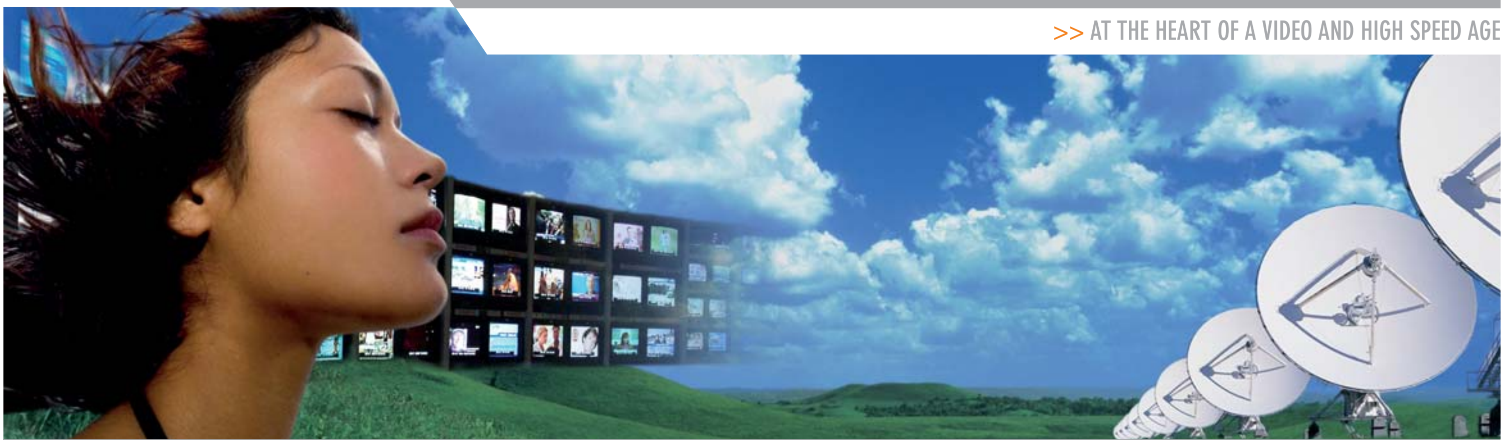
2005/2006

CONSOLIDATED FINANCIAL ACCOUNTS

>> AT THE HEART OF A VIDEO AND HIGH SPEED AGE



eutelsat
COMMUNICATIONS

Eutelsat Communications Group

Société anonyme with a capital of 215,692,592 euros
Registered office: 70 rue Balard, 75015 Paris
481 043 040 R.C.S. Paris

CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2006

Eutelsat Communications

CONSOLIDATED BALANCE SHEET
(In thousands of euros)

	Note	30 June 2005	30 June 2006
ASSETS			
Non-current assets			
Goodwill	4,5	728,672	**750,714**
Intangible assets	4,5	918,688	**875,237**
Satellites and other property and equipment, net	6	1,834,001	**1,749,597**
Prepayments, assets under construction	6	236,341	**310,116**
Investments in associates	7	111,425	**117,461**
Financial assets	8	1,585	**2,955**
Deferred tax assets	19	38,111	**18,738**
Total Non-Current Assets		3,868,823	**3,824,818**
Current assets			
Inventories	9	1,371	**2,257**
Accounts receivable	10	212,183	**213,716**
Other current assets	11	29,828	**19,889**
Current tax receivable	19	–	**1,957**
Financial instruments	24	1,499	**62,613**
Cash and cash equivalents	12	37,043	**264,055**
Total Current Assets		281,924	**564,487**
TOTAL ASSETS		4,150,747	**4,389,305**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Common stock	13	278,733	**215,692**
Additional paid-in capital		–	**907,485**
Retained earnings		(25,489)	**16,179**
Cumulative translation adjustment		–	**–**
Minority interests		125,158	**70,924**
TOTAL SHAREHOLDERS' EQUITY		378,402	**1,210,280**
Non-current liabilities			
Non-current bank debt	14	2,921,550	**2,445,850**
Financial instruments	23	35,027	**–**
Other non-current liabilities	15	115,587	**76,048**
Other non-current payables and deferred revenues	18	21,289	**58,483**
Non-current provisions	20	49,387	**50,333**
Deferred tax liabilities	19	316,304	**302,985**
Total Non-Current Liabilities		3,459,144	**2,933,699**
Current liabilities			
Current bank debt	14	77,811	**29,757**
Current other debt	15	54,892	**19,498**
Accounts payable		46,261	**42,376**
Fixed assets payable		25,630	**41,650**
Taxes payable		22,468	**20,305**
Other current payables and deferred revenues	18	79,002	**80,140**
Current provisions	17	7,137	**11,600**
Total Current Liabilities		313,201	**245,326**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,150,747	**4,389,305**

The Notes are an integral part of the consolidated financial statements.

Eutelsat Communications

CONSOLIDATED INCOME STATEMENT
(In thousands of euros, except share data)

	Note	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Revenues	21	188,680	**791,070**
Revenues from operations		188,680	**791,070**
Operating costs		(19,351)	**(72,664)**
Selling, general and administrative expenses		(32,949)	**(101,886)**
Depreciation and amortisation	5,6	(73,038)	**(285,805)**
Other operating costs		(695)	**(27,006)**
Operating income		62,647	**303,709**
Financial revenues		2,140	**49,665**
Financial expenses		(57,925)	**(229,235)**
Financial result	22	(55,785)	**(179,570)**
Income from equity investments	7	66	**5,819**
Net income before tax		6,928	**129,958**
Income tax expense	19	(14,250)	**(89,724)**
Net income (loss)		(7,322)	**40,234**
Group share of net income (loss)		(12,552)	**30,420**
Minority interests' share of net income		5,230	**9,814**
Earnings per share attributable to Eutelsat Communications' shareholders	23		
Basic earnings per share in €		(0.105)	**0.137**
Diluted earnings per share in €		(0.108)	**0.122**

The Notes are an integral part of the consolidated financial statements.

Eutelsat Communications

CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of euros)

	Note	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Cash flow from operating activities			
Net income (loss)		(7,322)	**40,234**
Income from equity investments		(66)	**(5,819)**
(Gain)/loss on disposal of assets		95	**(18)**
Other non-operating items		38,148	**207,462**
Depreciation, amortisation and provisions		74,976	**307,825**
Deferred taxes		(268)	**(10,747)**
Accounts receivable		28,440	**(16,246)**
Other current assets		(2,657)	**3,760**
Accounts payable		2,356	**3,355**
Other payables and deferred revenues		10,348	**66,001**
Taxes paid		(12,003)	**(94,659)**
NET CASH INFLOW FROM OPERATING ACTIVITIES		132,047	**501,148**
Cash flow from investing activities			
Acquisition of Eutelsat, net of cash acquired(1)		(1,856,513)	**–**
Acquisitions of satellites and other property and equipment	6	(27,221)	**(230,858)**
Proceeds from disposal of assets		8	**250**
Acquisition of minority interests		–	**(66,988)**
Changes in other long-term assets		759	**(1,397)**
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,882,967)	**(298,993)**
Cash flows from financing activities			
Change in capital		–	**838,516**
Distributions		–	**(12,195)**
Additional long-term and short-term debt		2,163,294	**1,900,522**
Repayment of debt		(256,923)	**(2,449,997)**
Repayment in respect of performance incentives and long-term leases		(29,304)	**(66,826)**
Interest and other fees paid		(94,300)	**(189,127)**
Interest received		604	**2,546**
Other cash flows		22	**4,849**
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,783,393	**28,288**
Impact of exchange rate on cash and cash equivalents		96	**(19)**
Increase (decrease) in cash and cash equivalents		32,569	**230,424**
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		37	**32,606**
CASH AND CASH EQUIVALENTS, END OF PERIOD		32,606	**263,030**
Cash reconciliation			
Cash and cash equivalents	12	37,043	**264,055**
Overdraft included under debt(2)		(4,437)	**(1,025)**
Cash and cash equivalents per cash flow statement	14.2	32,606	**263,030**

(1) Including Eutelsat cash and cash equivalents of 37,948 thousand euros at the date of acquisition.

(2) Overdrafts included when determining cash and cash equivalents in the table of cash flows are an eligible component as they are repayable on sight and form an integral part of the Group's cash management.

The Notes are an integral part of the consolidated financial statements.

Eutelsat Communications

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of euros, except share data)

	Common stock					
(In thousands of euros)	Number	Amount	Additional paid-in capital	Reserves and retained earnings	Minority interests	Total
At 1 April 2005	**37,000**	**37**	**–**	**–**	**–**	**37**
Translation adjustment				66	11	77
Changes in fair value of cash-flow hedges				(21,773)	(3,027)	(24,800)
Tax impact				6,159	1,042	7,201
Income and expenses recognised directly under equity				**(15,548)**	**(1,974)**	**(17,522)**
Loss for the three-month period (2005)				(12,552)	5,230	(7,322)
Total income and expenses recognised for the period				**(28,100)**	**3,256**	**(24,844)**
Issue of capital	278,695,598	278,696				278,696
Change in scope of consolidation				(65)	121,449	121,384
Grant of stock options				3,090	523	3,613
Adjustment of rights on stock options granted				(414)	(70)	(484)
30 June 2005	**278,732,598**	**278,733**	**–**	**(25,489)**	**125,158**	**378,402**
Translation adjustment				150	8	158
Changes in fair value of cash-flow hedges				50,507	2,164	52,671
Tax impact				(16,050)	(747)	(16,797)
Income and expenses recognised directly under equity				**34,607**	**1,425**	**36,032**
Net income of the period				30,420	9,814	40,234
Total income and expenses recognised for the period				**65,027**	**11,239**	**76,266**
Issue of capital	(63,040,006)	(63,041)	907,485	79		844,523
Treasury stock				(28)		(28)
Change in scope of consolidation					(36,394)	(36,394)
Distributions					(11,895)	(11,895)
Benefits for employees upon exercising options, and bonus shares granted				954	49	1,003
Shares with equity warrant commitments				(19,534)	(58)	(19,592)
Liquidity offer				(4,830)	(17,175)	(22,005)
30 June 2006	**215,692,592**	**215,692**	**907,485**	**16,179**	**70,924**	**1,210,280**

The Notes are an integral part of the consolidated financial statements.

Eutelsat Communications

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL OVERVIEW

1.1 – Incorporation

SatBirds was incorporated on 25 February 2005 as a simplified joint stock company (*société par actions simplifiée).* It has been registered in the Register of Commerce and Companies (*Registre du Commerce et des Sociétés*) and its listing will expire on 25 February 2104.

On 4 April 2005, the main direct and indirect shareholders of Eutelsat S.A. contributed and sold their Eutelsat S.A. shares to SatBirds S.A.S., hereinafter referred to as “the Group”. (See Note 4 *Impact of the Acquisition of Eutelsat S.A.*).

On 31 August 2005, SatBirds changed its corporate name to Eutelsat Communications. Simultaneously, the company changed its legal form and became a French *Société Anonyme*.

1.2 – Business

The Eutelsat Communications Group is a private telecommunications satellite operator involved in the design, establishment, operation and maintenance of satellite telecommunications systems covering a large geographical area (extended Europe – including North Africa, Russia and the Middle East – the east of North America, Latin America, sub-Saharan Africa and Asia).

The Group derives from the transfer to Eutelsat S.A. on 2 July 2001 of all of the operating activities, assets, liabilities and commitments of the EUTELSAT Intergovernmental Organisation (IGO). Since then the assignment of frequencies for the use of the frequency spectrum resources used by Eutelsat S.A. in regard to the operation of these satellites continue to be under the joint responsibility of the member countries of the IGO, and of the IGO.

As of 30 June 2006, via Eutelsat S.A., the Group owns and operates 19 satellites in geostationary orbit to provide capacity (its assignment and availability) to major international telecommunications operators and international broadcasting companies, for television and radio broadcasting services, both analogue and digital, for business telecommunications services, multimedia applications and messaging and positioning services. The satellites are operated through five earth stations, located in Belgium (Redu), France (Rambouillet), Italy (Fucino), Portugal (Sintra) and Russia (Dubna).

In addition, the Group uses capacity on certain transponders on four satellites owned by related and unrelated parties.

Three additional satellites (HOT BIRD™ 8, W2M and HOT BIRD™ 9) are currently under construction. The first two are expected to be launched in 2006/2007 and 2007/2008 respectively, and the third is expected to be launched in 2008/2009.

1.3 – Approval of the financial statements

The consolidated financial statements at 30 June 2006 were prepared under the responsibility of the Board of Directors, which approved them at its meeting of 1 September 2006.

They will be submitted to the Ordinary General Meeting of Shareholders that will take place on 10 November 2006. This Meeting has the right to modify the financial statements presented to it.

NOTE 2: BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

2.1 – Compliance with IFRS

In accordance with Regulation 1602-2002 of the European Union regarding the application of international accounting standards, the Company elected to prepare its consolidated financial statements under the combined framework commonly referred to as IFRS.

The financial statements at 30 June 2006 have therefore been prepared in accordance with the IFRS as adopted by the European Union and effective as of that date. They have been prepared on a historical cost basis, except for certain items for which the standards require measurement at fair value.

The IFRS framework rules include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

2.2 – Published standards and interpretations that have not been applied in advance by the Group

The Group has not applied 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 for financial periods commencing after 31 December 2005:

- IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”.
- the amendment to IASC 39 “Hedging Cash Flows for an Intra-Group Transaction”.
- the amendment to IASC 21 “Effects of Changes in Foreign Exchange Rates” relating to net investments in subsidiaries.

— the amendment to IASC 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts – Financial Guarantee Contracts".

— the amendment to IAS 19 "Employee Benefits", applicable from 1 January 2006 and which allows immediate recognition within equity of actuarial gains and losses recognised during the period. At this stage, the Group has continued to recognise actuarial gains and losses according to the corridor method, as was the case at 31 December 2005.

Additionally, the Group is not concerned by IFRS 6 "Exploration for and Evaluation of Mineral Resources", the amendments to IFRS 1 "First-Time Adoption" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" relating to the presentation of comparative information, nor by the IFRIC interpretation "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

Finally, the Group has not opted either for advance application of the following standards, amendments of standards and interpretations (adopted or in the course of being adopted by the European Union):

— IFRS 7 "Financial Instruments – Disclosure", whose date for first-time adoption is 1 January 2007;

— IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies", applicable for fiscal years commencing after March 2006, i.e. for Eutelsat Communications the period commencing on 1 July 2006. The provisions contained in this text would not have been applicable at 30 June 2006.

— Amendments to IAS 1 "Presentation of Financial Statements", appendices on capital, for which application is compulsory from 1 January 2007.

— IFRIC 8 "Scope of IFRS 2", whose application is compulsory for periods opened after 1 May 2006: this text has not been approved by the European Union.

— IFRIC 9 "Reassessment of Embedded Derivatives", applicable for financial periods opened after 1 June 2006; this text has not been approved by the European Union.

The Eutelsat Communications Group is currently analysing the practical consequences of these new texts and the impact of their application on the financial statements.

Interpretation IFRIC 4 "Determining Whether an Arrangement Contains a Lease", applicable for fiscal years commencing after 1 January 2006. The Group has made a preliminary analysis of its contracts with respect to this interpretation and has concluded that application of IFRIC 4 as from 1 July 2006 would have no impact on its consolidated financial statements.

2.3 – Accounting procedures applied by the Group in the absence of specific accounting standards

Where no standard or interpretation was applicable to the situations described below, and pending clarifications by the IASB or the IFRIC on these matters, the Group's Management used its judgment to define and apply the accounting procedures that were the most appropriate. These accounting procedures or options based on the judgment of the Group related to additional acquisitions of shares in entities it already controlled (see Note 3.3 *Acquisition of minority interests*), firm or conditional commitments to purchase minority interests (see Note 3.10.7 – *Firm or conditional commitments to purchase minority interests*).

2.4 – Use of estimates

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

Eutelsat Communications constantly updates its estimates 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 shown in future financial statements may differ from present estimates.

These estimates and assumptions relate in particular to the following:

— Recognition of revenues,

— Provisions for impairment of accounts receivable,

— Provisions for risks and for employee benefits,

— The income tax expense and recognition of deferred tax assets,

— Calculation of goodwill and any impairment thereof,

— Fair value measurement of financial instruments.

2.5 – Periods presented and comparison

The fiscal year of Eutelsat Communications is twelve months ending 30 June. Due to the fact that the Group was created on 25 February 2005 and that its first fiscal period lasted 33 days and ended on 31 March 2005, the consolidated financial statements at 30 June 2005 cover a three-month period. Consequently, the consolidated financial statements at 30 June 2006 reflecting the activity of the Group over a twelve-month period are not comparable with the financial statements at 30 June 2005 presented as a comparative.

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

3.1 – Basis of presentation

The companies controlled directly or indirectly by Eutelsat Communications, even if the Company does not directly own any of the equity of these companies, are consolidated using the full consolidation method. Control, which is the power to direct the financial and operational policies, is presumed to exist where the Group holds directly or indirectly more than 50% of voting rights. The determination of control takes into account the existence of potential voting rights, provided that these are immediately exercisable or convertible.

Associated entities over which the Group exerts significant influence (generally between 20% and 50% of voting rights), are accounted for using the equity method. Significant influence is defined as the power to participate in the financial and operational policies of the investee without having joint or sole control over them. The goodwill relating to these entities is included in the carrying values of the investments.

Companies are consolidated as of the date when control or significant influence is transferred to the Group. The Group's share in the earnings of these companies subsequent to acquisition is recorded in its income statement. Similarly, the changes in their reserves following the acquisition which are not related to operations which had an impact on the income statement are recorded in the consolidated reserves up to the limit of the Group's share. Companies cease to be consolidated as of the date when the Group transfers control or significant influence.

Intra-Group balances and transactions are eliminated on consolidation.

3.2 – Accounting treatment for business combinations

In accordance with IFRS 3, business combinations are accounted using the purchase accounting method. Under this method, the identifiable assets, liabilities and identifiable contingent liabilities of the acquired entity which meet the recognition criteria defined under IFRS are recognised 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 recognition 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 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 to the amount that would have been determined if the adjusted fair values had been available at the date of acquisition. When the carrying amounts are adjusted following the end of the twelve-month period, income or expense is recognised rather than an adjustment to goodwill or negative goodwill, except where these adjustments correspond to corrections of errors.

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

3.3 – 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. These are 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 stated in the Group's consolidated financial statements prior to the acquisition is recognised as goodwill.

3.4 – Foreign currency transactions

Transactions in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency at the rate prevailing on the date of the transactions.

Monetary assets and liabilities (including payables and receivables) in foreign currency are translated into the functional currency at the end of the period using the exchange rate applicable at the balance sheet date.

Conversely, the resulting gains and losses are recorded in the income statement during the period. Foreign exchange gains and losses arising from the translation of capitalisable advances made to foreign subsidiaries are recognised directly as "Cumulative translation adjustment" within shareholders' equity.

The principal foreign currency used is the U.S. dollar. The closing exchange rate used is 1.27 U.S. dollars per euro and the average exchange rate used for the period is 1.22 U.S. dollars per euro.

Translation of foreign subsidiaries' financial statements

Each subsidiary outside the euro zone maintains its accounting records in the currency that is most representative of its economic environment. Their financial statements are translated into euros using the closing exchange-rate method. All assets and liabilities are translated into euros using the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated using a weighted-average exchange rate for the period. The resulting translation difference is included under a separate component of shareholders' equity under "Translation adjustments".

3.5 – Intangible assets

Intangible assets purchased separately or acquired in the context of a business combination

Intangible assets purchased separately are recorded at their historical cost, those purchased in a business combination are recorded at fair value at the acquisition date as part of the process of allocation of the acquisition cost of the entity. The fair value is determined by reference to the generally accepted methods, such as those based on revenues or market value.

Intangible assets consist of the "Eutelsat" brand and the "Customer Contracts and Relationship" assets. The "Eutelsat" brand is not amortised but systematically tested for impairment on a yearly basis.

"Customer Contracts and Relationship" assets are amortised on a straight-line basis over 20 years.

This useful life was estimated on the basis of the average length of the contractual relationships existing at the date of acquisition of Eutelsat and taking account of anticipated contract renewal rates. (See Note 3.8 *Impairment of non-current assets*).

Research and development costs

Development costs are recorded as intangible assets if the capitalisation criteria defined under IAS 38, "Intangible assets" are met. Otherwise, they are expensed in the period in which they are incurred. Research costs are expensed as incurred.

For the periods ended 30 June 2005 and 2006, no development costs were capitalised by the Group.

Research and development expenses were mainly incurred for multimedia activities. They are recorded in the income statement under "Selling, general and administrative expenses".

3.6 – Goodwill

Goodwill is valued at the date of the business combination at cost, representing the difference between the purchase price, including directly attributable costs, and the fair value of the Group's share of the acquired identifiable assets and assumed liabilities.

Goodwill arising on the acquisition of a subsidiary is separately identified in the consolidated balance sheet, under "Goodwill." Goodwill arising on the acquisition of an associated company is included within the carrying amount of the investment within the line item "Investments in associates."

After initial recognition at cost, goodwill is measured at cost less any cumulative impairment losses.

Goodwill is tested for impairment at least annually or whenever events or circumstances indicate that the carrying amount may be impaired. Such events or circumstances include significant, adverse developments which call into question the recoverable amount of the initial investment.

3.7 – Satellites and other property and equipment

Satellites and other property and equipment ("Tangible fixed assets") are recognised at their acquisition cost, which includes all costs directly attributable to making the asset ready for use, less accumulated depreciation and any impairment. When a tangible fixed asset has a significant cost component compared to the total cost of the asset as a whole, with a useful life that differs from the other components, it is recognised and depreciated separately from the other components of the asset.

Borrowing costs related to the financing of tangible fixed assets are capitalised with respect to the portion incurred during the period of construction.

Satellites – Satellite costs include all expenses incurred in bringing individual satellites into operational use, and comprise manufacturing, launch and attributable launch insurance costs, capitalised interest, performance incentives, and costs directly associated with the monitoring and support of the satellite programme (studies, staff and consultancy costs).

Performance incentives – The Group has certain contracts with its satellite manufacturers that require the Group to make certain performance incentive payments upon the initial entry into operational service of the satellites and with respect to future years of successful satellite operation in orbit. These elements are part of the cost of the satellite and are recognised as an asset offsetting a liability equal to the present value of the expected payments. Any subsequent modification in the amount of such an incentive payment with respect to one or more periods is recognised as an adjustment of the cost of the satellite. The new value of the satellite is amortised on a prospective basis over the remaining useful life.

Ground equipment – Ground equipment comprises the monitoring and control equipment at various European locations, and equipment at the Group's headquarters, including technical installations, office furniture and computer equipment.

Depreciation – Depreciation is calculated on a straight-line basis over the estimated useful lives of assets, which are determined on the basis of the expected use of the assets. Depreciation takes account of the residual value of each asset or group of assets, starting from the date each asset enters into operational use.

The useful lives of the principal categories of fixed assets are as follows:

Satellites	10 - 16 years
Traffic monitoring equipment	5 - 10 years
Computer equipment	2 - 5 years
Leasehold improvements	3 - 9 years

The Group performs an annual review of the remaining useful lives of its in-orbit satellites on the basis of both their forecast utilisation and the technical assessment of their useful lives. When changes occur, depreciation is charged for the years remaining, taking into account the assets' new residual useful lives.

Assets under construction – Assets under construction primarily consist of percentage completion payments for construction of future satellites, and advances paid in respect of launch vehicles and related insurance costs. Studies, staff and consultancy costs, capitalised interest and other costs incurred directly in connection with the acquisition of satellites have also been capitalised.

Assets under finance leases – Agreements for the Group to use capacity on all or part of a satellite's transponders are recognised in accordance with IAS 17 "Leases." Under this standard, leases which transfer substantially all risks and rewards incidental to ownership to the Group are recognised as finance leases and accounted for by recognising the asset and the corresponding obligation as a liability in the balance sheet. Assets are depreciated over the shorter of their useful lives and the corresponding lease terms.

3.8 – Impairment of non-current assets

Goodwill and other intangible assets with an indefinite useful life, such as the Eutelsat brand, are tested for impairment annually, irrespective of whether there is any evidence indicating that an asset may be impaired, or when an event occurs indicating a potential decline in its value.

For tangible fixed assets and intangible assets with finite useful lives, such as the "Customer Contracts & Relationships" asset, an impairment test is performed when there is an indication that their recoverable amounts may be lower than their carrying amount.

An impairment test consists of assessing the recoverable amount of an asset, which is the higher of its fair value net of selling costs and its value in use. If it is not practicable to estimate the recoverable amount of a particular asset, the Group determines the recoverable amount of the cash generating unit (CGU) with which it is associated. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

The Group estimates value in use on the basis of the estimated future pre-tax cash flows to be generated by an asset or CGU during its useful life, and are based upon the medium-term plan approved by management. Beyond a maximum five-year period, cash flows may be estimated on the basis of stable rates of growth or decline.

Future cash flows are discounted using the long-term pre-tax interest rates that, in the opinion of the Group, best reflect the time value of money and the specific risks associated with the related assets or CGUs.

The fair value net of selling costs is equal to the amount which could be received from the sale of the asset (or of one CGU) in the course of an arm's length transaction between interested, knowledgeable and willing parties, less the costs relating to the deal.

Impairment losses and reversals of impairment losses are recognised respectively within the income statement captions "Other operating costs" and "Other operating income". An impairment of goodwill cannot be reversed.

As of 30 June 2005 and 2006, the following CGUs have been identified for the purpose of impairment tests:

- each of the 23 satellites
- the investment in the Hispasat group
- each of the four assets related to "client contracts and relationships"

Goodwill and the Eutelsat brand are tested for impairment at the Eutelsat level.

3.9 – Inventories

Inventories are measured at the lower of acquisition cost and net realisable value. The calculation is at cost. The cost is calculated on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling costs.

3.10 – Financial instruments

Financial assets in respect of which changes in fair value are recorded in the income statement, including trading financial assets and derivative instruments, are initially recorded at fair value. Other financial assets and liabilities are recorded at their cost, which corresponds to their fair value plus costs directly attributable to the transaction.

In accordance with IAS 39 "*Financial Instruments*: *Recognition and Measurement*" and IAS 32 "*Financial Instruments*: *Disclosure and Presentation*", the Group has adopted the following classification for financial assets and liabilities, which is based upon the objectives determined by Management at the time of their purchase. The designation and classification of investment securities are determined at initial recognition.

3.10.1 – Financial assets

Financial assets are classified, reported and measured as follows:

Financial assets measured at fair value through the income statement

Financial assets measured at fair value through the income statement include assets held for trading purposes and financial instruments designated as being measured at fair value through the income statement at initial recognition. This category includes financial assets acquired for the purpose of selling in the short term (generally within a period of less than 12 months) and derivative instruments except if they are designated as hedging instruments.

These financial assets are recognised at fair value. Realised or unrealised gains and losses arising from changes in the fair value of these assets are recorded as financial income or expense.

Assets held to maturity

Assets held to maturity are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has the positive intent and ability to hold to maturity.

Assets held to maturity are measured at amortised cost using the effective interest method.

Assets available for sale

Available-for-sale financial assets are financial assets, other than derivatives, which have been designated as available for sale by Management, or which have not been classified under the "Financial assets measured at fair value through the income statement" or "Assets held to maturity" categories. Available-for-sale financial assets include investments other than investments in companies accounted for under the equity method of accounting, which Management intends to hold for an indefinite period of time. These investments are classified as financial assets under "Non-current financial assets."

They are subsequently revalued at their fair value, with the gains and losses resulting from changes in fair value being recognised under shareholders' equity. When they are sold or when an impairment loss of value is recognised, the cumulative gains and losses previously recognised in shareholders' equity are recognised in the financial result.

Available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at their acquisition cost.

Loans and receivables

Loans and receivables mainly comprise loans to staff, deposits paid and trade receivables, which generally have maturities of less than 12 months.

Accounts receivable are recorded initially at their nominal value on account of the immaterial effect of discounting. Trade receivables are subsequently recognised at cost less provisions for bad debts, where appropriate, as a result of the irrecoverable nature of the amounts concerned.

Other loans and receivables are measured at amortised cost using the effective interest method.

3.10.2 – Financial liabilities

Financial liabilities comprise bank borrowings and other debt instruments. They are initially measured at the fair value of the consideration received, less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Any differences between initial capital amounts (net of transaction costs) and repayable amounts are recorded as financial expense over the duration of the loans using the effective interest method.

3.10.3 – Derivative instruments

Derivative instruments that are not designated as hedging instruments are recognised at fair value, and any subsequent changes in fair value are recorded in the financial result.

Where a derivative instrument can be qualified as a hedging instrument, it is valued and recorded in accordance with the hedge accounting rules in IAS 39 *"Financial Instruments: Recognition and Measurement"* (see Note 3.10.5 – *"Hedging transactions"*).

3.10.4 – Impairment

At each balance sheet date, the Group applies impairment tests to all financial assets in order to determine if there is an indication of impairment. Examples of impairment indicators include the following: breach of contract involving default in payment terms, significant financial difficulty of the lender or borrower, a likelihood of bankruptcy or a significant decline, other than temporary, in stock market capitalisation. Impairment is recognised in the income statement where there is objective evidence that the asset is impaired.

Impairment losses are recorded as financial expenses.

Impairment of investments in equity securities that do not have a quoted market price in an active market and that are valued at cost, and of investments in equity instruments classified as available-for-sale financial assets, cannot be reversed.

Specific cases of provisions for bad debts on trade receivables

The Group's customers mainly comprise Eutelsat international telecommunications operators, broadcasters and other users of commercial satellite communications. Management regularly monitors its exposure to credit risk and adjusts the allowances for probable losses based upon expected collections. These are recorded in "Selling, general and administrative expenses".

3.10.5 – Hedging transactions

Hedging transactions are carried out using derivatives. Changes in the fair value of the derivative instrument are used to offset the exposure of the hedged item to changes in fair value.

Derivative instruments are designated as hedging instruments and recorded according to hedge accounting rules when the following conditions are met by the Group: (a) at the inception of the hedge, there is a formal designation and documentation of the hedging relationship and of Management's risk management objective and strategy for undertaking the hedge; (b) Management expects the hedge to be highly effective in offsetting risk; (c) for hedges of forecast transactions, the forecast transaction must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported income; (d) the effectiveness of the hedge should be capable of reliable measurement; and (e) the effectiveness of the hedge is assessed on an ongoing basis and determined to be highly effective throughout the period for which the hedge was designated.

These criteria are applied where the Group uses derivative instruments designated as cash-flow hedging instruments.

Cash-flow hedging

Cash flow hedging involves a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable anticipated future transaction that may affect reported income.

The change in the fair value of a hedging instrument relating to the effective portion of a hedge is recognised in shareholders' equity. The change in fair value relating to the ineffective portion of a hedge is recognised in the income statement under "Other operating income" or under "Other operating costs" in the case of cash flow hedges of operational exposures and under "Financial result" in the case of cash flow hedges of investment and financing exposures.

The cumulative changes in the fair value of a hedging instrument previously recognised in shareholders' equity are reclassified into the income statement when the hedged item affects profit or loss. Reclassified gains and losses are recorded under "Other operating income" or "Other operating costs" in the case of cash flow hedges of operational exposures and under "Financial Result" in the case of cash flow hedges of investment and financing exposures.

Where the anticipated transaction leads to the recognition of a non-financial asset or liability, the cumulative changes in the fair value of the hedging instrument previously recognised in shareholders' equity are incorporated into the initial measurement of the asset or liability concerned.

3.10.6 – Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial assets and liabilities traded on active markets (this is the case of certain equity interests and certain marketable securities and certain derivative instruments) is determined on the basis of the listed price or at the market value at the balance sheet date.

The fair value of other financial assets or liabilities not quoted on an active market is determined by the Group using appropriate valuation methods and assumptions reflecting market conditions at the balance sheet date.

3.10.7 – Firm or conditional commitments to purchase minority interests

In accordance with Standards IAS 27 "*Consolidated and Individual Financial Statements*" and IAS 32 "*Financial Instruments: Disclosure and Presentation*", the Group recognises firm or conditional purchases of minority interests as financial debt based on the fair value of the commitment, with a reduction in the minority interest as a counterpart entry. When the value of the commitment exceeds the amount of the minority interests, the Group, in the absence of any clear guidance under the IFRS framework on this point, recognises the balance as goodwill on the basis of the same rationale as that set out above for acquisitions of minority interests.

Any change in the fair value of the obligation after its initial recognition is considered as an adjustment of the amount initially recognised as goodwill.

3.11 – Cash and cash equivalents

Cash and cash equivalents consist mainly of cash on hand and at bank, and highly liquid investments or deposit warrants with original maturities of three months or less.

3.12 – Shareholders' equity

Treasury stock

Treasury stock is recognised by reducing shareholders' equity on the basis of the acquisition cost. When the shares are sold, any gains and losses are assigned directly to the consolidated reserves net of tax and are not included under income for the period.

Costs for capital increases

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.

3.13 – Revenue recognition

The Group's operating revenues are mainly attributable to the leasing of satellite transponders on the basis of terms and conditions set out in the lease contracts.

These contracts are mainly over periods ranging from one year to the end of life of the satellite. Contracts usually provide for the right to free-of-charge time in cases of interruptions caused by under-performing transponders. However, the Group is not liable for damage or loss suffered by a customer when the Group was not able, despite its efforts, to restore the allotted capacity in the case of a service interruption or a degradation of the technical parameters of a transponder. The Company is liable only for damages resulting from the violation of its obligation under a customer lease agreement. This liability is usually limited to a specified amount. Pursuant to certain contractual termination rights, the agreement can usually be terminated after two years with a one-year notice period and, depending on the type of lease, payment of the difference between the contractual price and the price that would have been paid for a lease with a duration similar to the expired period, plus interest for late payment, or by paying a percentage of the annual price applied to the residual period of the lease. The revenues initially recognised are then adjusted to reflect the overall economic outcome of the contract.

Revenues are recognised over the contractual period during which services are rendered, provided that a contract exists and the price is fixed or determinable, and provided that, as of the date it is reported in the accounts, it is probable that the trade receivable will be recovered.

Deferred revenues include unearned balances of amounts for a period of no more than one year received in advance from customers. Such amounts are recorded as revenue on a straight-line basis over the corresponding duration of the relevant leases or of the services provided.

3.14 – Deferred taxes

Deferred taxes are the result of temporary differences arising between the tax base of an asset or liability and its carrying amount. Deferred taxes in respect of all temporary differences without exception are recognised for each fiscal entity, using the balance sheet liability method.

Deferred tax liabilities are thus recognised for all taxable temporary differences except:

- where the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes or from the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect the accounting or the taxable profit or the tax loss; and
- where the deferred tax liability arises from undistributed profits from investments in subsidiaries, associated companies or joint ventures for which the Group is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. However, a deferred tax asset is not recognised if it arises from a deductible temporary difference generated by the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect the accounting or the taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are not discounted and are recorded under non-current assets and liabilities.

3.15 – Earnings per share

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

Diluted earnings per share are calculated using the share repurchase method, based on the assumptions (i) that all potentially dilutive instruments are converted (i.e. assuming the exercise of all outstanding options and the conversion of any financial instruments giving access to the Company's capital, after taking into account the theoretical impact of these transactions on net income) and (ii) that the expected proceeds from these instruments are received when ordinary shares are issued at the average market rate for ordinary shares during the period.

3.16 – Post-employment benefits

The Group's retirement schemes and other post-employment benefits consist of defined contribution plans and defined benefit plans.

Defined benefit plans are plans for which the Group, or any of its entities, has contractually agreed to provide a specific amount or level of benefits following retirement. The cost of this defined benefit obligation, including lump sum retirement indemnities and other post-employment benefits is entered as a liability on the basis of an actuarial valuation of the obligations to employees at year-end, using the projected unit credit method. This method accrues the employee's pension benefit by periods of service according to the formula for entitlement to benefits under the plan.

The present value of expected future payments is determined on the basis of demographic and financial assumptions such as mortality, staff turnover, salary growth, and age at retirement. The rate used to discount estimated cash flows is determined by reference to long term market yields on high quality corporate bonds.

A complete assessment of the present value of the obligation is conducted each year and reviewed at intervening periods to identify any significant changes.

When actuarial gains and losses arising as a result of changes in actuarial assumptions exceed by more than 10% the greater of the following amounts, they are amortised over the expected average remaining working lives of the employees benefiting from these plans.

— the present value of the defined benefit obligation at the balance sheet date;

— The fair value of plan assets at that date.

The net pension cost for the period, consisting of total service cost, interest cost on unwinding of discount, less the expected return on plan assets, is fully recognised in operating income or expense.

The management of the defined contribution plans is performed by an independent entity to which the subsidiary has the obligation to make regular contributions. All payments made by the Group with respect to these plans are expensed as incurred.

3.17 – Financial guarantee granted to a pension fund

Following the purchase of Eutelsat S.A. in April 2005, the Group granted a financial guarantee to the pension fund related to obligations that were assigned to a trust prior to the contribution transactions which led to the creation of Eutelsat S.A. This defined-benefit pension scheme was closed and the vested pension rights frozen prior to the transfer. The risk resulting from this financial guarantee has been analysed, assessed and reported in the same way as defined benefit plan obligations described in Note 3.19, despite the fact that the Group has not assumed the legal commitments entered into by the Intergovernmental Organisation ("IGO") in respect of the pension fund.

3.18 – Stock options

Benefits granted to employees in the form of stock options are recognised 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.

Similarly, in accordance with IFRS 2, benefits granted to employees in the context of public share offerings and other transactions relating to share capital are measured at the date of grant. They constitute additional compensation which is recognised as an expense as and when the corresponding rights are acquired by the employee.

In accordance with IFRS 2, "Share-based payments", only stock options granted after 7 November 2002 which had not yet vested at 1 January 2005 have been measured and recognised.

3.19 – Provisions

A provision is recognised when, at the balance sheet date, (i) the Group has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources will be required to settle the obligation, and (iii) a reliable estimate of the amount involved can be made.

The amount recognised as a provision represents the Group's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Where the effect of the time value of money is material, the amount of the provision recognised corresponds to the discounted value of expected cash flows deemed necessary to settle the obligation. This discounted value uses a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

Increases in provisions recognised as a result of the passage of time and the unwinding of discounting are recognised as financial expenses in the income statement.

NOTE 4: IMPACT OF THE ACQUISITION OF EUTELSAT S.A.

4.1 – Description of the acquisition

On 4 April 2005, the main direct and indirect shareholders of Eutelsat S.A. contributed and sold the majority of their Eutelsat S.A. shares to Eutelsat Communications.

The total consideration with respect to this transaction included a cash component (88.2%) and a stock component, consisting of Eutelsat Communications S.A. shares (11.8%). The payment of the cash portion was funded by several credit facilities contracted by two intermediary structures, SatBirds Capital Participations S.C.A. and SatBirds Finance Sàrl, both wholly owned subsidiaries of Eutelsat Communications (see Note 14 Bank Debt). Following these contributions and sale transactions performed by Eutelsat Communications S.A., the acquired interest was contributed, through the intermediary of the two holding structures having obtained the financing, to SatBirds 2, a wholly owned subsidiary of SatBirds Finance Sàrl and an indirect subsidiary of Eutelsat Communications S.A. On completion of these transactions, SatBirds 2 had direct control of 75.28% of the capital of Eutelsat S.A. and indirect control, through WhiteBirds S.A.S., of 10.36% of the capital of this same company.

Throughout all these contribution and sale transactions, Eutelsat S.A. shares were valued at €2.57 per share, on the basis of a multi-criteria approach and the last Eutelsat S.A. capital transactions in December 2004.

4.2 – Definitive adjustments related to finalisation of initial recognition

The Group had previously indicated that, in consideration of the time constraints at 30 June 2005, and on account of the size and complexity of the acquisition, the amounts attributed to the assets and liabilities and the cost of the acquisition were provisional in nature that might be adjusted on the basis of additional information obtained in the context of finalisation of allocation of the acquisition price.

Adjustments to the acquisition cost

The acquisition cost of the investment of 85.65% in Eutelsat S.A. provisionally measured at € 2,221,095 thousand, was broken down as follows:

(In thousands of euros)	
Portion of the price remunerated in Eutelsat Communications shares	225,444
Portion of the price paid in cash exchange for Eutelsat S.A. shares	1,685,096
Direct acquisition expenses	47,200
Total acquisition cost paid by SatBirds 2	1,957,740
Acquisition cost of the shares owned by WhiteBirds	263,355
Total provisional acquisition cost	**2,221,095**

This cost has been adjusted downwards by € 1,004 thousand on the basis of the latest information, and amounts to € 2,220,091 thousand.

Adjustments of provisional values applied to certain assets resulting from the acquisition

Finalisation of the fair values determined with the assistance of independent valuation experts based on the situation of Eutelsat S.A. at the date of the acquisition is dependent on certain additional information being obtained.

This 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, which were identified at the acquisition date) financed through a finance lease.

These claims resulted in an agreement signed on 19 December 2005 leading to purchase of the satellite by Eutelsat for € 48 million. This information regarding the satellite's value enabled the provisional value applied for the accounting treatment of the operation and the corresponding debt to be adjusted.

For the year ended 30 June 2006, this agreement also 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 a € 1.6 million reduction in the insurance expense.

As a result of this additional information, the new value of the Eutelsat S.A. net assets as of 4 April 2005, and 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[(1)]	929,800		929,800
Satellites and other property and equipment, net (including satellites under construction)	2,085,478	5,895[(4)]	2,091,373
Investments in associates[(2)]	111,359		111,359
Financial assets	3,133		3,133
Net deferred tax assets	61,416	(34,730)[(6)]	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)[(5)]	123,694
Provisions (long-term portion)[(3)]	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 debt	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 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) Intangible fixed assets identified and valued in connection with the acquisition consist of customer contracts and relationships (€ 889,000 thousand) and the Eutelsat brand (€ 40,800 thousand).

"Customer contracts and relationships" include all contracts signed as of the valuation date for a given orbital position, four of which pertain to Eutelsat. These were recognised using the "surplus profits" method, incorporating:

— *revenue* assumptions based on the order book used to prepare the medium-term business plan, which takes into account the likelihood of renewals at the expiration of contracts.

— assumptions of recognition on a straight-line basis per transponder of operating costs and depreciation, and of their allocation to each orbital position taking into account the number of transponders per position.

— A discount rate of 8.5%.

The Eutelsat brand was measured using the royalty exemption method, on the basis of a royalty rate of 0.5% and a discount rate of 8.5%.

(2) The measurement of equity-accounted investments did not give rise to any adjustment in the carrying amount, as the latter was already adjusted to the recoverable amount determined with reference to the fair value determined on the basis of the business plans prepared by management at the entity in question (see Note 7 – Investments in associates).

(3) The adjustment to provisions is related to the measurement at fair value of the pension benefit obligation.

The accumulated actuarial gains or losses at the acquisition date arising from the financial guarantee given to a pension fund (see Note 3.1.7 – *Financial guarantee given to a pension fund*) were taken into account upon the measurement of the fair value of the pension fund.

(4) Adjustment of the value of the ATLANTIC BIRD™ 1 satellite based on the purchase price and after taking into account the time value of money between 4 April 2005 and the date of the transaction.

(5) 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.

(6) Modification of deferred taxes to reflect the preceding adjustments.

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

At 30 June 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 amounting to € 59,894 thousand.

The additional cost of acquiring Eutelsat S.A. minority shareholders resulted in the issue of 22,075,116 shares in the Company and a cash payment of € 172,630 thousand. Acquisition expenses before tax were € 384 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 € 2,429 thousand, comprising (i) € 5,340 thousand related to the adjustments, net of deferred tax, of the values of ATLANTIC BIRD™ 1 and of the corresponding debt and (ii) € 2,911 thousand in respect of additional acquisition expenses. The new amount of the additional goodwill at 30 June 2005 is € 57,465 thousand.

4.4 – Goodwill adjusted at 30 June 2005

Total goodwill at 30 June 2005 is therefore € 728,672 thousand. The effects of these adjustments are summarised in the following table:

(In thousands of euros)	Note	Goodwill
Initial goodwill at 4 April 2005 (published)	**4.2**	**731,101**
Impact related to ATLANTIC BIRD™ 1[(1)]	4.2	(58,890)
Acquisition expenses[(2)]	4.2	(1,004)
Restated goodwill at 4 April 2005	**4.2**	**671,207**
Acquisition of minority interests at 30 June 2005	4.3	59,894
Impact related to ATLANTIC BIRD™ 1[(1)]	4.3	(5,340)
Additional acquisition expenses[(2)]	4.3	2,911
Sub-total	**4.3**	**57,465**
Restated goodwill at 30 June 2005	**4.5**	**728,672**

(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 for acquisition expenses is € 1,907 thousand.

4.5 – Consolidated financial statements at 30 June 2005

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

Eutelsat Communications

CONSOLIDATED BALANCE SHEET

(In thousands of euros)

	30 June 2005 published	ATLANTIC BIRD™1	Acquisition expenses	30 June 2005 restated
ASSETS				
Non-current assets				
Goodwill	790,996	(64,231)	1,907	728,672
Intangible	918,688			918,688
Satellites and other property and equipment, net	1,827,903	6,098		1,834,001
Prepayments for assets under construction	236,341			236,341
Investments in associates	111,425			111,425
Financial assets	1,585			1,585
Net deferred tax assets	72,841	(34,730)		38,111
Total non-current assets	**3,959,779**	**(92,863)**	**1,907**	**3,868,823**
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)**	**1,907**	**4,150,747**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Common stock	278,733			278,733
Additional paid-in capital	–			–
Retained earnings	(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 debt	73,233	(18,341)		54,892
Accounts payable	44,354		1,907	46,261
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)**	**1,907**	**334,490**
TOTAL LIABILITIES	**4,241,703**	**(92,863)**	**1,907**	**4,150,747**

Eutelsat Communications

CONSOLIDATED INCOME STATEMENT

(In thousands of euros, except share data)

	30 June 2005 published	ATLANTIC BIRD™ 1	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, general and administrative expenses	(32,949)		(32,949)
Depreciation and amortisation	(73,241)	203	(73,038)
Other operating costs	(695)		(695)
Operating income	**62,444**	**203**	**62,647**
Financial revenues	3,035		3,035
Financial expenses	(59,640)	820	(58,820)
Financial result	**(56,605)**	**820**	**(55,785)**
Income from investments in associates	66		66
Net 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	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)

4.6 – Acquisition of minority interests since 30 June 2005

Since 30 June 2005, Eutelsat S.A. employee or minority shareholders representing a total of 1.97% 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 € 22,042 thousand. The additional acquisition cost paid to Eutelsat S.A. minority shareholders was € 66,646 thousand (including € 2,622 thousand in acquisition expenses before tax).

These additional acquisitions can be summarised as follows:

— *Acquisition of additional minority interests under secondary sale or contribution operations*

The Group offered all Eutelsat S.A. shareholders who had wanted to respond favourably to the initial offer of 4 April 2005 to sell and/or contribute shares but who had not been able to contribute and/or sell their Eutelsat S.A. shares as of 30 June 2005, the opportunity to sell and/or exchange their Eutelsat S.A. shares for shares in Eutelsat Communications under the same financial conditions as those which had applied to the operation of 30 June 2005.

During the financial period, a number of Eutelsat S.A. shareholders undertook such secondary sale or contribution operations at 6 October 2005 and 27 April 2006. On these two occasions, Eutelsat S.A. shareholders exchanged 19,381,240 and 435,000 shares, respectively, for a total amount of € 50,928 thousand.

— *Buy-back of shares from Eutelsat S.A.; employees*

The share buy-back operation proposed by the Group in July 2005 (see Note 27 to the consolidated financial statements at 30 June 2005) for all those holding shares derived from the exercise of Eutelsat S.A. "Partners" stock options before 30 June was cancelled. It nevertheless resulted in the acquisition of 604,987 Eutelsat S.A. shares for an amount of € 1,555 thousand.

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.

On 20 January 2006, the Group exercised its call option with respect to all Eutelsat S.A. shares resulting from the exercise of "Managers" plan options by key personnel and *mandataires sociaux* of Eutelsat S.A. who subscribed to ABSA1s or ABSA 2s (see Note 13.3). Payment of € 4,295 thousand was made on 3 February 2006 and resulted in the acquisition of 1,597,100 Eutelsat S.A. shares.

— *Dilutive effect of the capital increases subsequent to the exercise of stock options in the subsidiary*

During the financial period ended 30 June 2006, 4,443,334 stock options were exercised (see Note 13.3 – *Remuneration in shares and similar*).

This capital increase resulted in a reduction in Eutelsat Communications' percentage investment in Eutelsat S.A. of 0.43% and a loss of dilution of € 2,094 thousand, which was recognised within "Other operating costs".

NOTE 5: GOODWILL AND OTHER INTANGIBLES

"Goodwill and Other Intangibles" breaks down as follows:

Changes in gross assets

(In thousands of euros)	Goodwill	Customer contracts and relationships	Eutelsat brand	Other intangible assets	Total
1 April 2005	**–**	**–**	**–**		**–**
Effect of change in scope of consolidation	728,672	889,000	40,800		1,658,472
Separate acquisitions	–	–	–		–
Disposals	–	–	–		–
Transfers	–	–	–		–
30 June 2005	**728,672**	**889,000**	**40,800**		**1,658,472**
Effect of change in scope of consolidation	22,042	–	–		22,042
Separate acquisitions	–	–	–	1,000	–
Disposals	–	–	–		–
Transfers	–	–	–		–
30 June 2006	**750,714**	**889,000**	**40,800**	**1,000**	**1,681,514**

At 30 June 2005, "Goodwill" includes the goodwill related to the acquisition of minority interests amounting to € 57,465 thousand (see Note 4.3 – *Impact of the adjustments to provisional values on the acquisition of minority interests at 30 June 2005*).

The impact of the change in the scope of the consolidation for the period ended 30 June 2006 is set out in Note 4.6 – *Acquisition of minority interests since 30 June 2005.*

Change in amortisation and impairment

(In thousands of euros)	Goodwill	Customer contracts and relationships	Eutelsat brand	Other intangible assets	Total
At 1 April 2005	**–**	**–**	**–**		**–**
Amortisation expense	–	(11,112)	–		(11,112)
Reversals	–	–	–		–
Impairment	–	–	–		–
30 June 2005	**–**	**(11,112)**	**–**		**(11,112)**
Net value at 30 June 2005	**728,672**	**877,888**	**40,800**		**1,647,360**
Amortisation expense	–	(44,451)	–		(44,451)
Reversals	–	–	–		–
Impairment	–	–	–		–
30 June 2006	**–**	**(44,451)**	**–**		**(44,451)**
Net value at 30 June 2006	**750,714**	**833,437**	**40,800**	**1,000**	**1,625,951**

At 30 June 2006, the goodwill was the subject of an annual impairment test, which did not call into question the amount recognised on the balance sheet. The recoverable amount was determined from estimated projected cash flows based on the 5-year business plan prepared by Eutelsat Management. The terminal value was calculated by assuming 2% growth after the fifth year and an EBITDA multiple. The discount rate applied was 7.5%.

Sensitivity analysis to a 1% change in the discount rate, representing approximately 15% of the value, was performed. This did not call into question the amount recognised on the balance sheet.

At 30 June 2006, Customer contracts and similar arrangements were tested for impairment, following identification of an indicator of potential impairment. This impairment test did not call into question the net value recognised in the balance sheet. The methodology employed is identical to the methodology used at the time of identification of this asset, with the exception of the discount rate adopted, i.e. 7.5% (see Note 4.2 *Definitive adjustments related to finalisation of initial recognition*).

NOTE 6: SATELLITES AND OTHER PROPERTY AND EQUIPMENT

"Satellites and other property and equipment" breaks down as follows (including assets acquired under finance leases):

Change in gross assets

(In thousands of euros)	Satellites	Other tangible assets	Satellites under construction	Total
Gross value at 1 April 2005	**–**	**–**	**–**	**–**
Effect of change in the scope of consolidation	1,826,155	58,016	207,202	2,091,373
Separate acquisitions	–	11,882	29,139	41,021
Disposals	–	(127)	–	(127)
Transfers	–	–	–	–
Gross value at 30 June 2005 (Restated)	**1,826,155(1)**	**69,771**	**236,341**	**2,132,267**
Change in gross value	(7,574)	–	–	(7,574)
Effect of change in the scope of consolidation	–	–	–	–
Separate acquisitions	2,103	24,446	236,987	263,536
Disposals	–	(818)	–	(818)
Transfers	163,212		(163,212)	–
Gross value at 30 June 2006	**1,983,896**	**93,399**	**310,116**	**2,387,411**

Change in accumulated depreciation and impairment

(In thousands of euros)	Satellites	Other tangible assets	Satellites under construction	Total
Depreciation at 1 April 2005	**–**	**–**	**–**	**–**
Depreciation expense	57,270	4,668	–	61,938
Reversals	–	(13)	–	(13)
Impairment	–	–	–	–
At 30 June 2005 (restated)	**57,270**	**4,655**	**–**	**61,925**
Net value at 30 June 2005 (restated)	**1,768,885(1)**	**65,116**	**236,341**	**2,070,342**
Depreciation expense	219,211	22,070	–	241,281
Reversals	–	(411)	–	(411)
Impairment	24,903	–	–	24,903
At 30 June 2006	**301,384**	**26,314**	**–**	**327,698**
Net value at 30 June 2006	**1,682,512**	**67,085**	**310,116**	**2,059,713**

(1) Including satellites and other property and equipment subject to finance leases

(In thousands of euros)	
Restated value applied for the acquisition (*)	85,311
Net value at 30 June 2006	**69,495**

(*) The restated value applied takes into account the adjustments to provisional values (see Note 4.2 – *Definitive adjustments related to finalisation of initial recognition*)

In particular, this item refers to two satellites for which capacity is leased, with the relevant agreements being considered as finance leases and recognised as assets in the context of the operation.

- in an amount of € 59,959 thousand, for the agreement signed with the related party in March 2004 covering 12 transponders of the SESAT 2 satellite for a term equal to the satellite's useful life.
- in an amount of € 9,046 thousand, for the agreement signed with the related party in May 2001 covering 5 transponders of the EXPRESS A3 satellite for a term equal to the satellite's useful life. The entire amount of contractual lease payments was settled in advance for this contract.

In January 2006, the EUTELSAT II-F2 satellite, fully written off, was deorbited after 15 years of service.

The satellite-related acquisitions and transfers during the period correspond to the entry into operational service of the HOT BIRD™ 7A satellite, which was successfully launched on 11 March 2006.

At 30 June 2005, the net book value of the W1 satellite was € 114.8 million, including in-orbit incentive payments.

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.

Subsequent to this incident, the Group 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, the Group recognised an impairment of W1's value amounting to € 30.4 million. This figure was adjusted downwards to € 24.9 million during the second half of the 2005/2006 financial year in reflection of the reimbursement of in-orbit incentive payments.

At the closing date for the consolidated financial statements for the financial year ended 30 June 2006, the Group was unaware of any factor that might call this new measurement of the satellite's value into question.

At 30 June 2005 (see Note 3.8 *Impairment of non-current assets*), the Group applied its usual procedures and reviewed the remaining useful lives of its satellites in orbit. This review confirmed a significant extension in the lifetime of three of the Group's satellites. Consequently, and in accordance with IAS 8, the depreciation plan for these satellites has been modified on a prospective basis and the annual depreciation charge reduced by € 9.1 million for the period ended 30 June 2006.

Lastly, two and three satellites respectively, are under construction as of 30 June 2005 and 2006.

NOTE 7: INVESTMENTS IN ASSOCIATES

As of 30 June 2006, the Group owns, through its subsidiary Eutelsat S.A., 27.69% of Hispasat, a non-listed private Spanish satellite operator.

Change in the carrying value of the holding in the balance sheet

(In thousands of euros)	30 June 2005	30 June 2006
Opening value of the investment	111,359(1)	111,425
Share of income	66	5,819
Income and expenses recognised directly under equity		217
Closing value of the investment	**111,425**	**117,461**

(1) Value of the investment retained in the context of the allocation of the purchase price in April 2005

Financial information related to the holding

The following amounts represent the Group's share with respect to the assets, liabilities and income of the Hispasat group.

(In millions of euros)	30 June 2005	30 June 2006
Intangible rights(1)	27.7	27.7
Service contract(2)	2.1	1.9
Holding in Hisdesat	5.0	5.0
Sub-total	**34.8**	**34.6**

(1) These relate to rights to the use of frequencies at the 30 degrees West orbital position, together with long-term contractual relationships with the customers. The useful life of this intangible asset is considered indefinite, given the high probability of renewal of the administrative authorisations for the use of frequencies (which are given for a period of 75 years) and the specific nature of the customer contracts.

(2) The useful lives of the other identified intangible assets have been estimated at 15 years.

(In thousands of euros)	31 December 2004	31 December 2005
Other non-current assets	592,987	567,661
Current assets	54,001	44,482
Non-current liabilities	249,621	191,019
Current liabilities	119,450	129,602
Total net assets	**277,917**	**291,522**
Operating revenues	84,368	99,692
Net income (loss)	921	8,320

At 30 June 2005 and 2006, "Income from equity investments" in the consolidated income statement corresponds to the Group's share of income from Hispasat as of 30 June 2005 and 2006, after amortisation for the period of the intangible assets identified.

Review of the value of the investment in the Hispasat group

At 30 June 2005, a review of the value in use of the investment had not resulted In any adjustment of its value in the balance sheet. This had been determined on the basis of cash-flow projections estimated from the five-year business plan prepared by the Management of that company and reviewed by the Management of Eutelsat S.A. The flows had been extrapolated with a growth rate of 1% until the probable expiry of the rights to the orbital positions and discounted on the basis of a rate of 10 to 11% respectively for the European and South American activities. In terms of sensitivity analysis, a change of 1% in the discount rate has an impact of approximately 15% on the value in use, with no effect on the net book value of this holding.

This analysis took into account the problems linked to the operation of the AMAZONAS satellite after it was placed in orbit on 5 August 2004. Following investigations by the manufacturer, the satellite's operational life has been reduced to less than 12 years. This useful life has not resulted in any adjustment with respect to the business combination.

For the period ended 31 December 2005, the Hispasat group received € 26.6 million in insurance indemnities for the damage sustained.

At 30 June 2006, a review of the recoverable value did not result in any adjustment of the amount in the balance sheet. This was based on an EBITDA multiple, which corresponds to the middle of the range for multiples for similar listed companies and to the average multiple used in recent transactions. It was applied to the consolidated 2007 budget of the Hispasat group, which reflects a standard year of operation for the AMAZONAS satellite. In terms of sensitivity analysis, a change of 1% in the EBITDA multiple has an impact of 17% on the recoverable value with no effect on the net book value of this holding.

NOTE 8: NON-CURRENT FINANCIAL ASSETS

Non-current financial assets are mainly made up of:

(In thousands of euros)	30 June 2005	30 June 2006
Available for sale financial assets[1]	400	400
Long-term loans and advances	1,185	2,555
Total	**1,585**	**2,955**

(1) Non-listed investments valued at cost less impairment

— **Available for sale financial assets**

Available for sale non-consolidated investments are mainly made up of an 11.56% stake in Sitcom. This investment was acquired by Eutelsat GmbH and had a net value of € 370 thousand as of 31 March 2005. No impairment has been recorded on these investments as of 30 June 2005 and 2006.

— **Long-term loans and advances**

Long-term loans and advances are mainly composed of employee loans in a net amount of €0.9 million at 30 June 2005 and € 0.2 million at 30 June 2006. The balance represents rental guarantee deposits for Eutelsat S.A.'s Paris premises of € 0.4 million, and the "cash account" for the liquidity agreement relating to treasury stock, which was set up by Eutelsat Communications during the 2005/2006 financial year.

NOTE 9: INVENTORIES

Net inventories amount to € 1,371 thousand at 30 June 2005 and € 2,257 thousand at 30 June 2006. They mainly comprise receiving antennas and modems.

NOTE 10: ACCOUNTS RECEIVABLE

Accounts receivable are mainly composed of receivables from international telecommunications operators, broadcasters and other users of commercial satellite communications.

As of 30 June 2005, the net value of these receivables was € 212,183 thousand. The allowance for bad debts was € 2,465 thousand.

As of 30 June 2006, the net value of these receivables was € 213,716 thousand. The allowance for bad debts was € 1,919 thousand.

NOTE 11: OTHER CURRENT ASSETS

Other current assets were as follows at 30 June 2005:

(In thousands of euros)	30 June 2005	30 June 2006
Prepaid expenses	18,633	11,730
Foreign VAT receivable	6,504	150
Other receivables	4,691	8,009
Total	**29,828**	**19,889**

11.1 – Prepaid expenses

At 30 June 2005, prepaid expenses mainly comprised € 12.7 million of prepaid satellite insurance and € 5.8 million of satellite operating expenses.

At 30 June 2006, prepaid expenses mainly comprised € 5.0 million of prepaid satellite insurance and € 1.6 million of satellite operating expenses.

11.2 – Other receivables

At 30 June 2005 and 2006, other receivables mainly included VAT receivables.

NOTE 12: CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows:

(In thousands of euros)	30 June 2005	30 June 2006
Cash	15,347	10,242
Cash equivalents	21,696	253,813
Total	**37,043**	**264,055**

NOTE 13: SHAREHOLDERS' EQUITY

13.1 – Shareholders' equity

As of 30 June 2006, the share capital of Eutelsat Communications comprised 215,692,592 ordinary shares with a par value of € 1 per share. In terms of treasury stock, Eutelsat Communications S.A. holds 3,377 shares with a value of € 40,483 under a liquidity agreement.

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	Operations	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 June 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	Issue of capital (issue of ABSAs – GM of 30 June 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	Issue of capital (contributions in kind – GM of 06/10/2005)	2,938,777	2,939	2,939	143,164	143,163,866	1
14/12/2005	Issue of capital (exercise of BSA 1)	600,000	600	600	143,764	143,763,866	1
19/12/2005	Issue of capital (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	Issue of capital (public offering – GM of 06/10/2005 and BD of 29/11/2005)	71,666,667	71,667	761,257[1]	215,627	215,626,632	1
27/04/2006	Issue of capital (contributions in kind – BD of 27/04/2006)	65,960	66	66	215,693	215,692,592	1
30 June 2006	CLOSING POSITION	(63,040,006)	(63,040)	907,486	215,693	215,692,592	1

(1) After deducting expenses for the capital increase

A number of operations affecting the share capital took place during the financial year:

- On the occasion of its IPO on 2 December 2005, the Group undertook a capital increase to repay the Group's debt. The subscription price was € 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 € 27.1 million, which comprises € 17.6 million of compensation to the financial arrangers and € 9.5 million in legal and administrative costs.
- At the time of this operation, there was a capital increase 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% discount on the price offered to the general public, and the maximum number of shares was set 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.
- There was also an allocation of bonus 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 set at 2 years from that date, 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 € 1,003 thousand, which is composed of € 480 thousand for the 20% discount and € 523 thousand for the bonus 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 amortised over 2 years).

13.2 – Impact of the acquisition of Eutelsat S.A. on shareholders' equity

As a result of the acquisition of 85.65% of Eutelsat S.A. on 4 April 2005 and an additional 7.67% on 30 June 2005, the Group increased its capital by a total amount of € 278,696 thousand, through the issue, before the aggregation of shares on 31 August 2005 (see Note 13.1 – *Shareholders' equity)* of 278,695,598 new shares with a par value of € 1 as a consideration respectively for the 86,753,409 Eutelsat S.A. shares contributed, and for the contribution by SatBirds Capital Participations of 87,198 shares and of € 55,642 thousand of receivables.

As a consideration for the acquisitions at 6 October 2005 and 27 April 2006 resulting from secondary sale and contribution operations (see Note 4.6 – *Acquisition of minority interests since 30 June 2005*), the Group issued 3,004,737 new shares at a par value of 1 euro after consolidation of the shares (see Note 13.1 – *Shareholders' equity*).

13.3 – Share-based payments

Issue of ABSAs to Managers

On 2 August 2005, the Group issued 835,200 ABSA1s and 882,380 ABSA2s to the key managers of Eutelsat S.A. as follows:

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

These instruments were 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.

Due to the consolidation of shares decided by the General Meeting of 31 August 2005, the conditions of the BSAs were changed:

- two BSAs are now needed to subscribe for 1 Company share
- the unit subscription price is two euros.

The following table describes movements in respect of the BSAs:

Type	BSAs issued	BSAs exercised	Shares issued	Subscription price per share in €	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 13.4). 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 at 30 June 2006: € 2.70.
- 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 commitment 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 30 June 2006 on the basis of the timetable for purchasing the securities. The effect of unwinding the discount on the debt is recognised in financial expenses.

At 30 June 2006, the amount deducted from shareholders' equity is € 19,592 thousand. The figure for the debt is € 21,245 thousand, and a financial expense of € 1,653 thousand is recognised.

Offer of liquidity for employees of the Group who are shareholders in Eutelsat S.A.

At its meeting on 28 June 2006, the Board of Directors decided to introduce a liquidity mechanism for employees of the Group who are shareholders in Eutelsat S.A. in the form of an offer to purchase their Eutelsat S.A. shares for cash. This offer to buy shares does not include shares allocated under the ABSA operation described above.

The liquidity mechanism will be implemented twice each year for periods of 15 to 20 days as set by the Board of Directors and will expire in 2010. The price will be determined with reference to the Eutelsat Communications' share price and will take account of all net bank debt of the companies in the Group that are not included in the Eutelsat S.A. sub-group.

In similar fashion to the operation described above, the obligation with respect to liquidity has been treated as a change to the initial stock-option plans and has been recognised as a future repayment of an equity instrument. The obligation was measured as of 30 June 2006 and recognised as debt, offset by an equivalent reduction in shareholders' equity for an amount of € 22,005 thousand. The debt was measured at present value at 30 June 2006 on the basis of all the shares being purchased in 2010.

Description of the Eutelsat S.A. stock-option plans

In accordance with Standard IFRS 2 *"Remuneration in shares and similar"*, only stock-option plans in effect within the Group after 7 November 2002, and for which rights have not vested at 1 January 2005, have been measured and recognised.

On 2 July 2001, the shareholders authorised a "Partners" stock-option plan, which provided for the grant of stock options to the employees and the members of the Management Board of the Company. 4,233,788 options were granted at an exercise price of €1.1, half of which vested immediately. However, if not exercised within one month of the grant date, vesting was deferred until the end of a two-year period after the grant date. The remaining half vested two years after the grant date. The options expire eight years after the grant date.

On 15 October 2001, the shareholders authorised a "Managers" stock-option plan, which provided for the grant of stock options to certain employees and to the members of the Management Board of the Company after deduction of the previous grant. 2,010,000 options were granted at an exercise price of € 2.0. The options vested four years after the grant date and expire eight years later.

On 5 November 2002, an Extraordinary General Meeting authorised a "Managers II" stock-option Plan, for the grant of stock options to *mandataires sociaux*, senior managers and key personnel of Eutelsat S.A. 3,206,180 options were granted at an exercise price of € 1.79. The options vested in thirds at 1 July in the three years after the year of the grant date and expire eight years later.

Under the delegation of authority given by the General Meeting of 25 November 2003, a "Managers III" Plan was introduced for the grant of stock options to the benefit of *mandataires sociaux*, employees of the Company and employees of the Group. Under the "Managers III" Plan so authorised, 9,113,938 options were granted at an exercise price of € 1.7 (these options vested in portions of one third at 8 April in the three years following the year of the grant date and expire eight years later) and 325,000 options at an exercise price of € 2 (these options vested from the Meeting of Shareholders approving the financial statements for the year ended 2004 and expire eight years later).

Under this same programme, 3,000,000 stock options ("Managers IV" Plan) were granted to key managers and employees at an exercise price of € 2.2 on 23 November 2004. The options vested in thirds at 23 November in the three years after the year of the grant date and expire eight years later.

At 30 June 2006 the authorisation issued by the Extraordinary General Meeting of 25 November 2003 expired. No new authorisation has been given since this date, and there are therefore no further shares reserved for future allocation as of 30 June 2006.

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

	Number of 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	–	(4,443,334)	1.39
Cancelled	(5,135,561)	(24,326)	1.00
Balance at 30 June 2006	–	**19,353,620**	**1.35**

Change in Eutelsat S.A. stock-option plans

Following the exceptional distribution of a dividend (upon a decision by the General Meeting of 22 December 2005) taken from the distributable reserves and from "Additional paid-in capital", and in accordance with the protective measures defined by the "Partners" and "Managers" stock-option plans and by legislation in force, the conditions for subscription (at a reduced exercise price), conversion, exchange or grant of shares that had initially been foreseen were adjusted for options not yet exercised.

Specific protection measures were granted to beneficiaries of "Partners" stock options not yet exercised, the downward adjustment of the subscription price (originally fixed at € 1.1 for this plan) cannot have the effect of reducing the subscription price to below the nominal value of the shares (fixed at € 1.00)

The Ordinary and Extraordinary General Meeting therefore approved a resolution to assign € 0.16 per "Partners" plan option not yet exercised (a total amount of € 45,559.36) to a special reserve account for those holding such options, with the amount required being taken from "Additional paid-in capital". The reserve so constituted is released as and when these options are exercised by their holders.

An exceptional distribution in 2004 (decided by the Ordinary and Extraordinary General Meeting of 10 December 2004) had also led to the implementation of measures to protect the rights of those holding stock options granted but not yet exercised by adjusting the exercise price and the number of options granted.

The Board of Directors also decided (on 12 May 2005) to cancel the conditions for a holding period before exercising options under all stock-option plans outstanding as of that date, so as not to penalise the holders of options in the event of a dividend payment. All options granted are therefore exercisable. The effects of this change had resulted in recording an expense of € 5,345 thousand as of 30 June 2005.

The following table presents the summary of how the plans have evolved:

	Granted	Exercised	Cancelled	Balance	Exercise price (in €)
Closing position 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**	**–**

	Granted	Exercised	Cancelled	Balance	Exercise price (in €)
Closing position 30 June 2006					
After the distribution of 22 December 2005					
Partners	4,389,963	(3,925,218)	(216,204)	248,541	1.00
Managers	2,665,914	(2,612,083)	–	53,831	1.48
Managers II					
– 13/12/02	4,198,098	(1,075,221)	–	3,122,877	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	(553,258)	(64,767)	858,105	1.26
– 28/06/04	437,374	–	–	437,374	1.48
Managers IV	4,028,215	(247,741)	–	3,780,474	1.64
Total	**28,053,039**	**(8,418,448)**	**(280,971)**	**19,353,620**	**–**

Assumptions used to determine the fair value of the stock-option plans

The weighted average remaining contractual life of options outstanding is 5.47 years: 3.01 years for “Partners” plan options; 3.32 years for “Managers” plan options; 4.46 years for “Managers II” plan options; 5.51 years for “Managers III” plan options and 6.41 years for “Managers IV” plan options.

Options have been measured at fair value by the Company using the Black & Scholes method based on the following characteristics:

— Calculated volatility of 26.30%
— A risk-free rate of 2.98%
— A cancellation rate estimated at 37.5% over 3 years
— A weighted average unit cost of € 1.68 per option

Valuations are performed when options are issued and are not subsequently modified. The value of options is then depreciated on a straight-line basis over the vesting period, while taking account of option cancellations.

Following the immediate vesting of rights on the basis of the decision of the Board of Directors of 12 May 2005, compensation expense of €3.6 million was recognised in respect of stock option plans for the period ended 30 June 2005, offset by a corresponding entry to equity. This applies to all stock-option plans. No expense was therefore recorded for the period ended 30 June 2006.

13.4 – Minority interests

Nebozzo Sàrl and a minority shareholder signed an agreement on 14 March 2005 relating to the sale by the minority shareholder of 34,284,270 shares of Eutelsat S.A. at a price of € 2.58 per share. The completion of this sale is subject to several conditions, such as the minority shareholder receiving the required administrative authorisations. Nebozzo Sàrl will purchase these shares and the transaction will be financed jointly by the principal shareholders. Nebozzo Sàrl has committed to Eurazeo, GSCP and to Cinven that it will immediately sell these Eutelsat S.A. shares purchased from the minority shareholder to SatBirds 2. In exchange, it is planned that Nebozzo Sàrl will redistribute to Eurazeo, GSCP and to Cinven their share of the proceeds from the sale of the Eutelsat shares as a payment in both cash and in SatBirds 2 notes. Thereafter, it is envisaged that these notes will be contributed to Eutelsat Communications. The agreement is binding upon the two parties until September 2006, at which time, if the transaction has not taken place, each of the parties may terminate this agreement. In view of the uncertainty surrounding this operation, no commitment has actually been recorded in the consolidated financial statements for the periods ended 30 June 2005 and 30 June 2006.

NOTE 14: BANK DEBT

14.1 – Non-current portion

For the periods ended 30 June 2005 and 30 June 2006, all debt is denominated in euros.

a) *Changes 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 by SatBirds Capital Participations on an interest-only basis and therefore 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 by SatBirds Finance, was redeemed early (6 December 2005), following an agreement with the lenders to accept a 100% repayment of this credit facility.

As this was extinguishment of a liability under IAS 39, – *"Financial Instruments: Recognition and Measurement"*, the costs incurred for the reimbursements, i.e. € 39,246 thousand, including € 14,165 thousand in respect of penalties for early repayment, were recognised as an expense for the period.

Refinancing of the SatBirds Finance Senior credit facilities was performed at the level of Eutelsat Communications in June 2006.

On 8 June 2006, Eutelsat Communications entered into an agreement with a group of banks to obtain a syndicated credit facility amounting to € 1,915 million over a period of seven years, divided into two parts:

— Tranche A: a long-term interest-only loan for € 1,615 million, bearing interest at Euribor plus a margin.

— Tranche B: a revolving credit facility for € 300 million. Drawdowns have a maximum duration of 6 months and bear interest at Euribor plus a margin.

The agreement of 8 June 2006 includes neither a guarantee by Eutelsat Communications' subsidiaries nor the pledging of assets to the lenders.

Once again, the refinancing operation was, under IAS 39, – *"Financial Instruments: Recognition and Measurement"*, considered as extinguishment of a liability for SatBirds Finance. Costs incurred as a result of these reimbursements were recorded as an expense for the period and amounted to € 35,030 thousand.

This credit agreement includes restrictive clauses (subject to the usual exceptions contained in loan agreements) limiting the capacity of Group companies, in particular to:

— grant security interests or guarantees;

— enter into agreements resulting in additional liabilities;

— grant loans and carry out certain types of investments;

— enter into merger, acquisition, asset disposal, or lease transactions (with the exception of those carried out within the Group and expressly provided for in the loan agreement);

— modify the nature of the business of the Company or its subsidiaries.

The agreement allows each lender to request early repayment of all sums due if there is a change of control of the Company and of Eutelsat S.A. or in the event of concerted action. The Company must also hold, directly or indirectly, 95% of the capital and voting rights of Eutelsat S.A. for the entire duration of the loan. The agreement entails an obligation to maintain launch-plus-one-year insurance policies for any satellite located at 13° East, and for any satellite located at another orbital position with a commitment not to have more than one satellite not covered by an insurance policy.

The credit facilities are linked to the following financial covenants, calculated on the basis of the Group's consolidated financial statements presented under IRFS.

— "Leverage Ratio": Consolidated net debt/consolidated EBITDA less than or equal to 5.5 for the half-year and full-year periods defined in the agreement, with the first being 30 June 2006.

— "Interest Cover Ratio": Consolidated EBITDA/interest payable (due) greater than or equal to 2.75 (if Leverage Ratio greater than 3.5).

In addition, interest rate hedging is required for a minimum period of three years to limit exposure to interest rate risk for no less than 50% of the amounts drawn under the Term Loan facility.

On 19 June 2006, the SatBirds Finance subsidiary accordingly transferred to the Company the interest rate hedge set in place for the previous loan.

At the date the Tranche A funds were received (19 June 2006), Eutelsat Communications made early repayment of the Senior credit facilities signed for on 4 April 2005 by SatBirds Finance.

— The 7-year term "A" loan for a maximum principal amount of € 750 million (€ 642.3 million had been drawn as of 19 June 2006)

— The 8-year term "B" loan for a maximum principal amount of € 875 million (drawn in full as of 19 June 2006)

— The 7-year revolving credit facility for a maximum principal amount of € 150 million (€106.5 million had been drawn as of 19 June 2006).

In November 2004, the Eutelsat S.A. sub-group completed a € 1,300 million 7-year syndicated credit facility, comprising:

— A € 650 million interest-only loan

— A revolving credit facility for € 650 million (€ 200 million used as of 30 June 2006).

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 debt rating assigned by Standard & Poor's.

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

b) *Financial information at 30 June 2006*

The non-current portion of the Group's long-term bank debt at 30 June 2006 breaks down as follows:

(In thousands of euros)	30 June 2005		30 June 2006	
	Fair value	Carrying value	Fair value	Carrying value
Senior Term "A" loan (variable rate)	585,293	585,293	–	–
Senior Term "B" loan (variable rate)	875,000	875,000	–	–
Revolving credit facility (variable rate)	8,000	8,000	–	–
Second Lien Credit Facility (variable rate)	475,000	475,000	–	–
Senior PIK loan (variable rate)	300,000	300,000	–	–
Eutelsat Communications credit facility (variable rate)	–	–	1,615,000	1,615,000
Eutelsat Communications revolving credit facility (Variable rate)	–	–	–	–
Eutelsat S.A. revolving credit facility (Variable rate)	70,000	70,000	200,000	200,000
Eutelsat S.A. interest-only loan (Variable rate)	650,000	650,000	650,000	650,000
Eutelsat S.A. loan (fixed rate)(1)	26,072	26,527	–	–
Sub-total of debt (non-current portion)	**2,989,365**	**2,989,820**	**2,465,000**	**2,465,000**
Issue costs		(68,270)		(19,150)
Total		**2,921,550**		**2,445,850**

(1) The fixed-rate loan corresponds to a €150 million amortisable loan at a fixed rate of 4.8%, contracted on 24 December 2001. Repayment is scheduled at 6-month intervals and began on 24 June 2004. The loan reaches maturity on 24 December 2006.

Issue costs for the loans contracted for the acquisition of Eutelsat S.A. shares were deducted from the carrying amount of the loans and subsequently recognised in full as an expense at the time the loans are repaid.

The fair value of the fixed-rate loan was estimated on the basis of the present value of future cash flows with reference to interest rates available for a loan with similar characteristics.

Issue costs of € 1,915 million contracted for the syndicated credit facility (refinancing of the SatBirds Finance Senior credit facilities) were amortised over the duration of the loan. Costs remaining to be amortised at 30 June 2006 were deducted from the carrying amount of the loans. At 30 June 2006, they represent a balance of € 19,150 thousand.

At 30 June 2006, the Group had access to the following main credit facilities:

(In thousands of euros)	Amount granted	Amount used	Maturity
Interest-only loan	1,615,000	1,615,000	8 June 2013
Revolving credit facility	300,000	–	8 June 2013
Revolving credit facility	650,000	650,000	24 November 2011
Interest-only loan	650,000	200,000	24 November 2011
Total	**3,215,000**	**2,465,000**	

The weighted average interest rate on amounts drawn under the credit facilities is 3.2% for the financial year ended 30 June 2006.

The effective interest rates for the € 1,615 thousand and € 650 thousand interest-only loans are 3.74% and 4.44% respectively at 30 June 2006.

At 30 June 2006, the non-current debt maturity analysis is as follows:

(In thousands of euros)	30 June 2006	Maturity within one year	Maturity between 1 and 5 years	Maturity after 5 years
Eutelsat Communications interest-only loan	1,615,000	–	–	1,615,000
Eutelsat Communications revolving credit facility	–	–	–	–
Eutelsat S.A. interest-only loan	650,000	–	–	650,000
Eutelsat S.A. fixed rate loan	26,527	26,527	–	0
Eutelsat S.A. revolving credit facility	200,000	–	–	200,000
Total	**2,491,527**	**26,527**	**–**	**2,465,000**

14.2 – Current portion

Current debts include accrued interest at 30 June 2006 on the debts described above in Note 14.1. These current debts consist of the following elements:

(In thousands of euros)	30 June 2005	30 June 2006
Bank overdrafts	4,437	1,024
Accrued interest	22,193	2,206
Portion of the fixed-rate loan due within one year	51,181	26,527
Total	**77,811**	**29,757**

An increase of 10 basis points (+0.1%) in the EURIBOR interest rate has an impact of €2,465 thousand on a full-year basis on the consolidated income statement at 30 June 2006. At 30 June 2005, the impact on an annual basis was € 2,763 thousand.

NOTE 15: OTHER LIABILITIES

15.1 – Non-current portion

Other liabilities principally comprise "Performance incentives" and liabilities recognised under finance leases. (see Note 3.7 – "*Satellites and other property and equipment*")

(In thousands of euros)	30 June 2005		30 June 2006	
	Fair value	Carrying value	Fair value	Carrying value
Performance incentives	92,369	83,827	79,482	76,048
Finance leases[1]	31,327	31,760	–	–
Total	**123,696**	**115,587**	**79,482**	**76,048**

(1) The restated value of the finance lease at 30 June 2005 takes into account the adjusted provisional values (see Note 4.2 – *Definitive adjustments related to finalisation of initial recognition*)

Long-term interest related to "Performance incentives" amounted to € 16,462 thousand and € 16,517 thousand at 30 June 2005 and 2006 respectively.

15.2 – Current portion

Current liabilities are as follows at 30 June 2005 and 2006:

(In thousands of euros)	30 June 2005	30 June 2006
Performance incentives[1]	18,123	19,498
Finance leases[2][3]	36,769	–
Total	**54,892**	**19,498**

(1) Including interest related to "Performance Incentives" of € 5,017 thousand at 30 June 2005, after taking account of the effects of the adjustments of provisional values (see Note 4.2 – *Definitive adjustments related to finalisation of initial recognition*), and € 7,089 thousand at 30 June 2006.

(2) The restated value of the finance lease at 30 June 2005 takes into account the adjusted provisional values (see Note 4.2 – *Definitive adjustments related to finalisation of initial recognition*)

(3) Including interest related to finance leases of € 17,586 thousand at 30 June 2005.

NOTE 16: OPERATING AND FINANCE LEASES

16.1 – Operating leases

Eutelsat S.A. pays rent for use of its registered office located in Paris. The lease was renewed on 21 June 2005 for a period of 9 years. Rent expense amounted to € 1,036 thousand and € 3,321 thousand for the periods ended 30 June 2005 and 2006 respectively. Future lease payments are shown in the following table:

(In thousands of euros)	Total	Less than 1 year	From 1 to 5 years	More than 5 years
Future payments for operating leases	**28,896**	3,612	14,448	10,836

16.2 – Finance leases

The Group operates four satellites under finance leases. None of the finance leases contains a purchase option at the expiry of the lease term.

The finance lease contracts expire in 2016.

At 30 June 2006, all finance leases had been prepaid.

Financial charges for satellites operated under finance leases amounted to € 964 thousand and € 1,570 thousand at 30 June 2005 and 2006 respectively.

NOTE 17: PROVISIONS (CURRENT PORTION)

The change in provisions (short-term portion) is as follows:

(In thousands of euros)	Provisions
1 April 2005	**7,876**
Increase in provisions	972
Reversal of provisions not required	(1,620)
Provisions used	(90)
30 June 2005	**7,138**
Increase in provisions	6,065
Reversal of provisions not required	(617)
Provisions used	(986)
30 June 2006	**11,600**

The short term provisions recorded at period end correspond to business and employee litigation.

NOTE 18: OTHER PAYABLES AND DEFERRED REVENUES

18.1 – Non-current portion

Details of "Other payables and deferred revenues" were as follows at 30 June 2005 and 2006:

(In thousands of euros)	30 June 2005*	30 June 2006
Deferred revenues	12,277	10,043
Guarantees and advances	9,012	5,519
Social liabilities(1)	–	41,597
Other liabilities	–	1,323
Total	**21,289**	**58,483**

(1) Including the liability related to the ABSA commitments (€ 19,592 thousand) and the offer of liquidity (€ 22,005 thousand) – See Note 13.3 – *Remuneration in shares and similar*.

18.2 – Current portion

Other payables and deferred revenues break down as follows at 30 June 2005 and 2006:

(In thousands of euros)	30 June 2005*	30 June 2006
Deferred revenues	30,598	31,108
Guarantees and advances	12,726	11,362
Tax liabilities	22,812	16,224
Liabilities for social contributions	8,875	19,560
Other liabilities	3,991	1,886
Total	**79,002**	**80,140**

* Other payables and deferred revenues at 30 June 2005 have been broken down into current portion and non-current portion to allow comparability with the presentation method used for the year ended 30 June 2006.

NOTE 19: CURRENT AND DEFERRED TAX

Income tax payable for Eutelsat S.A. for the periods ended 30 June 2005 and 2006 has been estimated by applying the transitional arrangements for the five-year period, as defined by the French tax authorities, with effect from the transfer of operations, according to which the standard corporate income tax rate is applied to a tax base reduced by 20% in the fourth year and by 10% in the fifth year. This percentage then reduces by ten points each year and expires in the sixth year.

19.1 – Income statement tax balances

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

The Group's income tax expense is composed of the following:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Current tax expense	(14,518)	(100,467)
Deferred tax expense (income)	268	10,743
Total income tax expense	**(14,250)**	**(89,724)**

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

(In thousands of euros)	30 June 2005	30 June 2006
Income before tax and income from equity investments	5,840	124,271
Standard French corporate income-tax rate	*34.93%*	*34.43%*
Theoretical Income-tax charge	(2,040)	(42,787)
Impact of transitional arrangements	4,220	11,065
Permanent differences and other items	(16,430)	(58,003)
Corporate income tax expense in the income statement	**(14,250)**	**89,724**
Actual corporate income tax rate	*243%*	*72%*

At 30 June 2005, the actual corporate income tax rate of 243% recorded in the consolidated financial statements of the Eutelsat Communications Group is mainly the result of not recognising a deferred tax asset in relation to the interest expense incurred by the companies which carry the debt related to the acquisition of Eutelsat shares. This interest expense does not give rise to a recoverable tax loss. The unrecognised tax asset in relation to this item amounts to € 13,817 thousand.

At 30 June 2006, the corporate income tax rate of 72% is the result of not recognising a deferred tax asset in relation to the interest expense resulting from the debt generated by the acquisition of Eutelsat S.A. shares. Consequently, out of a total deferred tax asset of € 62,679 thousand generated by these financial expenses, only € 4,815 thousand could be activated due to their recoverability.

19.2 – Balance-sheet tax balances

Deferred tax assets and liabilities correspond with the aggregate net positions of the consolidated entities. Changes in the deferred tax balances between 30 June 2005 and 30 June 2006 were as follows:

(In thousands of euros)	30 June 2005	Recognised in net income for the period	Recognised in equity	30 June 2006
Bad debt provisions	20,285	(5,057)	–	15,228
Financial guarantee granted to the pension fund	8,258	(493)	–	7,765
Provisions for impairment of assets	18,873	(904)	–	17,969
Finance leases	(6,281)	5,324	–	(957)
Capitalised salaries and performance incentives	7,286	(684)	–	6,602
Pension provision	1,828	89	–	1,917
Capitalised interest	(6,770)	557	–	(6,213)
Tax driven depreciation	(18,801)	(8,120)		(26,921)
Financial instruments	9,875	(2,316)	(14,812)	(7,253)
Provisions for risks and charges	1,989	1,542	–	3,531
Accrued liabilities	2,714	577	–	3,291
Activation of transferred deficits	–	4,815	–	4,815
Miscellaneous items	(1,145)	109	–	(1,036)
Net deferred tax assets	***38,111***	***(4,561)***	***(14,812)***	***18,738***
Intangible assets	(316,304)	15,304	–	(301,000)
Financial instruments	–	(11,391)	(1,985)	(13,376)
Activation of transferred deficits	–	11,391	–	11,391
Deferred tax liabilities	***(316,304)***	***15,304***	***(1,985)***	***302,985***
Net total	**(278,193)**	**10,743**	**(16,797)**	**(284,247)**

Deferred tax liabilities break down as follows:

	Deferred tax assets	Deferred tax liabilities
Due within one year	3,291	(3,913)
Due after one year	15,447	(299,072)
Total	**18,738**	**(302,985)**

Deferred tax liabilities relate to the taxable time difference generated by the accounting treatment at fair value of “Customer contracts and similar arrangements” and of the Eutelsat brand, valued at € 929,800 thousand, giving rise at consolidation to a deferred tax liability of € 320,130 thousand. The amortisation of customer contracts over 20 years, amounting to € 44,452 thousand, generated deferred tax income of € 15,304 thousand.

Under an agreement dated 28 June 2006, the scope of the tax consolidation for the group headed by SatBirds 2 was enlarged to the Eutelsat S.A. Company.

19.3 – Tax risks

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 period 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 periods 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 period 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.

The total amount of the tax reassessments notified in December 2005 (€ 69.9 million) was reduced to € 56 million, including interest for late payment and deduction at source, as a result of the written exchanges between Eutelsat S.A. and the fiscal authorities. Exchanges and discussions with the fiscal authorities continue.

Eutelsat S.A. is continuing to contest the grounds for these tax reassessments and, in the light of the information in the Company’s possession at the date of the annual close of the company financial statements, has not recognised any corresponding provision for risk, being a contingent liability as defined by IAS 37.

NOTE 20: PROVISIONS (LONG-TERM PORTION)

(See Note 17 – *Provisions – Short-term portion*)

(In thousands of euros)	30 June 2005	30 June 2006
Financial guarantee granted to a pension fund	43,129	35,934
Retirement indemnities and other post-employment benefits	6,258	6,554
Other	–	7,845
Provisions (long-term portion)	**49,387**	**50,333**

20.1. – Financial guarantee granted to a pension fund

Eutelsat S.A., as a result of the transfer by the IGO of its operational business as of 2 July 2001, granted its financial guarantee to the Trust managing the pension fund established by the IGO. Before this date, the pension fund was closed and the accrued rights frozen.

This guarantee can be called under certain conditions to compensate for future under-funding of the plan. During the period ended 30 June 2005, as a result of the significant decline in long-term interest rates, the guarantee was called upon in an amount of € 22.3 million. This amount was valued on the basis of the trust’s projections of future market developments. At 30 June 2005, no payments had yet been made.

In November 2005, an agreement was reached with the Trust to spread payment of the amount called as follows: € 4.46 million when the agreement is signed, and a further € 4.46 million at 30 June 2006, 2007, 2008 and 2009. It was agreed that the Trust would carry out a new valuation at 30 June 2007 and that, depending on the results of that valuation, subsequent contributions could be revised downwards or upwards. As of 30 June 2006, therefore, the amount that had been paid was € 8.92 million.

The actuarial valuation performed at 30 June 2005 and 2006 used the following assumptions:

	30 June 2005	30 June 2006
Discount rate	4.00%	4.75%
Expected rate of return on assets	4.00%	4.00%
Inflation rate	2.00%	2.00%

As of 30 June 2005 and 30 June 2006, the liability is as follows:

Reconciliation of assets and liabilities recognised in the balance sheet:

(In thousands of euros)	30 June 2005	30 June 2006
Present value of defined benefit obligations wholly or partly funded	168,714	140,889
Fair value of plan assets	(125,585)	(135,378)
Net financing	**43,129**	**5,511**
Actuarial and other gains/(losses) amortised over 12 years	–	30,423
Net (ASSET)/LIABILITY recognised in the balance sheet	**43,129**	**35,934**

The fair value of plan assets includes no amounts relating to any financial instruments issued by Eutelsat S.A. nor any property occupied by, or other assets used by, the Company.

Movements during the financial period in the liability recognised in the balance sheet:

(In thousands of euros)	
Provision at 1 April 2005	**43,012**
Net expense recognised in the income statement	117
Provision at 30 June 2005	**43,129**
Net expense recognised in the income statement	1,725
Contributions paid	(8,920)
Provision at 30 June 2006	**35,934**

Net expense recognised in the income statement:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Service cost of the period	–	–
Financing cost	1,614	6,694
Expected return on plan assets	(1,497)	(4,969)
Actuarial (gains)/losses	–	–
Net expense recognised in the income statement	**117**	**1,725**

The absence of service costs is explained by the fact that rights were frozen and that the IGO pension fund was closed prior to the transfer of business on 2 July 2001.

The actual return on the plan's assets was € 3.1 million and € 3.9 million at 30 June 2005 and 2006 respectively.

20.2 – Post-employment benefits

a) Retirement indemnities

French law requires payment of a lump sum retirement indemnity, where appropriate. This indemnity is paid to employees based upon years of service and compensation at retirement. Benefits do not vest prior to retirement from Eutelsat. This scheme is not funded.

The actuarial valuations performed at 30 June 2005 and 2006 were based on the following assumptions:

	30 June 2005	30 June 2006
Discount rate	4.00%	4.75%
Inflation rate	2.50%	2.00%

As of 30 June 2005 and 2006, the liability is as follows (in thousands of euros):

Reconciliation of assets and liabilities recognised in the balance sheet:

	30 June 2005	30 June 2006
Present value of obligations not financed	3,740	3,425
Past-service cost amortised over 21 years	1,419	1,354
Actuarial gains/(losses)	(29)	674
Liability recognised in the balance sheet	**5,130**	**5,453**

Movements over the financial period in net liability recognised in the balance sheet:

(In thousands of euros)	
Liability at 1 April 2005	**5,052**
Net expense recognised in the income statement	78
Benefits paid	–
Liability at 30 June 2005	**5,130**
Net expense recognised in the income statement	376
Benefits paid	(53)
Liability at 30 June 2006	**5,453**

Net expense recognised in the income statement:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Service cost of the period	57	293
Financing cost	38	148
Past-service costs	(17)	(65)
Actuarial (gains)/losses	–	–
Net expense recognised in the income statement	**78**	**376**

b) Supplementary schemes

The Group also has a defined-contribution "*sur-complémentaire*" funded pension fund for its employees (excluding *mandataires sociaux* employed by the Group), financed by contributions of 6% of gross annual salary, limited to eight times the Social Security threshold. The Group has no other commitments in relation to these contributions. The employer's contributions paid for this purpose were € 262 thousand and € 1,196 thousand at 30 June 2005 and 2006 respectively.

The *mandataires sociaux* of Eutelsat Communications S.A. and Eutelsat S.A. have a supplementary defined-benefits plan, which is financed by contributions of 12% of their total gross compensation. The present value of the obligations as of 30 June 2005 and 2006, amounts to € 1,127 thousand and € 987 thousand respectively and is only partly funded.

c) Mandatory schemes

In accordance with French law, the Group meets its obligations to finance pensions for employees in France by paying contributions based on salaries to the relevant entities that manage mandatory pension schemes. The Group has no other commitments in relation to these contributions. The employer's contributions paid for this purpose were € 2,882 thousand and € 5,020 thousand at 30 June 2005 and 2006 respectively.

NOTE 21: SEGMENT INFORMATION

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

The Group's revenues by geographical zone, based on invoice addresses, for the periods ended 30 June 2005 and 2006 are as follows:

(In thousands of euros and as a percentage)	*Three-month period ended 30 June 2005*		*Twelve-month period ended 30 June 2006*	
Region	**Amount**	**%**	**Amount**	**%**
France	29,429	15.6	110,204	13.9
Italy	28,032	14.9	126,552	16
United Kingdom	33,580	17.8	129,056	16.3
Europe (other)	67,352	35.8	262,688	33.2
Americas	14,808	7.9	69,029	8.7
Middle East	9,520	5.1	51,970	6.6
Other (*)	5,959	3.0	41,569	5.3
Total	**188,680**	**100.0**	**791,068**	**100.0**

(*) Revenues include compensation for late delivery of satellite and service interruption amounting to € 17.4 million for the period ended 30 June 2006 (see Note 4.2 – *Definitive adjustments related to finalisation of initial recognition).*

NOTE 22: FINANCIAL RESULT

The financial result is made up as follows:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Interest expense (banks)	(38,799)	(133,626)
Other interest expense	(1,589)	(4,873)
Loan set-up fees	(2,291)	(68,605)
Early repayment fees	–	(14,165)
Commitment fees and other similar charges	(502)	(3,588)
Change in financial instruments	(14,265)	–
Provisions for risks and charges	(117)	(2,004)
Foreign-exchange losses	(362)	(2,374)
Financial expenses	**(57,925)**	**(229,235)**
Change in financial instruments	–	40,775
Interest income	646	6,005
Provision on financial assets	370	–
Foreign-exchange gains	1,124	2,885
Financial revenues	**2,140**	**49,665**
Financial result	**(55,785)**	**(179,570)**

Borrowing and early repayment costs for the year ended 30 June 2006 are the result of the early repayment and refinancing operations described in Note 14 – *Long-term bank debt*.

Variation in financial instruments is described in Note 24 – *Financial instruments*.

Other interest expenses include capitalised interest. Interest during the periods was € 895 thousand at 30 June 2005 and € 4,528 thousand at 30 June 2006.

The capitalisation rates used to determine the amount of interest expense eligible for capitalisation were 4.0% for the period ended 30 June 2005 and 4.2% for the period ended 30 June 2006. "Other interest expense" comprises interest related to satellite performance incentives and to finance leases for € 1.5 million and € 1.8 million respectively for the period ended 30 June 2005 and € 5.9 million and € 1.6 million respectively for the period ended 30 June 2006.

NOTE 23: EARNINGS PER SHARE

The following two tables show the reconciliation between the net income and the net income (basic and diluted) of shareholders used to calculate earnings per share (basic and diluted):

	30 June 2005	30 June 2006
Net income	(7,322)	40,234
Share of income from subsidiaries attributable to minority interests before taking account of the dilutive instruments in the subsidiaries	(6,177)	(11,934)
Net earnings used to compute basic earnings per share	**(13,499)**	**28,300**

	30 June 2005	30 June 2006
Net income	(7,322)	40,234
Share of income from subsidiaries attributable to minority interests after taking account of the dilutive instruments in the subsidiaries	(6,566)	(14,734)
Net earnings used to compute diluted earnings per share	**(13,888)**	**25,500**

The reconciliation between the number of ordinary shares used to compute basic and diluted earnings per share is provided below, as of 30 June 2005 and 2006:

	30 June 2005	30 June 2006
Restated weighted average number of shares outstanding used to compute basic earnings per share(1)	128,451,382	206,926,817
Incremental number of additional shares that would result from the exercise of outstanding stock options(2)(3)	–	1,443,656
Restated weighted average number of shares used to compute diluted earnings per share(1)	**128,451,382**	**208,370,473**

(1) The weighted average number of shares at 30 June 2005 was 256,902,763. A retroactive adjustment was made after the consolidation of shares undertaken at 31 August 2005. This adjustment resulted in dividing the initial number of shares by two (see Note 13.1 – *Shareholders' equity*).

(2) At 30 June 2005, there are no dilutive instruments originating from *Eutelsat Communications*. The only instruments of dilution relate to its subsidiary, Eutelsat S.A.

(3) At 30 June 2006, Eutelsat Communications and its subsidiary Eutelsat S.A. had issued dilutive instruments (see Note 13.3 *Share-based payments*). The number of incremental shares which could be issued upon the exercise of outstanding stock options is computed using the average market price during the related period.

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

NOTE 24: 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, where appropriate, exposure of revenue and cash flows to interest rate and foreign exchange risks. The Group's policy is to use derivatives to manage exposure to such risks. The Group does not engage in financial transactions whose associated risk cannot be quantified at their outset i.e. the Group never sells assets it does not possess or does not know it will subsequently possess.

24.1 – 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 U.S. dollar. The Group consequently, as a means of preserving the value of assets, commitments and forecast transactions, enters into contracts whose value fluctuates in line with changes in the euro/dollar exchange rate. In particular, the Group hedges certain future U.S. dollar revenues by means of financial instruments such as options, forward currency transactions and foreign currency deposits, These instruments are traded over-the-counter with first-rate banking counterparties.

Purchase commitments relate to construction contracts for satellites and to launch contracts. They generally cover a three-year period with a pre-established schedule of payments.

Commitments to sell relate to contracts denominated in US dollars.

During the periods ended 30 June 2005 and 2006, the Group only purchased foreign exchange options (euro calls/US dollar puts).

24.2 – Interest rate risk

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

To hedge its debt, the Group has set up the following interest rate hedges through its subsidiary SatBirds Finance:

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

On 19 June 2006, in parallel to the refinancing arrangements (see Note 14), the hedging instruments of the SatBirds Finance subsidiary were transferred to the Eutelsat Communications S.A. Company for purposes of managing that company's interest rate risk.

Following signature of the € 1,300 million syndicated credit facility at Eutelsat sub-group level, the following interest rate hedging transactions were immediately implemented: i.e.

- A fixed payable/variable receivable rate swap covering the long-term € 650 million portion of the interest-only loan repayable on maturity.
- A five-year tunnel (purchase of a cap and sale of a floor) for a nominal amount of €450 million intended to act as a partial hedge of the €650 million revolving credit facility.

24.3 – Financial 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 with first-rate financial institutions or banks. Exposure to these risks is closely monitored and maintained within predetermined limits. The Group does not foresee any loss that would result from a failure by its counterparties to respect their commitments under the agreements concluded. The risks to which the Group is exposed are confined neither to the financial sector nor to a particular country.

24.4 – Key figures as of 30 June 2006

The following table analyses the contractual or nominal amounts and fair value of the Group's derivatives at 30 June 2005 and 2006 by type of contract.

(In thousands of euros)	Contractual or nominal amounts	Fair value 30 June 2005	Change in fair value during the period	Impact on income statement	Impact on equity
Foreign exchange options (Eutelsat S.A.)	82,400	1,499	(1,540)	*(1,540)*	
Total foreign exchange derivatives		***1,499***	***(1,540)***	***(1,540)***	
Swap (Eutelsat S.A.)	650,000	(26,021)	(20,917)		*(20,917)*
Forward swap (Eutelsat Communications)	850,000	(4,287)	(1,081)		*(1,081)*
Purchased cap (Eutelsat Communications)	850,000	3,029	(177)	*(177)*	
Tunnel (Eutelsat Communications)	1,700,000	(5,709)	(12,152)	*(9,350)*	*(2,802)*
Tunnel (Eutelsat S.A.)	450,000	(2,039)	(3,198)	*(3,198)*	
Total interest rate derivatives		***(35,027)***	***(37,524)***	***(12,725)***	***(24,800)***
Total derivatives		**(33,528)**	**(39,064)**	***(14,265)***	***(24,800)***

(In thousands of euros)	Contractual or nominal amounts	Fair value 30 June 2006	Change in fair value during the period	Impact on income statement	Impact on equity
Foreign exchange options (Eutelsat S.A.)	104,000	4,792	595	*595*	–
Total foreign exchange derivatives		***4,792***	***595***	***595***	***–***
Swap (Eutelsat S.A.)	650,000	17,001	43,023	–	*43,023*
Forward swap (Eutelsat Communications)	850,000	12,224	16,511	*13,587*	*2,924*
Purchased cap (Eutelsat Communications)	850,000	6,964	3,935	*3,505*	*430*
Tunnel (Eutelsat Communications)	1,700,000	19,661	25,370	*19,076*	*6,294*
Tunnel (Eutelsat S.A.)	450,000	1,971	4,012	*4,012*	–
Total interest rate derivatives		***57,821***	***92,851***	***40,180***	***52,671***
Total derivatives		**62,613**	**93,446**	***40,775***	***52,671***

During the periods ended 30 June 2005 and 2006, the changes in fair value recognised within financial income or expense in respect of financial instruments amounted to an expense of € 14,265 thousand and income of € 40,775 thousand respectively.

Breakdown of financial instruments qualifying as hedges as of 30 June 2005 and 2006:

(In thousands of euros)	Contractual or notional values	Fair value 30 June 2005	Change in fair value during the period	Impact on income statement (ineffective portion)	Impact on equity (effective portion)
Forward swap (Eutelsat Communications)	850,000	(4,287)	(1,081)		*(1,081)*
Swap (Eutelsat S.A.)	650,000	(26,021)	(20,917)		*(20,917)*
Tunnel (Eutelsat Communications)	1,700,000	(5,709)	(12,152)	*(9,350)*	*(2,802)*
Total hedging derivatives		**(36,017)**	**(34,150)**	***(9,350)***	***(24,800)***

(In thousands of euros)	Contractual or notional values	Fair value 30 June 2006	Change in fair value during the period	Impact on income statement (ineffective portion)	Impact on equity (effective portion)
Forward swap (Eutelsat Communications)	850,000	12,224	16,511	*13,587*	*2,924*
Swap (Eutelsat S.A.)	650,000	17,001	43,023	–	*43,023*
Purchased cap (Eutelsat Communications)	850,000	6,964	3,935	*3,505*	*430*
Tunnel (Eutelsat Communications)	1,700,000	19,661	25,370	*19,076*	*6,294*
Total hedging derivatives		**55,850**	**88,839**	***36,168***	***52,671***

At 19 June 2006, following the refinancing operations described above, the SatBirds Finance tunnel and swap hedging relationship was discontinued. The hedging instruments therefore became totally ineffective due to extinguishment of the financial liability according to IAS 39 *"Financial Instruments: Recognition and Measurement"*. The amounts accumulated for changes in fair value in equity were consequently transferred to the income statement.

The hedging instruments were transferred to Eutelsat Communications and a new hedging relationship was set in place which took account of the characteristics of the new debt (see Note 14 *Bank debt*).

NOTE 25: OTHER COMMITMENTS AND CONTINGENCIES

As of 30 June 2006, Management considers that, to the best of its knowledge, no commitments existed that may have an impact on the Group's present or future financial position with the exception of the following items:

25.1 – Purchase commitments

The Group has commitments with suppliers for the acquisition of assets and provision of services related to monitoring and control of its satellites.

Future minimum payments, as of 30 June 2005 and 30 June 2006, are scheduled to be paid as follows:

(In millions of euros)	30 June 2005	30 June 2006
2006	25	
2007	8	28
2008	8	14
2009	7	12
2010 and thereafter (*)	20	11
2011 and thereafter		10
Total	**68**	**75**

(*) Up to 30 June 2005 end-of-period

The above total includes € 4.8 million for purchase commitments entered into with related parties (see Note 26 "*Related parties*").

At 30 June 2006, future payments under satellite construction contracts amount to € 133 million, and future payments under launch agreements amount to € 131 million.

25.2 – 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, 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. As from 27 March 2006, the insurance cover of the HOT BIRD™ 2, HOT BIRD™ 3 and HOT BIRD™ 4 satellites has been limited to their net book value only. The insurance cover of the HOT BIRD™ 6 satellite has also been limited to its net book value since 27 May 2006.
- The other satellites covered under this policy are 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.

25.3 – Launch insurance

The HOT BIRD™ 7A and HOT BIRD™ 8 satellites 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 was paid prior to the launches, is € 54.4 million.

W1 incident:

At the end of 2005, Eutelsat submitted a claim for compensation as a result of the incident that occurred on 10 August 2005. It is a complex claim, which involves three insurance policies. It is currently being processed but should be settled before the end of 2006.

25.4 – Litigation

The Group is involved in litigation in the normal course of its business. Expenses that can arise from litigation, estimated probable by the company and its advisors, have been the subject of provisions considered to be sufficient to cover the expected costs of such litigation.

NOTE 26: RELATED-PARTY TRANSACTIONS

Amounts included in current assets and current liabilities in the balance sheet, due and owed to related parties (mainly direct and indirect shareholders of the Group) as of 30 June 2005 are as follows:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Gross receivables (includes unbilled revenues)	130,576	11,197
Liabilities (includes accrued invoices)	15,338	643

Transactions with related parties included in the income statements for the periods ended 30 June 2005 and 30 June 2006 are as follows:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Revenues:	48,640	48,365
Operating costs, Selling, general and administrative expenses	1,095	1,696
Financial result	67	0

For the period ended 30 June 2005, two related parties account individually for more than 10% of consolidated revenues or, in total, € 29 million. As of 30 June 2005, receivables due from all these related parties amount to € 38 million.

For the year ended 30 June 2006, no related party individually represented more than 10% of revenues.

In addition, the Group entered into transactions with certain shareholders for services related to the provision of services relating to the monitoring and control of its satellites.

Transactions with related parties included in the acquisition cost of Eutelsat S.A. shares amount to € 37,961 thousand at 30 June 2005, compared to € 2,316 thousand at 30 June 2006.

Compensation of the members of the management bodies

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Short-term benefits, excluding employer's charges	346	2,546
Short-term benefits: employer's charges	141	921
Post-employment benefits	8% of annual salary at end of career	8% of annual salary at end of career
Other long-term benefits (indemnity payment in the event of involuntary cessation of activity)	1,000	1,000

Share-based payments

On 2 August 2005 the Group issued 835,200 ABSA1s and 187,710 ABSA2s to the members of the Group's management bodies, as follows:

— ABSA1: unit price of € 1.378

— ABSA2: unit price of € 1.54

— 2.7 BSAs per ABSA

— With each BSA conferring the right to subscribe for 1 Company share.

These instruments were fully paid-up in cash, and the difference between the unit subscription price for the ABSAs and the par value of the shares was charged to additional paid-in capital.

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

Following the consolidation of shares decided by the General Meeting of 31 August 2005, the terms of the BSAs were modified:

— two BSAs are now required to subscribe for one Company share

— the unit subscription price is two euros.

The following table shows the history of the BSAs held by the members of the management bodies:

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	506,817	–	–	2	02/08/2015
Total	**2,761,857**	**1,200,000**	**600,000**		

NOTE 27: STAFF COSTS

Staff costs (including mandatory employee profit-sharing) are as follows:

(In thousands of euros)	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Operating costs	4,824	23,791
Selling, general and administrative expenses	13,710	39,002
Total	**18,534**	**62,793**

The average number of employees is as follows:

	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Operations	178	179
Selling, general and administrative	299	306
Total	**477**	**485**

As of 30 June 2006, the Group has 493 employees, compared with 481 as of 30 June 2005.

Compensation paid to the Eutelsat Communications *mandataires sociaux* employed by the Group is € 1.4 million for the period ended 30 June 2006.

No attendance fees were paid to members of the Board of Directors during this period.

The Group has a corporate savings plan (*plan d'épargne d'entreprise* or *PEE*) reserved for Eutelsat S.A. employees with more than three months of service, funded by voluntary contributions by the employees.

Via its subsidiary Eutelsat S.A., the Group has an employee incentive scheme (*accord d'intéressement*), which was set up for a three-year period. The incentive scheme is based on objectives renewable each year.

NOTE 28: COMPANIES INCLUDED IN THE CONSOLIDATION

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

Company	Country	Consolidation method	% of voting rights as of 30 June 2006	% interest as of 30 June 2006
SatBirds Capital Participations S.A.	Luxembourg	Full consolidation	100.00%	100.00%
SatBirds Capital Sarl	Luxembourg	Full consolidation	100.00%	100.00%
SatBirds Finance S.A.	Luxembourg	Full consolidation	100.00%	100.00%
Eutelsat Communications Finance	France	Full consolidation	100.00%	100.00%
Eutelsat Finance S.A.S.	France	Full consolidation	100.00%	100.00%
SatBirds 2 S.A.S.	France	Full consolidation	100.00%	100.00%
WhiteBirds	France	Full consolidation	100.00%	100.00%
Eutelsat S.A.	France	Full consolidation	95.15%	95.15%
Eutelsat S.A. Group				
Eutelsat do Brazil S.A.	Brazil	Full consolidation	100.00%	95.15%
– Eutelsat Italia	Italy	Full consolidation	100.00%	95.15%
– Skylogic Italia S.p.A.	Italy	Full consolidation	100.00%	95.15%
– Eutelsat Services und Beteiligungen GmbH	Germany	Full consolidation	100.00%	95.15%
– Visavision Gmbh	Germany	Full consolidation	100.00%	95.15%
– Eutelsat Inc.	United States	Full consolidation	100.00%	95.15%
– Eutelsat UK Limited	United Kingdom	Full consolidation	100.00%	95.15%
– Eutelsat Polska s.p.z.o.o.	Poland	Full consolidation	100.00%	95.15%
– Skylogic Polska s.p.z.o.o.	Poland	Full consolidation	100.00%	95.15%
– Wins Ltd	Malta	Full consolidation	50.00%	47.58%
– Hispasat	Spain	Equity method	27.69%	26.35%

The financial year-end of Hispasat is 31 December. The consolidation of Hispasat under the equity method was performed using the Hispasat Group's financials as of 30 June 2006.

The financial year-end of the SatBirds Capital Participations, SatBirds Capital and SatBirds Finance Companies is 31 March.

The consolidation of these subsidiaries under the full-consolidation method was performed using company financials as of 30 June 2006.

NOTE 29: EVENTS AFTER THE BALANCE SHEET DATE

On 1 July 2006, the Skylogic East Company, a wholly owned subsidiary of Skylogic Italia S.p.A., was created in Turkey.

On 18 July 2006, the SatBirds Capital Participations Company was absorbed under a merger-absorption arrangement by the SatBirds Finance Company.

On 28 July 2006, the Group signed a pre-agreement with Alcatel Alenia Space for an amount of € 15 million for the procurement of the W2A satellite.

The HOT BIRD™ 8 satellite was successfully launched by a Proton launcher from the Baïkonour cosmodrome on 5 August 2006. Its entry into operational service is scheduled for October 2006.

Eutelsat Communications S.A.

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Eutelsat Communications S.A.

BALANCE SHEET
(In thousands of euros)

	Note	30 June 2005	30 June 2006
ASSETS			
Long-term assets			
Intangible assets	3	264,492	**2,675,879**
Total long-term assets		264,492	**2,675,879**
Current assets			
Accounts receivable		–	**797**
Other receivables		1,315	**849**
Cash and marketable securities	4	7,682	**31,182**
Total current assets		8,997	**32,828**
Prepaid expenses and others	5	–	**27,079**
TOTAL ASSETS		273,489	**2,735,786**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Common stock (215,692,592 ordinary shares as of 30 June 2006 with a nominal value of €1 per share)		278,733	**215,693**
Additional paid-in capital		–	**907,486**
Legal reserve		–	**79**
Retained earnings		(1)	**(13,218)**
Result for the year		(13,217)	**(3,236)**
Total shareholders' equity	6	265,514	**1,106,804**
Provisions for risks		–	**–**
Provisions for expenses		–	**–**
Total provisions for risks and charges		–	**–**
Bank debt	**7**	–	**1,617,087**
Other bank debt		–	**7,846**
Total bank debt		–	**1,624,933**
Accounts payable		7,974	**2,424**
Tax and employee-related payable	8	–	**1,625**
Fixed assets payable	11	–	**–**
Other payables	12	–	**–**
Total operating debt		7,974	**4,049**
Deferred revenues		–	**–**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		273,489	**2,735,786**

The Notes are an integral part of the company financial statements.

Eutelsat Communications S.A.

INCOME STATEMENTS
(In thousands of euros)

	Note	Three-month period ended 30 June 2005	Twelve-month period ended 30 June 2006
Revenues		–	**1,198**
Costs eligible for capitalisation		–	**–**
Grants received		–	**–**
Release of provisions and reclassification of costs		–	**19,240**
Other revenues		–	**0**
Total operating income		–	**20,438**
Purchase of goods and variation of inventories		–	**–**
Other purchases and external charges		13,218	**21,385**
Income tax, other taxes and assimilated		–	**3**
Wages	9	–	**1,357**
Social charges	9	–	**422**
Depreciation and provisions		–	**90**
Other charges		–	**–**
Total operating charges		13,218	**23,258**
Operating income		(13,218)	**(2,820)**
Financial income		–	**1,702**
Financial expenses		–	**2,130**
Financial result	10	–	**(428)**
Exceptional income		–	**209**
Exceptional charges		–	**197**
Exceptional result	11	–	**12**
Mandatory employee profit-sharing		–	**–**
Income tax		–	**–**
NET INCOME		(13,217)	**(3,236)**

Les notes annexes font partie intégrante des comptes annuels.

Eutelsat Communications S.A.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 1: PRESENTATION

1.1 – Business description

The role of Eutelsat Communications S.A. is to hold shares.

1.2 – Key events during the period

The financial period lasts for 12 months from 1 July 2005 to 30 June 2006. The preceding financial period lasted for three months from 1 April 2005 to 30 June 2005.

On 31 August 2005, the Company became a *Société Anonyme* with a Board of Directors.

On 6 December 2005, the Company was listed on the Eurolist market of Euronext Paris.

Transactions involving consolidation of the shareholdings of the principal shareholders of Eutelsat S.A., which had begun the preceding financial period, continued.

As not all the minority shareholders of Eutelsat S.A. were able to participate in the transaction during the previous period, it was arranged for shareholders, if they so wished, to contribute or sell their shares on 6 October 2005 under the same conditions that applied to the original transactions.

In this context, certain minority shareholders contributed 2.366% of Eutelsat S.A.'s capital to the Company during the period, on the basis of a value for one Eutelsat S.A. share of € 2.57.

The shares received by the Company were contributed to SatBirds 2 in a series of linked contributions via a subsidiary called SatBirds Capital Participations. As of 30 June 2006, SatBirds 2 directly holds 84.85% of Eutelsat S.A.'s capital, and indirectly, through its subsidiary Whitebirds France, holds an additional 10.30%.

This transaction was the final stage in the consolidation process.

In the context of financing the acquisition of Eutelsat S.A., started in the course of the previous period, the Eutelsat Communications Group had set in place financing mechanisms via its subsidiaries.

On 19 June 2006, the Company refinanced the debt contracted in the course of the previous period by its subsidiaries, which was consequently reimbursed and replaced by two new credit facilities not guaranteed by collateral or securities: These were the Term Loan and the Revolving Credit Loans.

Term Loan and the Revolving Credit Loans

This credit agreement includes restrictive clauses (subject to the usual exceptions contained in loan agreements) limiting the capacity of Group companies, in particular to:

- grant security interests or guarantees;
- enter into agreements resulting in additional liabilities;
- grant loans and carry out certain types of investments;
- enter into merger, acquisition, asset disposal, or lease transactions (with the exception of those carried out within the Group and expressly provided for in the loan agreement);
- modify the nature of the business of the Company or its subsidiaries.

The agreement allows each lender to request early repayment of all sums due if there is a change of control of the Company and of Eutelsat S.A. or in the event of concerted action.

The Company must hold, directly or indirectly, 95% of the capital and voting rights of Eutelsat S.A. for the entire duration of the loan.

The agreement entails an obligation to maintain launch-plus-one-year insurance policies for any satellite located at 13° East, and for any satellite located at another orbital position with a commitment not to have more than one satellite not covered by a launch insurance policy.

The credit facilities are linked to the following financial covenants, calculated on the basis of the Group's consolidated financial statements presented under IRFS.

"Leverage Ratio": Consolidated net debt/consolidated EBITDA less than or equal to a certain threshold for the half-year and full-year periods defined in the agreement, with the first being 30 June 2006.

"Interest Cover Ratio": Consolidated EBITDA/interest payable (due and paid) greater than or equal to 2.75 (if Leverage Ratio greater than 3.5).

In addition, interest rate hedging is required for a minimum period of three years to limit exposure to interest rate risk for no less than 50% of the amounts drawn under the Term Loan facility.

On 19 June 2006, the SatBirds Finance subsidiary accordingly transferred to the Company the interest rate hedge set in place for the previous loan.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

2.1 – Basis of presentation

The financial statements for the period ended 30 June 2006 are prepared in accordance with the Code de Commerce (Articles L123-12 to L123-28) and Rule 99-03 of the Comité de la Réglementation Comptable (CRC).

The following conventions have been applied in observance of the principle of prudence, in accordance with the following basic rules:

— going concern,

— accruals basis of accounting,

— consistency of accounting policies between accounting,

and in accordance with the general rules for preparing and presenting financial statements.

2.2 – Financial assets

Equity investments are recognised in the balance sheet at their acquisition cost excluding incidental expenses.

Any excess of cost over fair value, as estimated by Management of the Company based on various criteria such as market value, expected development and profitability, or shareholders' equity, and taking into account the specific nature of each investment, gives rise to recognition of a provision for impairment of the investment.

2.3 – Cash and marketable securities

Cash and marketable securities consist mainly of cash on hand and at bank, and deposit certificates with original maturities of three months or less.

2.4 – Receivables and debt

Receivables and debt have been evaluated at their nominal value.

Provisions for bad debts are recognised in respect of receivables, where appropriate, to reflect any difficulties in recovering the amounts outstanding.

2.5 – Deferred loan set-up costs

Loan set-up costs are amortised over the duration of the loan.

2.6 – Circumstances preventing the comparability of the financial statements

The financial period lasts for 12 months. The previous financial period lasted for 3 months.

NOTE 3: FINANCIAL ASSETS

Financial assets break down as follows (in thousands of euros):

	30 June	
	2005	**2006**
Other equity investments	256,669	2,660,424
Other investments in securities	7,823	13,983
Loans and other financial assets	–	1,472
Total gross book values	**264,492**	**2,675,879**
Less: provisions	–	–
Total carrying amount	**264,492**	**2,675,879**

The variation of the carrying amount between the beginning and end of the twelve-month period is as follows (in thousands of euros):

	Other equity investments	Other investments in securities	Loans and other financial assets	Total
Carrying amount as of 1 July 2005	256,669	7,823	–	264,492
Acquisitions	2,403,887	–		2,403,887
Revaluation	–	6,160	1,472	7,632
Disposals	132	–	–	132
Depreciation and provisions	–	–	–	–
Net carrying amount as of 30 June 2006	**2,660,424**	**13,983**	**1,472**	**2,675,879**

3.1 – Other equity investments

"Other equity investments" comprises:

— *Equity investments*

1,300,237 shares of the SatBirds Capital Participations company for an amount of € 256,788,702, including:

- 1,300,000 shares received as a consideration for the contribution by Eutelsat Communications, on 4 April 2005, of all its assets and liabilities to SatBirds Capital Participations. The value of the shares received for the contribution was € 256,656,782.
- 237 shares received as a consideration for the contribution by Eutelsat Communications, on 27 April 2006, of 51,331 shares in Eutelsat S.A. The value of the shares received for the contribution was € 131,920.
- 500 shares in SatBirds Capital acquired during the preceding period for an amount of € 12,500.
- 81,137,641 shares in Eutelsat Finance for an amount of € 811,376,410 including:
  - — 3,700 shares subscribed for when the Company was formed.
  - — 81,133,941 shares subscribed for at the time of the capital increase paid in cash on 6 December 2005.
- 103,700 shares in Eutelsat Communications Finance for an amount of € 1,051,452,048 including:
  - — 3,700 shares subscribed for when the Company was formed.
  - — 100,000 shares subscribed for at the time of the capital increase paid in cash on 19 June 2006.

— *Receivables attaching to equity investments*

The SatBirds 2 Intercompany loan purchased on 19 June 2006 at a face value of € 539,664,258 from SatBirds Finance on the occasion of the refinancing of the Group's debt, which took place on the same date, together with accrued interest of € 1,093,253.

3.2 – Other investments in securities

"Other investments in securities" comprises:

— A receivable corresponding to the issue of two convertible bonds by SatBirds Capital Participations for a total amount of € 13,700,054, together with accrued interest as of 30 June 2006 of € 242,654.

— Treasury stock held as of 30 June 2006 under a liquidity agreement for € 40,483 corresponding to 3,377 shares.

3.3 – Loans and other financial assets

"Loans and other financial assets" comprises the "cash account" related to the liquidity agreement on treasury stock of € 1,471,756.

NOTE 4: PREPAID EXPENSES AND OTHERS

"Prepaid expenses and others" is composed as follows (in thousands of euros):

	30 June	
	2005	2006
Prepaid expenses	–	7,929
Deferred loan issue costs	–	19,150
Translation adjustments	–	–
Total	**–**	**27,079**

"Prepaid expenses" of € 7,809,150 relate to the indemnity for transfer of financial instruments. The initial amount of € 7,846,000 is spread over the entire duration of the loan for which the instrument was set in place as a hedge.

Deferred loan issue costs in an initial amount of € 19,240 thousand are amortised over a 7 year period.

NOTE 5: CASH AND MARKETABLE SECURITIES

Cash and marketable securities comprise the following (in thousands of euros):

	30 June	
	2005	2006
Cash	7,682	1,166
Deposit certificates (including accrued interest)	–	30,016
Total	**7,682**	**31,182**

NOTE 6: SHAREHOLDERS' EQUITY

6.1 – Eutelsat Communications S.A

During the business year, the Company recorded the following movements:

— By decision of the Chairman dated 15 July 2005, the share capital was increased by 1,717,580 shares with a nominal value of € 1 per share, as a result of the issue of 1,717,580 stock warrants to Eutelsat S.A. senior managers.

— On 10 August 2005, the share capital was reduced by € 140,225,089 by reducing the nominal value of the shares from € 1.0 to € 0.50, in accordance with the decision taken by the shareholders on 20 July 2005. Under this decision, the amount of the capital reduction was allocated to "Additional paid-in capital".

— On 21 September 2005, there was a consolidation of shares, under which one share with a nominal value of € 1 was granted for two former shares with a nominal value of € 0.50 contributed to the consolidation exercise.

— By decision of the Extraordinary General Meeting of 6 October 2005, there was a capital increase of € 2,938,777 by issuing 2,938,777 shares with a nominal value of € 1 per share, as a consideration for contributions of receivables amounting to € 5,877,554. The difference between the capital increase and the contribution represents a share premium of € 2,938,777.

— The Board of Directors meeting of 29 November 2005, acting under a delegation from the Extraordinary General Meeting of 6 October 2005, decided to increase the share capital by € 71,666,667 by issuing 71,666,667 shares with a nominal value of € 1 per share, under an initial public offering of the Company's shares on the Eurolist market of Euronext Paris.

— On 14 December 2005, there was a capital increase of € 600,000 following the exercise of 1,200,000 stock warrants. The difference between the exercise price for the warrants and the capital increase (€ 600,000) was allocated to "Additional paid-in capital".

— On 19 December 2005, there was a capital increase of € 196,099 following a capital increase reserved for employees. The difference between the subscription price and the capital increase (€ 1,686,451) was allocated to "Additional paid-in capital".

— On 27 April 2006, there was a capital increase of € 65,960 by issuing 65,960 shares with a nominal value of € 1 per share, as a consideration for the contribution of 51,331 Eutelsat S.A. shares. The difference between the amount of the contribution and the amount of the capital increase represents a share premium of €65,960.

— The share capital at 30 June 2006 is made up as follows:

		Number			Nominal value	
	At beginning of period	Created during the period	Consolidated during the period	At end of period	At beginning of period	At end of period
Shares	278,732,598	77,185,083	(140,225,089)	215,692,592	1	1

6.2 – Other securities giving access to the 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) for managers and directors and officers (*mandataires sociaux)* of the Group within the limit of a nominal maximum capital increase (immediately or at a future date) of € 6,660,000 and 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 with the following characteristics:

— ABSA1: unit price of € 1.378

— ABSA2: unit price of € 1.54

— 2.7 BSA per ABSA

— Each BSA conferring the right to subscribe for 1 Company share.

The issue took place on 2 August 2005 and was fully paid-up in cash. The difference between the unit subscription price for the ABSAs and the nominal value was 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 following table describes movements in respect of the BSAs:

Type	BSAs issued	BSAs exercised	Shares issued	Subscription price per share in €	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**		

If outstanding stock warrants at end of period are exercised, the maximum capital increase that would result would be € 3,437,466.

NOTE 7: INDEBTEDNESS

Bank debt is denominated in euros with a duration of seven years and is on an interest-only basis (i.e. the principal is repayable at maturity). Breakdown is as follows:

	30 June	
	2005	2006
Bank debt (one year or more)	–	–
Bank debt (five years or more)	–	1,615,000
Accrued interest	–	2,087
Total	**–**	**1,617,087**

The essential features of the contract are described under “Key events during the period”.

NOTE 8: TAX AND EMPLOYEE-RELATED PAYABLE

Tax and employee-related payable are composed of the following (in thousands of euros):

	30 June	
	2005	2006
State: Accrued liabilities	–	3
VAT payable	–	131
Staff: Accrued liabilities	–	1,110
Social charges payable	–	381
	–	**1,625**

All tax and employee related payables are due within one year.

NOTE 9: COMPENSATION OF TOP MANAGEMENT

So as not to disclose individual remuneration, the compensation paid to the top managers cannot be provided.

NOTE 10: FINANCIAL RESULT

The financial result is made up as follows (in thousands of euros):

	Twelve-month period ended 30 June	
	2005	2006
Interest expense	–	(2,123)
Interest income	–	607
Income from investments	–	1,093
Foreign exchange losses	–	(6)
Realised foreign exchange gains	–	1
	–	**(428)**

NOTE 11: EXCEPTIONAL RESULT

Exceptional items break down as follows:

	Twelve-month period ended 30 June	
(In thousands of euros)	2005	2006
Carrying value of financial assets sold	–	(132)
Loss on repurchase of treasury stock	–	(65)
Proceeds from sale of financial assets	–	132
Gain on repurchase of treasury stock	–	77
	–	**12**

NOTE 12: TAX CONSOLIDATION

On 28 June 2006, the Company opted for the tax consolidation regime for the Group comprising itself and its subsidiary Eutelsat Communications Finance. This will take effect for the period beginning 1 July 2006.

NOTE 13: MARKET RISK

The Company has exposure to market risks, in particular with regard to interest rate risk. Such risks are actively managed by Management and for this purpose the Company employs a certain number of derivatives, the objective of which is to limit, where appropriate, exposure of revenue and cash flows to interest rate risk. The Company’s policy is to use derivatives to manage exposure to such risks. The Company does not engage in financial transactions whose associated risk cannot be quantified at their outset i.e. the Company never sells assets it does not possess or does not know it will subsequently possess.

The Company’s exposure to interest rate risk is managed by apportioning its borrowings between fixed and variable interest rates.

Further to the refinancing of the debt related to the acquisition of Eutelsat S.A., the Company set up the following interest rate hedges:

— A tunnel (purchase of a cap and sale of a floor) until 29 April 2008 for a nominal amount of € 1,700 million intended to hedge the Term Loan and the Revolver financing facilities.

— A forward pay fixed/receive variable swap for € 850 million and a purchase of a forward cap for a nominal amount of € 850 million to serve as a partial hedge of the Term Loan and Revolver financing facilities, both covering an additional two years (between 29 April 2008 and 29 April 2010) and with deferred start-dates.

Financial counterpart risk

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

Key figures at 30 June 2006

The following table analyses the contractual or nominal amounts and the value of the Company's derivatives at 30 June 2006 by type of contract.

(In thousands of euros)	Contractual or notional values	Value at 30 June 2006
Instrument		
Swaps	850,000	12,224
Purchase of cap	850,000	6,965
Tunnel	1,700,000	19,661
		38,849

NOTE 14: OTHER COMMITMENTS AND CONTINGENCIES

14.1 – Guarantees granted

Debt with banks has been contracted without providing collateral as security. According to the agreement, the guarantees of the lender are at least the same as for other creditors with non-guaranteed and unsubordinated debt (with the exception of preferred creditors under the law).

14.2 – Other commitments given

In accordance with the loan agreement and as mentioned under "Key events during the period" (see Note 1.2), Eutelsat Communications has undertaken to perform or not to perform certain actions. This commitment cannot be quantified.

NOTE 15: RELATED PARTY TRANSACTIONS

Related parties are defined as any third parties having a direct or indirect capital-based link with Eutelsat (subsidiaries included).

Amounts included in current assets and current liabilities, due by or owed to related parties on the balance sheet as of 30 June 2005 and 2006 are as follows (in thousands of euros):

	30 June	
	2005	2006
Gross receivables (includes unbilled revenues)	7,823	555,497
Liabilities (includes accrued invoices)	–	8,116

Current assets comprise receivables and unbilled revenues, and do not take into account the provisions for bad debts.

Transactions with related parties included in the income statements for the periods ended 30 June 2005 and 2006 are as follows (in thousands of euros):

	Period ended	
	30 June 2005	30 June 2006
Revenues:	–	1,198
Operating charges	–	718
Financial result	–	1,299

NOTE 16: FINANCIAL INFORMATION RELATED TO SUBSIDIARIES AND EQUITY INVESTMENTS

The table below presents the list of investments held by Eutelsat in subsidiaries and other companies as of 30 June 2006 (in thousands of euros):

	Capital	Other components of equity as of 30 June (local accounts)	Percentage of ownership	Revenues (local accounts)	Net income (loss) (local accounts)
SatBirds Capital (period ended 31 March 2006)	13	(19)	100%	–	(19)
SatBirds Capital Participation (period ended 31 March 2006)	3,813	847,539	68.2%	–	(216,756)
Eutelsat Finance (period ended 30 June 2006)	811,376	(22)	100%	–	(22)
Eutelsat Communications Finance (period ended 30 June 2006)	1,037	1,050,438	100%	–	(14)

The table below presents aggregated information for all investments held by Eutelsat in subsidiaries and other companies as of 30 June 2006 (in thousands of euros):

	Gross book value of the investments	Provisions on investments	Loans and advances	Commit-ments given	Dividends received
Investments in subsidiaries and other companies	2,119,667	–	–	–	–

NOTE 17: EVENTS AFTER THE BALANCE-SHEET DATE

The Company has commenced a process of simplification of the Group's structure. One of the stages that took place after the balance-sheet date is the merging of SatBirds Finance and SatBirds Capital Participations, with the latter being absorbed by SatBirds Finance.

EUTELSAT COMMUNICATIONS, S.A.
Year ended June 30, 2006

Statutory Auditors' Report on the annual financial statements and Statutory Auditors' Report on the report prepared by the Chairman in accordance with Article L 225-235 of French company law (Code de Commerce).

MAZARS & GUERARD
MAZARS

ERNST & YOUNG Audit

EUTELSAT COMMUNICATIONS, S.A.
Year ended June 30, 2006

Statutory Auditors' Report
on the annual financial statements

This is a free translation into English of the Statutory Auditors' Report issued in the French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the annual financial statements. This information 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 financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the annual financial statements. The report also includes information relating to the specific verifications of information in the management report.

This report, together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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Membre de la compagnie
régionale de Versailles

EUTELSAT COMMUNICATIONS, S.A.

Year ended June 30, 2006

(Free translation of a French language original)

STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

To the Shareholders,

In compliance with the assignment entrusted to us by your By-laws and Shareholders' Annual General Meeting, we hereby report to you, for the year ended June 30, 2006, on:

- the audit of the accompanying annual financial statements of Eutelsat Communications,
- the justification of our assessments,
- the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE ANNUAL FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2006, and the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of French Company Law *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

As described in Note 2.2 of the Notes to the annual financial statements, the Management of your Company uses estimates and assumptions to support the net book value of financial investments. Based on available information, we assessed the methods and assumptions considered by your Company to estimate the value of its investments. In the context of the justification of our assessments, we made sure of the reasonableness of these assumptions.

The assessments were thus made in the context of the performance of our audit of the annual financial statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the conformity with the annual financial statements of the information given in the Board of Directors' Report, and in the documents addressed to the Shareholders with respect to the financial position and the annual financial statements.

In accordance with French law, we have ensured that the required information concerning the names of the main shareholders have been properly disclosed in the Board of Directors' Report.

Paris and Paris-La Défense, October 12, 2006

The Statutory Auditors
French original signed by

MAZARS & GUERARD
MAZARS

Isabelle Massa

ERNST & YOUNG Audit

Jean-Yves Jégourel

Eutelsat Communications, S.A.
Year ended June 30, 2006

EUTELSAT COMMUNICATIONS, S.A.
Year ended June 30, 2006

Statutory Auditors' Report on the report prepared in accordance with Article L. 225-235 of French Company Law *(Code de commerce)* on the Report prepared by the Chairman of the Board of Directors of Eutelsat Communications, on the internal control procedures relating to the preparation and processing of the financial accounting information

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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EUTELSAT COMMUNICATIONS, S.A.

Year ended June 30, 2006

(Free translation of a French language original)

STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF FRENCH COMPANY LAW *(CODE DE COMMERCE)* ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF EUTELSAT COMMUNICATIONS ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

To the Shareholders,

In our capacity as Statutory Auditors of Eutelsat Communications and in accordance with Article L. 225-235 of French Company Law *(Code de commerce),* we report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of French Company Law *(Code de commerce)* for the year ended June 30, 2006.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organised and the internal control procedures in place within the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted in:

- obtaining an understanding of the objectives and general organisation of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of French Company Law *(Code de commerce).*

Paris and Paris-La Défense, October 12, 2006

The Statutory Auditors
French original signed by

MAZARS & GUERARD
MAZARS

Isabelle Massa

ERNST & YOUNG Audit

Jean-Yves Jégourel

Eutelsat Communications, S.A.
Year ended June 30, 2006

EUTELSAT COMMUNICATIONS, S.A.
Year ended June 30, 2006

Statutory Auditors' Report
on the Consolidated Financial Statements

This is a free translation into English of the Statutory Auditors' Report issued in the French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information 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. The report also includes information relating to the specific verifications of information in the group management report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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EUTELSAT COMMUNICATIONS, S.A.

Year ended June 30, 2006

(Free translation of a French language original)

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders,

In compliance with the assignment entrusted to us by your By-laws and Shareholders' Annual General Meeting, we have audited the accompanying Consolidated Financial Statements of Eutelsat Communications for the year ended June 30, 2006.

These Consolidated Financial Statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and results of the Consolidated Group of companies in accordance with IFRSs as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of French Company Law *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

As explained in Note 2.4 of the Notes to the Consolidated Financial Statements, the Management of your Company uses estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. The significant accounting estimates likely to require we justify our assessments are related to the following matters:

- As explained in Note 3.7 of the Notes to the Financial Statements, your Company performs an annual review of the remaining useful lives of its in-orbit satellites on the basis of both their forecasted utilisation and their technically assessed lives. We assessed the reasonableness of the assumptions underlying the forecasted utilisation.
- As explained in Note 3.8 of the Notes to the Financial Statements, the carrying values of long life assets including the satellites and equity investments are subjected to review for impairment. Your Company compares the carrying-value of these assets to their estimated recoverable value based on discounted future cash-flows. We assessed the reasonableness of the assumptions used by your Company to prepare the business plans and of the calculation of the recoverable value resulting from these assumptions.

The assessments were thus made in the context of the performance of our audit of the Consolidated Financial Statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also verified the information given in the Group Management Report.

We have no matters to report regarding its fair presentation and conformity with the Consolidated Financial Statements.

Paris and Paris-La Défense, October 12, 2006

The Statutory Auditors
French original signed by

MAZARS & GUERARD
MAZARS

Isabelle Massa

ERNST & YOUNG Audit

Jean-Yves Jégourel

Eutelsat Communications, S.A.
Year ended June 30, 2006

EUTELSAT COMMUNICATIONS S.A.
Year ended June 30, 2006

Statutory Auditors' Special Report on Regulated Agreements
(Translated from French into English)

ERNST & YOUNG AUDIT
Ernst & Young

MAZARS & GUERARD
Mazars

EUTELSAT COMMUNICATIONS S.A.
Year ended June 30, 2006

Siège Social: 70, rue Balard 75015 PARIS
Société Anonyme au capital de 215 692 592 €
N° Siret: 481 043 040 R.C.S. PARIS

Statutory Auditors' Special Report
on Regulated Agreements
(Translated from French into English)

ERNST & YOUNG AUDIT

Ernst & Young

MAZARS & GUERARD

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75012 Paris

EUTELSAT COMMUNICATIONS SA

Year ended June 30, 2006

(Translated from French into English)

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

In our capacity as statutory auditors of your company, we hereby present to you our report on the regulated agreements.

I. AGREEMENT AUTHORISED DURING THE YEAR:

In accordance with article L.225-40 of the commercial Code, we have been advised of agreements which have been previously authorised by the Board of Directors.

We are not required to ascertain whether any other agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 92 of the Decree of March, 23, 1967, to evaluate the benefits arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

1. With the companies Eutelsat Finances S.A.S. and Eutelsat Communications Finances S.A.S.

Administrator concerned: The Company Eutelsat Communications S.A.

Nature and object:

The board of directors authorised, in his meeting of June 28, 2006, a tax integration agreement with Eutelsat Finance S.A.S. and Eutelsat Communications Finances S.A.S., both held at 100% by Eutelsat Communications S.A.

Mode:

This agreement taking effect at July 1, 2006, it did not give place with execution during the fiscal year ended June 30, 2006.

2. With Chairman and CEO

Administrator concerned: Mr Giuliano BERRETTA.

Nature and object:

Following the appointment of Mr. Berretta as Chairman of the board and CEO, the Board of Directors decided to allot the benefit to him:

- of a pension plan article 39, equal to 8% of his fixed remuneration at end of career on the fixed part of his remuneration in his capacity as a corporate officer of Eutelsat Communications
- of an allowance for non-voluntary suspension of his corporate mandate.

Mode:

The pension plan article 39 is funded near an insurance company. The contribution booked for the Company rose to 24 658 euros at June 30, 2006.

The allowance which would be due by your Company following a non-voluntary suspension of the corporate mandate of the Chairman and CEO amounts to 1 000 000 euros.

Paris and Paris-La-Défense, October 12, 2006

Statutory auditors

ERNST & YOUNG Audit

Jean-Yves Jégourel

MAZARS & GUERARD

Isabelle Massa

Eutelsat Communications, S.A.
Year ended June 30, 2006

II CONTINUING AGREEMENTS WHICH WERE ENTERED IN PRIOR YEARS:

None

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