forward currency transactions and foreign currency deposits negotiated over-the-counter with first-rate banking counterparties.

Commitments under purchase contracts correspond to satellite construction and launch vehicle contracts denominated in US dollars. They generally cover a three-year period with a pre-determined schedule of payments. Commitments under sale contracts are denominated in US dollars.

As a hedge against foreign-exchange risk, Call Euro Put US dollar options were set in place by the Eutelsat sub-group in June 2005 for a period of 12 months.

*9.2 – Interest-rate risk*

The Group's exposure to fluctuations in interest rates is managed by apportioning its borrowings between fixed interest rates and variable interest rates.

Following completion of the Senior loan agreements, the Group set up the following interest-rate hedges:

- A 3-year tunnel (purchase of a cap and sale of a floor) for a nominal amount of € 1,700 million to hedge Eutelsat Communications' credit facilities.
- -A forward pay fixed/receive variable swap for an amount of € 850 million and a purchase of a cap for a nominal amount of € 850 million to serve as a partial hedge for Eutelsat Communications' credit facilities; both cover an additional two years (Years 4 and 5) and have deferred start-dates.

At the level of the Eutelsat S.A. sub-group, after signature of the € 1,300 million syndicated loan in November 2004, the following interest-rate hedging transactions were immediately set in place:

- A 7-year pay fixed /receive variable swap covering the long-term portion of the loan repayable at maturity (€ 650 million);

- A 5- year tunnel (purchase of a cap and sale of a floor) for a nominal amount of € 450 million to act as a partial hedge for the € 650 million revolving credit facility.

*9.3 – Counterparty risk*

Counterparty risk includes issuer risk, execution risk in connection with derivatives or monetary instruments, and credit risk related to liquidity and long-term investments. The Group minimises its exposure to issuer risk and its exposure to credit risk by acquiring only financial products from first-rate financial institutions and banks. Exposure to these risks is closely monitored and maintained within pre-determined limits. The Group does not foresee any loss that would result from a failure by its counterparties to respect their commitments under the agreements that have been entered into. The risks to which the Group is exposed are confined neither to the financial sector nor to a particular country.

*9.4 - Financial data at 31 December 2005*

The following table shows the contractual/nominal and fair values of the derivatives in place as of 31 December 2005, broken down by type of contract:

| **(in thousands of euros)** | **Contractual or nominal values** | **Fair value at 31December 2005** | **Change in fair value during the period** | ***Impact on income statement*** | ***Impact on share-holders' equity*** |
|---|---|---|---|---|---|
| Foreign-exchange options (Eutelsat S.A) | 38 400 | 249 | (1 250) | (1 250) | |
| ***Total foreign-exchange derivatives*** | **38 400** | **249** | **(1 250)** | ***(1 250)*** | |
| Swap (Eutelsat S.A.) | 650 000 | (8 782) | 17 239 | | *17 239* |
| Forward swap (Eutelsat Communications) | 850 000 | (325) | 3 962 | | 3 962 |
| Purchase of cap (Eutelsat Communications) | 850 000 | 3 689 | 660 | 660 | |
| Tunnel (Eutelsat Communications) | 1 700 000 | 7 860 | 13 569 | 7 991 | 5 578 |
| Tunnel (Eutelsat S.A.) | 450 000 | 550 | 2 589 | 2 589 | |
| ***Total interest-rate derivatives*** | **4 500 000** | **2 992** | **38 019** | ***11 240*** | ***26 779*** |
| **Total derivatives** | **4 538 400** | **3 241** | **36 769** | **9 990** | **26 779*** |

(*) the amount reported as a change in shareholders' equity corresponds to the € 26 779 thousand shown above less the change in related deferred tax which amounts to € 5 936 thousand.

During the six-month period ended 31 December 2005, the changes in fair value recognised in the income statement in respect of financial instruments represented income of € 9 990 thousand.

Breakdown of financial instruments qualifying as hedges as of 31 December 2005 is as follows:

| ***(in thousands of euros)*** | **Contractual or notional values** | **Fair value at 31 December 2005** | **Change in fair value during the period** | ***Impact on income statement (ineffective portion)*** | ***Impact on share-holders' equity (effective portion)*** |
|---|---|---|---|---|---|
| Forward swap (Eutelsat Communications) | 850 000 | (325) | 3 962 | | *3 962* |
| Swap (Eutelsat S.A.) | 650 000 | (8 782) | 17 239 | | *17 239* |
| Tunnel (Eutelsat Communications) | 1 700 000 | 7 860 | 13 569 | *7 991* | *5 578* |
| **Total hedges** | **3 200 000** | **(1 247)** | **34 770** | ***7 991*** | ***26 779*** |

## NOTE 10: OTHER OFF-BALANCE-SHEET LIABILITIES

### *10.1- In-orbit insurance*

The Group's in-orbit insurance programme expired on 26 November 2005 and was replaced by a new 12-month programme defined by the Group with a view to minimising, at an acceptable cost, the impact on its balance sheet and its income of losing one or more satellites. Under this programme, 15 of the satellites belonging to the Group (excluding the HOT BIRD™ 1, Eutelsat II-F2, W1 and ATLANTIC BIRD™1 satellites) are covered by insurance, subject to certain limitations applying in the sole cases of total constructive loss or total loss resulting from technical problems already identified.

The insurance policy taken out against damage and loss of revenues under this programme covers cumulative partial or total constructive losses of the 15 satellites insured, up to a ceiling of € 165 million per satellite, subject to a total maximum claim or claims each year of € 390 million.

- The HOT BIRD™ 2, HOT BIRD™ 3, HOT BIRD™ 4 and HOT BIRD™ 6 satellites located at 13° East are each covered for a value that represents, for each satellite, its net book value and the revenues generated by operating it over a 12-month period. When the HOT BIRD™ 7A satellite has been successfully brought into operational service, the insurance cover of the HOT BIRD™ 2, HOT BIRD™ 3 and HOT BIRD™ 4 satellites will be limited to their net book value only. When the HOT BIRD™ 8 satellite has been successfully brought into operational service, the insurance cover of the HOT BIRD™ 6 satellite will also be limited to its net book value only.

- The other satellites belonging to the Group covered under this policy are each insured for their net book value.

This new insurance programme results in a higher level of risk retention (limited in all cases to a cumulative annual amount of € 80 million) and to a reduced annual cost.

### *10.2 – Launch insurance*

The HOT BIRD ™7A and HOT BIRD ™8 satellites scheduled for launch before the end of the financial year are covered by L+1 launch insurance (launch + 1 year), which was set in place at the end of December 2005.

The total amount of the liability, which will be paid before the launches take place, is € 54.4 million.

## NOTE 11: EVENTS AFTER THE BALANCE-SHEET DATE

During the month of January 2006, the Eutelsat II F2 satellite, fully written off, was deorbited after 15 years of service.

On 20 January 2006, the Group exercised its purchase option on all Eutelsat S.A. shares resulting from the exercising of "Managers" plan stock options by managers or *mandataires sociaux* of Eutelsat S.A. who have subscribed for ABSA 1s or ABSA 2s (see Note 4.1). The sum of € 4.3 million was paid on 3 February 2006.

On 1 February 2006, the Group selected a new industrial consortium to construct its W2M communications satellite, combining the technical capabilities of EADS Astrium and the ISRO. The contract will be signed in India on 20 February in the presence of the President of the French Republic and the Prime Minister of India.

W2M is designed to operate 26 active transponders in Ku band, and this capacity can be increased to 32 transponders depending on the modes of operation employed. The satellite has a nominal operational life of 15 years and is designed to offer additional back-up capacity for customers at the various orbital locations of the W series of satellites, particularly at the 10 degrees East orbital position.

W2M, like all the other satellites in Eutelsat’s W series, has considerable flexibility and is able to provide a wide range of services, including television broadcasting, the provision of feeds for data networks, and access to broadband. As well as a fixed beam over Europe, North Africa and the Middle East, the satellite will be equipped with a steerable beam that can be repositioned in orbit to cover Africa and central Asia, for example, depending on market demands. This will strengthen Eutelsat’s high level of commercial adaptability.

Under the terms of the contract, the W2M satellite will be delivered to Eutelsat within 26 months, with a launch date scheduled for the second quarter of 2008.

## NOTE 12: COMPANIES INCLUDED IN THE CONSOLIDATION

The list of the companies included in the consolidation is as follows:

| Company | Country | Consolid-ation method | % of voting rights as of 31 December 2005 | % interest as of 31 December 2005 |
|---|---|---|---|---|
| SatBirds Capital Participations SCA | Luxembourg | FC | 100.00% | 100.00% |
| SatBirds Capital Sarl | Luxembourg | FC | 100.00% | 100.00% |
| SatBirds Finance Sarl | Luxembourg | FC | 100.00% | 100.00% |
| Eutelsat Finance | France | FC | 100.00% | 100.00% |
| SatBirds II S.A.S. | France | FC | 100.00% | 100.00% |
| White Birds | France | FC | 100.00% | 100.00% |
| Eutelsat S.A. | France | FC | 95.19% | 95.19% |
| Eutelsat S.A. Group | | | | |
| - Eutelsat do Brasil S.A. | Brazil | FC | 100.00% | 95.19% |
| - Eutelsat Italia | Italy | FC | 100.00% | 95.19% |
| - Skylogic Italia s.r.l. | Italy | FC | 100.00% | 95.19% |
| - Eutelsat Services und Beteiligungen GmbH | Germany | FC | 100.00% | 95.19% |
| - Visavision Gmbh | Germany | FC | 100.00% | 95.19% |
| - Eutelsat Inc. | United States | FC | 100.00% | 95.19% |
| - Eutelsat UK Limited | United Kingdom | FC | 100.00% | 95.19% |
| - Eutelsat Polska s.p.z.o.o. | Poland | FC | 100.00% | 95.19% |
| - Skylogic Polska s.p.z.o.o. | Poland | FC | 100.00% | 95.19% |
| - Hispasat | Spain | EM | 27.69% | 26.36% |

*FC: Full consolidation*
*EM: Equity method*

On 21 September 2005, Skylogic Italia s.r.l. subscribed for 50% of the capital of the Wins Ltd Company, a Maltese company in formation. Due to the insignificant nature of the investment as of 31 December 2005, this company was not included in the consolidation.