

EUTELSAT COMMUNICATIONS

**Société anonyme with a Board of Directors  
and a share capital of 220,113,982 euros  
Registered office: 70, rue Balard F-75015 Paris  
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REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS  
OF EUTELSAT COMMUNICATIONS  
IN APPLICATION OF ARTICLE L. 225-37 OF THE FRENCH *CODE DE COMMERCE*

## INDEX

1.	INTRODUCTION .....	3
2.	GOVERNANCE OF THE COMPANY .....	3
	Corporate governance.....	3
	Absence of concerted action or control.....	3
	Separation of the functions of Chairman and CEO.....	3
	Change in the composition of the Board of Directors.....	4
	Independent directors.....	4
	Employee representation on the Board of Directors.....	5
	Mission of the Board of Directors .....	5
	Committees of the Board of Directors.....	6
	Board meetings and information communicated to the Board of Directors .....	7
	Conflicts of interest and regulated agreements .....	8
	Principles and rules for determining compensation and benefits granted to the directors and corporate officers .....	8
	Evaluation of the Board of Directors.....	8
	Other information concerning the members of the Board of Directors .....	8
	Board members resigning during the year .....	8
	Grant of stock options or free shares to Directors and corporate officers (mandataires sociaux) .....	9
	Conditions for admittance to and participation in General Meetings of Shareholders.....	9
	Factors likely to have an incidence in the event of a public offering.....	9
3.	MANAGEMENT OF THE EUTELSAT GROUP .....	9
4.	Internal control procedures .....	10
	Procedures related to the satellite fleet and its operation .....	10
	Protecting the integrity of the satellite fleet .....	10
	IT security and certification of the satellite control system.....	11
	Managing and preventing the Group's other operating risks.....	11
	The Company's business continuity plan (PCA) .....	11
	Information systems security .....	12
	Handling of accounting and financial information .....	12
	Controlling the actions of the subsidiaries which manage the Group's equity interests.....	12
	Controlling the actions of the operating subsidiaries.....	12
	Preparing the consolidated financial statements.....	13
	Delegations of authority and signature .....	13
	Management and follow-up of the Group's contracts with suppliers.....	13
	Management and follow-up of contracts with customers .....	13
	Management of customer risk.....	13
	Purchasing procedures .....	14
	Addressing the Group's principal financial risks .....	14
5.	RISK MANAGEMENT POLICY.....	15

Dear Shareholders,

In accordance with article L.225-37 of the French *Code de Commerce*, this report provides information on the preparation and organisation of the work carried out by the Board of Directors of Eutelsat Communications during the financial year ended 30 June 2011, and on the internal control and risk management procedures implemented by the Eutelsat Group.

For the purposes of this report, please note that “**Company**” means Eutelsat Communications and that “**Group**” or “**Eutelsat Group**” means Eutelsat Communications and all companies controlled by it within the meaning of article L. 233-3 of the French *Code de Commerce*.

## **1. INTRODUCTION**

With the support of its three committees, namely the Strategy and Investments Committee, the Audit Committee and the Governance, Selection and Remuneration Committee, the Board continued its close involvement in preparing the decisions to be taken by the Board of Directors in respect of the Company’s strategic and financial orientations. In parallel, the Group continued to reinforce and improve its risk management and internal control practices, not least due to the marked development of its technical and operational activities.

## **2. GOVERNANCE OF THE COMPANY**

### **Corporate governance**

The Company complies with the guidelines of the AFEP-MEDEF Code of Corporate Governance of April 2010 (hereinafter the “Code de Reference”). Where there are points of divergence between the Company’s practice and the recommendations of the Code of Reference, they are mentioned in the relevant paragraphs of this document.

### **Absence of concerted action or control**

The Company’s IPO took place on 2 December 2005. As of that date, no shareholder of the Company, whether directly or indirectly, by itself or with others, exercised control within the meaning of article L. 233.3 of the French *Code de Commerce*.

To the Company’s knowledge, this situation has not been altered by the changes in the make-up of the Company’s share capital over this and previous financial years.

The major shareholders of our Group are represented on the Company’s Board of Directors. These are Abertis Telecom, with 31.36% of the share capital, and the Fonds Stratégique d’Investissement (“FSI”) with 25.62% of the share capital as of 30 June 2011.

To the Company’s knowledge, as of 30 June 2011, no shareholder of our Company, whether directly or indirectly, by itself or with others, exercised control within the meaning of articles L. 233.3 and following of the French *Code de Commerce*.

Pursuant to the new legal and regulatory provisions regarding the mandatory filing of a public offer on a regulated market, Abertis Telecom filed a declaration on 10 February 2011 with the AMF invoking the grandfather clause enabling holders, at 1 January 2010, of a stake of between 30% and one third of the share capital or voting rights of a company listed on the NYSE Euronext regulated market in Paris to continue to benefit from the former threshold of one third in perpetuity.

### **Separation of the functions of Chairman and CEO**

Note that, in accordance with the legal and regulatory provisions (articles L. 225-51-1, R. 225-26 and R. 225-27 of the Code of Commerce), the Board of Directors decided at its meeting of 10 November 2009 to separate the functions of Chairman of the Board and Chief Executive Officer.

Accordingly, Mr. Michel de Rosen became Chief Executive Officer of the Company, Mr. Giuliano Berretta being Chairman of the Board of Directors until the expiry of his term of office as a Board member.

## Change in the composition of the Board of Directors

The composition of the Board of Directors changed during the financial year the co-opting (i) of the Fonds Stratégique d'Investissement ("FSI") represented by Mr. Thomas Devedjian (Board meeting of 17 February 2011) in replacement of CDC Infrastructure which resigned from the Board having transferred all of its shareholding in the Company to the FSI during the previous financial year and (ii) of the company Abertis Telecom represented by Mrs. Marta Casas Caba (Board meeting of 27 May 2011) in replacement of Mr. Carlos Espinós Gómez, who resigned from the Board following his appointment as Chief Executive Officer of Hispasat S.A. during the financial year.

The composition of the Board of Directors at 30 June 2011 is shown in the table below.

Name	Date appointed/co-opted	End of term of office
Giuliano Berretta	31/08/2005	OGM approving the financial statements for the financial year to 30 June 2011
Michel de Rosen	10/11/2009	OGM approving the financial statements for the financial year to 30 June 2015
Jean-Luc Archambault	10/05/2007	OGM approving the financial statements for the financial year to 30 June 2011
Bertrand Mabile	10/05/2007	OGM approving the financial statements for the financial year to 30 June 2011
FSI, represented by Mr. Thomas Devedjian	17/02/2011	OGM approving the financial statements for the financial year to 30 June 2011
Francisco Reynes	22/06/2010	OGM approving the financial statements for the financial year to 30 June 2011
Tobías Martínez Gimeno	23/01/2007	OGM approving the financial statements for the financial year to 30 June 2011
Andrea Luminari	23/01/2007	OGM approving the financial statements for the financial year to 30 June 2011
Abertis Telecom represented by Mrs. Marta Casas Caba	27/05/2011	OGM approving the financial statements for the financial year to 30 June 2011
Lord John Birt	10/11/2006	OGM approving the financial statements for the financial year to 30 June 2012
Olivier Rozenfeld	09/11/2010	OGM approving the financial statements for the financial year to 30 June 2016
Carole Piwnica	09/11/2010	OGM approving the financial statements for the financial year to 30 June 2016

Note that, in application of the Company's Bylaws and the Letter-Agreement between the Company and Eutelsat IGO, the Executive Secretary of Eutelsat IGO sits on the Board of Directors as an observer (*censeur*).

## Independent directors

The Board of Directors currently comprises three independent Board members, namely Mrs. Carole Piwnica, Lord Birt and Mr. Olivier Rozenfeld. The criteria defining independence adopted by your Board are those recommended in the Code of Reference which stipulates that a Board member is independent when he or she has no relationship of any nature whatsoever with the Company, its Group or Management that would be such as to affect the director's judgement.

The Board considers that its composition, given the presence throughout the financial year of independent directors alongside directors exercising management functions within the Group or representing major shareholders, constitutes a factor of sound governance, even if Board members deemed to be independent do not yet make up one third of the Board recommended by the Code of Reference.

### **Employee representation on the Board of Directors**

As part of a policy aimed at improving communication between the Group's management and employees, the Company entered into an agreement with its operating subsidiary Eutelsat S.A and the Eutelsat S.A. works' council on 8 November 2007. This agreement is designed to give the works' council of Eutelsat S.A., and hence all Eutelsat S.A. employees, greater visibility over the Company's operations and decisions.

In addition to the implementation of a procedure to inform the Eutelsat S.A. works council when operations are undertaken by the Company that are likely to affect the operations or the scope of activity of our operating subsidiary Eutelsat S.A., the two Eutelsat S.A. works council representatives on the Board of Directors of Eutelsat S.A. are invited to attend meetings of the Board of Directors of the Company, with access to the same information as the directors.

### **Mission of the Board of Directors**

The Board of Directors is responsible for orienting the Company's business activities and ensuring that this framework is properly implemented, more specifically as provided for in article L.225.35 of the French *Code de Commerce*. Subject to the powers expressly reserved for General Meetings of Shareholders, the Board of Directors can examine any question that affects the sound operation of the Company or the Eutelsat Group.

Over and above the powers provided by law and in application of the Board's Internal Regulations, a number of strategic decisions or undertakings require the prior approval of the Board of Directors, thereby limiting the powers of the Chief Executive Officer.

These decisions can be grouped under the following headings:

**Operations affecting the Company:** Any operation that results in a significant change in the Company's capital or a proposed modification of the Company's Bylaws is subject to prior approval by the Board of Directors. Any offer to purchase external companies, payment for which is in Company shares, any use of Company shares in the framework of an acquisition, or publication of any prospectus or document destined for perusal by current or potential investors, is also subject to the approval of the Board of Directors.

**Strategic operations:** The Strategic Plan aims to establish the Group's strategic objectives and define the resources required to achieve those objectives, together with the Group's financial and business activity forecasts.

The Group's Five-Year Strategic Plan, as well as any acquisition of shares in another company or any operations or mergers with a substantial effect on the Company's structure or strategy, is subject to prior approval by the Board of Directors. This also applies to any investment in the capital of another company amounting to more than 50 million euros, or more than 25 million euros if the relevant investment operation is not included in the Five-Year Strategic Plan or the Annual Investment Plan.

The Strategic Plan for the period from the 2011-2012 financial year to the 2015-16 financial year was approved by the Board of Directors meeting of 22 June 2011.

**Financial commitments and investments:** The Group's consolidated Annual Budget which establishes the financial and budgetary objectives for the coming year and which is included in the Strategic Plan is subject to prior approval by the Board of Directors at the beginning of each financial year. Similarly, all capital expenditure in excess of 50 million euros, if the relevant operation is included in the Group's Annual Budget or in its Strategic Plan (or in excess of 25 million euros if not included in the Annual Budget) is subject to prior approval by the Board of Directors.

The Group's consolidated Annual Budget is reviewed by the Board during the last quarter of the relevant financial year. The Annual Budget for the 2011-12 financial year was approved by the Board on 27 May 2011.

Exhaustive documentation is prepared by the Management on any decisions to commit to capital expenditure and particularly investments relating to the satellite fleet or to external growth transactions. These dossiers are then reviewed in detail by the Strategy and Investments Committee followed by the Board of Directors, which evaluates the opportunity and determines whether the proposed capital expenditure is in line with the Group's strategic objectives. Note that proposed capital expenditure is also an integral part of the Group's consolidated Annual Budget reviewed by the Board of Directors in the normal course of its business.

During the financial year, the Board thus decided to procure the W3D and EUROIRD™ 9B satellites and approved the Management's choice of the launchers Ariane, Sea Launch Limited Partnership and ILS.

Prior approval by the Board is also required for any loan, credit facility or financing or refinancing agreement that is not expressly included in the Annual Budget and results in an increase in the Group's indebtedness of more than 50 million euros. The same applies to any decision to dispose of or loan assets of the Company (excluding capacity lease agreements) or any other form of transfer of assets in excess of 50 million euros that is not expressly included in the Group's Annual Budget.

**Half-yearly and annual financial statements:** The half-yearly and annual consolidated financial statements are closed by the Board of Directors and submitted to the General Meeting of Shareholders for approval, as is the selection and submission of the list of statutory Auditors to be appointed, renewed or dismissed.

Furthermore, pursuant to article L.232.2 of the French *Code of Commerce*, the Board of Directors approves the Management planning documents for the Company no later than October and April of each year.

**Group General Management:** The prior approval of the Board of Directors is required before a Manager whose remuneration is amongst the six highest compensation packages in the Group can be recruited or dismissed.

**Monitoring the Group's business activities:** Management submits to the Board a comprehensive quarterly report on the Group's operations, which includes the Group's results and financial indicators (revenues by application, summary income statement, situation regarding indebtedness, cash flow and costs, etc.) to enable the Board to gain a proper understanding of how the business has evolved, particularly at a technical or commercial level, and of budget follow-up. Management also provides the Board with a simplified monthly activity report.

**Other matters:** Pursuant to its Bylaws and Internal Regulations, the Board of Directors is informed, notably, whenever any statutory thresholds are exceeded. This information is also brought to the attention of Eutelsat IGO in application of the Letter-Agreement of September 2005.

### **Committees of the Board of Directors**

The Board of Directors decided to establish three committees to advise the Board in their respective areas of responsibility: the Audit Committee, the Governance, Selection and Remuneration Committee and the Strategy and Investments Committee. The missions of the three committees were determined by the Board at its meeting of 9 November 2010.

#### **Governance, Selection and Remuneration Committee**

This Committee is mainly responsible for studying and providing recommendations to the Board as appropriate on (i) the remuneration of the CEO and the Deputy CEO, (ii) the introduction of stock-option plans or plans for the purchase or the free allocation of shares within the Group, (iii) the allocation of attendance fees to members of the Board, (iv) the co-opting of new Board members in the event of vacancies, and (v) the recruitment or dismissal of any employee whose remuneration is amongst the six highest compensation packages in the Group.

As of 30 June 2011, the Governance, Selection and Remuneration Committee comprised Messrs. Thomas Devedjian, Francisco Reynes, Lord Birt and Mrs. Carole Piwnica, who has chaired the Committee since 17 January 2011.

The Secretary of the Committee is Mr. Izy Béhar, the Group's Director of Human Resources.

The Committee met 10 times during the financial year, with an attendance rate for Committee members of more than 94%.

The Governance, Selection and Remuneration Committee was very active during the year, especially in three areas:

- The Committee reviewed the co-opting of new Board members following the resignations of CDC infrastructure and Mr Carlos Espinós Gómez and submitted its recommendations to the Board of Directors which subsequently adopted them;
- The Committee was informed of the audit conducted by the Legal Department on the implementation of the recommendations of the Code of Reference and of the AMF on 3 November 2010 on the prevention of insider trading. This audit has enabled the Committee to carry out a review that remains ongoing regarding potential changes to the Board's Internal Regulations to comply with these recommendations;
- The Committee reviewed the implementation of recommendations aimed at the equal representation of men and women within the Board in order to reach the recommended 20% proportion of women Board members by April 2013 (although the law requires this proportion to be respected only from November 2014).

#### **Strategy and Investments Committee**

In the course of its work, the Strategy and Investments Committee's main task was to oversee the preparation of the Group's 2011-2016 Strategic Plan and of the Group's consolidated Annual Budget for 2011-2012, in liaison with the Audit Committee, as well as review plans to invest in four new satellites (W3D, Newsat, EUROIRD™9B and W4A).

As of 30 June 2011, the Strategy and Investments Committee comprised Mr. Giuliano Berretta, Lord Birt and Messrs. Michel de Rosen, Bertrand Mabile and Tobias Martinez Gimeno.

The Secretary to the Committee is Mr. Jean-Paul Brillaud, Deputy Chief Executive Officer.

The Committee met 10 times during the financial year with the attendance rate for members standing at above 90%.

### **Audit Committee**

The task of the Audit Committee is to assist the Board of Directors by (i) reviewing the Company's draft half-year and full-year financial statements (company and consolidated accounts), (ii) making recommendations on the draft consolidated Annual Budget proposed by the Management, prior to its examination by the Board, (iii) making recommendations to the Management of the Company and to the Board of Directors on the principles and methods for ensuring the production of accounting and financial information that is true and sincere, (iv) making sure that the internal controls applied within the Group are properly implemented, and (v) presenting recommendations to the Board and to Management on the appropriate method of handling any risk likely to affect the Group's operations.

As of 30 June 2011, the Audit Committee comprised Messrs. Jean-Luc Archambault, and Andrea Luminari together with two independent directors, Mrs. Carole Piwnica and Mr. Olivier Rozenfeld, the latter chairing the Committee and also meeting the independence and competence criteria established by the Code de Commerce. Lord Birt resigned from the Audit Committee during the financial year.

The Group's Chief Financial Officer attended all the Audit Committee meetings. Secretarial services to the Committee are provided by the General Counsel and Secretary-General.

The Committee met seven times during the financial year with all its members attending virtually every meeting.

The work of the Audit Committee is concentrated predominantly on the second half of the financial year, mainly due to the review of the half-year accounts in February and the cycle for the preparation of the consolidated draft budget by the Group's financial department which begins in March so as to be submitted for Board approval before the financial statements are closed.

During the performance of its tasks, the Audit Committee was also engaged in regular dialogue with the Company's statutory Auditors. The statutory auditors attend Audit Committee meetings when half-year and full-year financial statements are being prepared, prior to their closing by the Board of Directors. Pursuant to the legal provisions (article L 823-19 of the French *Code de Commerce*), the Audit Committee issues a recommendation to the Board on the choice of statutory auditors whose appointment or reappointment will be proposed to the General Meeting of Shareholders approving the accounts for the financial year ended 30 June, 2011

Following the creation of the Risk Management function, the Audit Committee has engaged in regular dialogue with the Director of Risk Management in relation to the latter's professional engagement and has drawn up his yearly work schedule. A presentation of the risks associated with the orbital positions was also made to the Audit Committee.

Lastly, the Audit Committee also reviewed the work plan for the Internal Audit function during the financial year, as well as the objectives being pursued.

### **Board meetings and information communicated to the Board of Directors**

The Board of Directors meets as often as the interests of the Company or the Group require.

The Board of Directors met 10 times during the financial year.

The attendance rate for Board members at meetings held during the financial year stood at 95%.

Except in the event of an emergency, invitations to attend meetings of the Board of Directors are sent out to Board members at least five days before the meeting concerned.

In accordance with the relevant provisions of the Board of Directors' Internal Regulations and the recommendations approved during the financial year, notably with a view to introducing a single format for documentation submitted, documents for the Board of Directors are sent to its members at least five days before the Board meetings take place.

For an emergency meeting of the Board, documents are sent out in a shorter timeframe.

Also, in order to provide Board Members with a better knowledge of the Group's operations and business activities, the Chief Executive Officer gives a regular status report to the Board on the activities of all the Group's departments during the period leading up to the meeting, and on on-going projects in those departments.

### **Conflicts of interest and regulated agreements**

As of 30 June 2011, apart from the employment contract between Eutelsat S.A. and Eutelsat Italia S.r.l., of which Mr Giuliano Berretta is an employee, there is no employment or service contract between the other Directors of the Company and any of its subsidiaries providing for the grant of benefits of any kind.

Note that, during the last financial year, we continued to apply the tax consolidation and so-called "management fees" concluded during previous financial years in compliance with the provisions of article L. 225-38 of the French *Code de Commerce* on regulated agreements.

For further information, please see Section 10.4 of the Company's Management Report.

### **Principles and rules for determining compensation and benefits granted to the directors and corporate officers**

The fixed and variable components of compensation as well as the allocation of free shares and benefits in kind received by the Company's CEO and Deputy CEO are determined by the Board of Directors on the basis of recommendations made by the Governance, Selection and Remuneration Committee.

The variable component of the Chief Executive Officer's compensation is determined on the basis of financial performance objectives linked mainly to predetermined, qualitative financial and operating performance criteria for the Group. For confidentiality reasons, precise quantitative objectives have been established which may not be made public. This variable component is awarded at the beginning of a year with reference to the previous financial year.

Mr. Jean-Paul Brillard's (Deputy Chief Executive Officer) right to a defined benefits pension scheme is subject to his employment by the Group at the time of retirement.

For all the various plans, the allocation of free shares to the CEO and to the Deputy CEO is conditional upon their working for the Group and also upon the attainment of financial performance targets, as well as qualitative criteria. During the financial year ending 30 June 2011, there were no free shares and/stock subscription options granted by the Company to the benefit of its senior executives

### **Evaluation of the Board of Directors**

In June 2010, the Board of Directors carried out a formal evaluation of its mode of functioning which had led to the appointment of new independent Board members by the General Meeting of Shareholders of 9 November 2010. In view of these latest appointments, the evaluation of the Board was postponed for a few months so that it could take place over a longer period.

### **Other information concerning the members of the Board of Directors**

As of 30 June 2011, the Board of Directors comprised twelve members, of whom three are independent. During the financial year, two Board members were co-opted: the Fonds Stratégique d'Investissement ("FSI"), represented by Mr. Thomas Devedjian, to replace CDC Infrastructure which resigned from the Board and Abertis Telecom, represented by Mrs. Marta Casas Caba, to replace Mr. Carlos Espinós Gómez following his resignation from the Board.

Each member of the Board of Directors is appointed for a six-year term of office and may be re-elected for a further term. In view of the structure of the shareholder base, the Board of Directors has, to date, not decided to reduce the duration of Board member' terms of office to four years or proceed to stagger the expiry of mandates as recommended by the Code of Reference.

### **Board members resigning during the year**

The company CDC Infrastructure resigned from the Board on 17 February 2011 due to the transfer of all CDC Infrastructure's holding in the Company to the Fonds Stratégique d'Investissement during the previous financial year. CDC Infrastructure had been represented within the Company's Board by Mr. Jean Bensaïd.

Mr. Thomas Devedjian was appointed permanent representative of the Fonds Stratégique d'Investissement, having been co-opted to the Board following the resignation of CDC Infrastructure.

Carlos Espinós Gómez, a Spanish national, resigned as a member of the Company's Board on 27 May 2011 due to his appointment as Chief Executive Officer of Hispasat S.A.

#### **Observer (censeur)**

Furthermore, Mr Roisse, Executive Secretary of Eutelsat IGO, sitting as an Observer (censeur) on the Company's Board of Directors, also sits in the same capacity on the Eutelsat S.A. Board.

#### **Grant of stock options or free shares to Directors and corporate officers (mandataires sociaux)**

No new stock-option or stock-purchase plans were put in place by the Board during the financial year ended 30 June 2011.

Note, however, that the Free Share Allocation Plan dated 25 July 2007 matured during the financial year ended 30 June 2010. As a result, the Board of Directors meeting on 29 July 2009 vested Mr Giuliano Berretta, in his capacity as Chairman and CEO, with a total of 76,431 shares, and Mr Jean-Paul Brillaud, Deputy CEO, with a total of 25,991 shares. Pursuant to article L.225-197 of the French *Code de Commerce*, these shares will not be available until the expiry of an additional lock-in period of two years.

Furthermore, in a decision dated 1 February 2010, the Board of Directors set up a Long Term Incentive Programme (LTIP) for staff and management, including the Group's directors and corporate officers, involving a maximum of 700,000 shares. The vesting period was fixed at three years, expiring on 2 February 2013. Shares will be definitely acquired if performance objectives have been met during the three-year period and the beneficiary is still working for the Group. To be definitively acquired, these shares must also be held for an additional two-year period. Under this Plan, Mr. de Rosen, CEO, is entitled to a maximum of 66,952 free shares and Mr. Jean-Paul Brillaud, Deputy CEO, to a maximum of 36,122 free shares.

#### **Conditions for admittance to and participation in General Meetings of Shareholders**

Note that the Group, there are no pre-emptive shares and no shares with double voting rights attached. The resolutions for General Meetings of Shareholders are approved on the basis of the conditions for majority and quorum provided for under existing legislation and according to the one-share / one-vote principle.

Conditions for taking part in General Meetings of Shareholders are set out in article 21 of the Company's Bylaws, as updated by the the Board of Directors' decision dated 30 July 2009.

In accordance with the recommendations in the Code of Reference, Board members are invited to participate in General Meetings of Shareholders.

#### **Factors likely to have an incidence in the event of a public offering**

To the Company's knowledge, there are no provisions aimed at delaying, deferring or preventing a change of control.

There are no clauses in agreements foreseeing preferential conditions for the sale or acquisition of shares.

To the Company's knowledge, there are no shareholder pacts in existence.

### **3. MANAGEMENT OF THE EUTELSAT GROUP**

Mr. Michel de Rosen fulfils the office of Chief Executive Officer (and Board member) and is assisted by Mr. Jean-Paul Brillaud as Deputy Chief Executive Officer.

At Eutelsat S.A., the Group's principal operating company, the Management is assisted by (i) a newly-created Executive Committee comprising the CEO, the Deputy CEO, the Chief Financial Officer, the Chief Technical Officer and the Chief Commercial Officer, and ii) a Management Committee comprising the main corporate officers in the following departments: Sales, Finance, Legal, Human resources, Multimedia Products, Operations, Technical, Engineering, Mission and Programme Coordination, Strategy, Risk Management and Resource Management.

#### **4. INTERNAL CONTROL PROCEDURES**

Internal control is a Company process supervised and applied separately from the concept of risk management. It is defined and implemented under the responsibility of the internal audit function to ensure:

- compliance with laws and regulations;
- application of instructions and guidelines set up by Management;
- the proper functioning of the Company's internal procedures, particularly those which help safeguard its assets;
- the reliability of the Company's financial information;

and, in general terms, it contributes to the Company's command of its business activities, the efficacy of its operations and the efficient use of its resources.

This report on the internal control and risk management procedures implemented by the Company is based on the Code of Reference, supplemented by the application guide established by the *Autorité des marchés financiers* (AMF – French market regulator) as published in its recommendation dated 22 July 2010.

The Company has taken steps to adapt its internal control mechanism to the AMF's frame of reference and this process is continuing. The importance given to internal control will be reflected during the next financial year by the creation of a larger team dedicated to internal audit and control.

It is important to make a distinction between internal control procedures designed to ensure the security of the Group's operating activities, i.e. procedures related to the management of satellite risks and other Group risks on the one hand, and internal control procedures related to the preparation of accounting and financial information (in compliance with the applicable regulations) concerning the business activity of the Company and its subsidiaries on the other hand.

The Company's role is to provide financial and strategic steering for the Eutelsat Group. The operating activities of the Group, and especially its satellite-related activities, are carried out by Eutelsat S.A. The operating procedures described below are the procedures implemented at Eutelsat S.A. and its subsidiaries.

##### **Procedures related to the satellite fleet and its operation**

###### *Protecting the integrity of the satellite fleet*

The purpose here is to ensure continuity for the telecommunications service provided to our customers and end-users.

Administration and control of the satellite system is the responsibility of the Operations Department, which is in charge of controlling the satellites and the quality of the signals the satellites receive and broadcast.

These activities are carried out from Eutelsat S.A.'s two control centres. These have back-up facilities to guard against any operational unavailability or interruption affecting the centres. Exercises are regularly carried out involving evacuation of the main control centre and recovery by the back-up facilities.

These control centres ensure that the satellites are protected, in line with the recommendations and technical procedures applicable to the various satellites, and that the signal's operational continuity is maintained so as to meet the requirements of the Group's customers.

Operational procedures for the control centres, and especially the control centre responsible for the satellite fleet, exist in written form and cover manoeuvres and configuration changes needed in a nominal situation as well as in a crisis situation or where a technical incident occurs. Procedures are periodically reviewed, tested and activated to ensure *inter alia* that the controlling staff are kept continuously up-to-date.

Any incident affecting a satellite or one of the transmitted signals (e.g. a technical failure or signal interruption) is dealt with internally by the Operations Department according to escalation procedures. These procedures provide for internal expertise to be available immediately as well as the expertise of the satellite manufacturers where necessary. All incidents affecting either one of the satellites or the control system are properly logged and followed up under the authority of the person responsible for satellite operations with the aim of identifying the causes of the incident and proposing and implementing the necessary corrective measures.

In addition, any material incident likely to affect the quality or continuity of the telecommunications service is:

- communicated to the Group's Management,
- reviewed internally by Eutelsat S.A.'s technical experts,
- where appropriate, also reviewed by a panel of independent experts, depending on the nature of the incidents having occurred,
- where appropriate, reported in a press release.

#### *IT security and certification of the satellite control system*

The introduction of measures designed to strengthen IT security for the information systems used for satellite control continued during the year. The work is coordinated by the manager specifically in charge of the security of the Eutelsat S.A.'s information systems and the person with specific responsibility for IT security in the Operations Department. This includes *inter alia* the installation of biometric devices for the work stations used for satellite control. Other measures are under way to pursue improvements in the security of the IT systems and data networks used in controlling the satellites.

The satellite control team is seeking to obtain a security certification (ISO 27001) by the summer of 2011.

Certification of satellite control activities under ISO 9001 was obtained in 2005 and renewed in June 2008 and April 2011. The certification covers control and operation of the satellites, satellite launch and orbit operations, and the satellite ground control system (definition, development, procurement, deployment, operation and maintenance)

A quality control system based on ISO 9001, covering the Operations Department activities at the Rambouillet Teleport, is currently being set up. The activities concerned are those relating to the communications control centre, the radiofrequency systems and the Teleport's technical infrastructures. The Company expects to achieve certification for these activities by the summer of 2011.

### **Managing and preventing the Group's other operating risks**

#### *The Company's business continuity plan (PCA)*

The continuity plan defines the following:

- Mapping of critical processes and the targets for their recovery. Mapping is derived from an analysis of the impact on job / task performance in various crisis scenarios;
- Crisis management procedures (logistics, external and internal communications, decision-making process);
- Procedures describing the necessary tasks to be performed at the back-up site;
- The back-up information system (applications, systems and network infrastructure, telephony);
- Procedures describing emergency actions to be conducted in a crisis scenario;
- The necessary logistics for activating the plan (back-up positions for users, rooms with technical facilities to accommodate the back-up infrastructure).

At the beginning of 2006, Eutelsat S.A. launched a continuity plan for its activities (PCA) aimed at reducing the strategic, economic and financial risks in the event of prolonged unavailability of its registered office located at 70, rue Balard 75015 Paris.

Under the responsibility of the Information Systems Department, this project seeks to define the conditions for on the continuity of the commercial, financial and administrative, legal, corporate communications, information systems management and human resources activities.

Activities directly linked to managing the satellite fleet (notably satellite and communications control centre activities) are not currently included as they are already covered by specific security procedures, as described below.

During 2009 and 2010 full-scale tests of the continuity plan were organised at the back-up site in the presence of the staff concerned by the resumption of the most critical processes (i.e. those required to resume as of the first day after the plan is activated and within a maximum two-week period) confirming the effective functioning of the business continuity plan as a whole. This plan and the related procedures are regularly updated.

During the last financial year, two tests of the emergency IT infrastructure were carried out at the back-up site. All the IT and telecommunications resources required for the resumption of the critical processes were tested and validated.

### *Information systems security*

The desire to address the operating risks related to the security of the Eutelsat S.A.'s information systems can be seen in the position created in January 2007 for an Information Systems Security Manager. This cross-department role covers all the information systems at Eutelsat S.A.: operation of the management IT and terrestrial networks needed for corporate activities and for satellite control.

The objectives of this function at Eutelsat are as follows:

- Map the risks related to information systems' security and assess their impact for the Company's operation;
- Introduce a policy and a set of standards adapted to the Company's security requirements;
- Draw up an action plan and lead a cross-department security committee in charge of monitoring its implementation;
- Evaluate the protective measures in place in the organisational and technical areas;
- Introduce and subsequently take up the position of IT and Freedoms Correspondent for the CNIL (*Commission Nationale de l'Informatique et des Libertés*) with a view to reducing some administrative formalities and ensuring proper application of the IT and Freedoms Act.

The following measures were undertaken during the 2010-11 financial year:

- The implementation of a secure messaging system with the ability to quantify and sign for emails and attachments ;
- Completion of an awareness campaign for all Eutelsat employees, highlighting IT security issues and associated good practices to be applied.
- The launch of an audit on IT security to verify the proper application of the measures figuring in the security standards and, as appropriate, to carry out the required corrective measures.

### **Handling of accounting and financial information**

As well as establishing internal control procedures for its main business activity, the Group has significantly developed control procedures for the handling of accounting and financial information, both for its operating subsidiaries and for its subsidiaries which manage its equity interests.

Monthly reporting procedures are in place under the supervision of the Deputy CEO. This reporting takes account of information on the Group's activities as provided by the operational departments of Eutelsat S.A. (Commercial Department, Multimedia Department, etc.) after due reconciliation with the relevant bookkeeping and legal documentation.

This being the case, all services provided by Eutelsat S.A. comply with the control procedures defined by Eutelsat S.A.

### *Controlling the actions of the subsidiaries which manage the Group's equity interests*

Having streamlined the Group's structures during the 2008-2009 financial year, the Company now holds, directly or indirectly, over 96% of Eutelsat S.A., the Group's principal operating company, via Eutelsat Communications Finance S.A.S. (a fully-owned subsidiary of Eutelsat Communications).

Control of the undertakings and actions of Eutelsat Communications Finance is essentially based on the applicable legal provisions and Bylaws. Its legal form is that of a simplified stock corporation incorporated under French law. The sole Chairman of this subsidiary is Eutelsat S.A.'s Legal Counsel.

Pursuant to the Bylaws, there is no limit to the powers of the sole Chairman, with the exception of those subjects reserved by law to the sole shareholder, namely *in fine* the Management of Eutelsat Communications. Any decision or any projected modification of the Bylaws, increase in capital, merger and/or transformation constitute matters that have to be dealt with by the Management of Eutelsat Communications.

### *Controlling the actions of the operating subsidiaries*

To reinforce visibility over the activities of Eutelsat S.A.'s subsidiaries, the Company's Management has created a "Subsidiaries Committee", which reports directly to the Deputy CEO and comprises members of management, the legal expert responsible for the subsidiaries, the tax manager and the internal auditor. The Committee provides increased supervision of the subsidiaries' activities and ensures that the Group procedures are being duly applied.

The Subsidiaries Committee meets twice a year.

#### *Preparing the consolidated financial statements*

At each monthly close, the financial data of each Eutelsat subsidiary is reviewed by the consolidation and reporting manager to verify that the accounting policy and methods currently in force within the Group are being correctly applied.

In addition, each time the books are closed (full-year and half-year), the Board of Directors meets to examine and approve the financial statements in the presence of the Eutelsat Communications' statutory Auditors.

As part of their audit at each close, the Eutelsat Communications' statutory Auditors ensure that the accounting principles and procedures outlined in the consolidation manual and applied by the Company are appropriate, and that the accounts approved by the Board of Directors give a true and fair view of the financial position and business activity of the Company and the Eutelsat Group.

To further Management responsibility and the control of financial data for all companies in the Group, the Company uses a consolidation and reporting system, guaranteeing:

- that there is a single point of provenance, managed in a communal database, for the information used for the legal consolidation and for the reporting process,
- that validation of the legal data by the Managers in the Group's companies is recorded in the application and stored.

#### *Delegations of authority and signature*

Theoretically, all contracts and documents embodying a commitment for the Company are submitted for signature by the CEO or by the Deputy CEO. In a number of specific cases, however, such as contracts with suppliers involving small amounts, delegations of signature have been authorised by the CEO to certain persons in the Group. The delegations of signature are prepared by the office of the General Counsel, which ensures that they are properly followed up. The CEO and also the Deputy CEO are authorised to sign all expenditure commitments with no limit on the amount involved or on the nature of the expense, provided legal requirements and requirements under the Company's Internal Regulations are satisfied.

#### *Management and follow-up of the Group's contracts with suppliers*

As with the Group's other contracts, preparation, negotiation and follow-up of the Company's supplier contracts and financing contracts is the task of Eutelsat S.A. under the service agreement between the Company and Eutelsat S.A. Before they are signed, contracts with suppliers are examined under a procedure that requires endorsement by the relevant Directors, followed by formal approval by the CEO, by the Deputy CEO or by the Directors to whom the CEO has delegated his signature.

Financing contracts are approved by the Board in accordance with the Board's Internal Regulations.

#### *Management and follow-up of contracts with customers*

The Group's contracts with customers are signed by Eutelsat S.A. or its subsidiaries on the basis of standard models prepared by the office of the General Counsel and the Commercial Department of Eutelsat S.A.

Any change to this standard format is examined in advance by the office of Eutelsat S.A.'s General Counsel before the contracts are signed by those with authority to do so.

The Commercial Director of Eutelsat S.A. has authority to sign sales agreements for up to 300,000 euros per year only. Where sales agreements are for amounts between 300,000 and 600,000 euros per year, the signature of the General Counsel is also required. For agreements with amounts exceeding 600,000 euros per year, only the CEO (or the Deputy CEO) is authorised to sign.

The Director of the Multimedia Department is authorised to sign Multimedia services sales contracts for up to 1,000,000 euros. Above this figure, such contracts have to be signed by the CEO (or Deputy CEO).

The processes leading up to the signature of capacity allotment agreements are complex and they result in billing the customers. During each financial year, the sales cycle, which the Management of the Group deems to be one of the key processes, is thoroughly audited. The objectives of these recurring annual audits, which are carried out internally, are to assess the relevance of the internal procedures in place. On the basis of the findings of these audits, appropriate modifications are made to the internal procedures to reinforce the reliability of the procedures contributing to the recognition of revenues.

Allotment agreements are the subject of monthly and quarterly reports prepared jointly by the Commercial Department and the Finance Department.

#### *Management of customer risk*

All new customers are now systematically assessed by the "Customer Credit Management" team in the Finance Department and this procedure can lead to imposing a need for contractual or financial guarantees on the customer, with any delayed payment being the

subject of a monthly cross-departmental follow-up with the appropriate customer-care managers in the Commercial Department and the office of the General Counsel.

The Group has also taken out a new credit-insurance policy to provide better protection against the risks of customer default.

#### *Purchasing procedures*

Procedures have been established to guarantee that any commitment to order goods or services is preceded by a duly authorised purchase request.

The authorisation procedure that has to precede all purchases is as follows:

- 1) Validation by Management of a budget envelope per project / activity as part of the Annual Budget approved by the Board of Directors;
- 2) Followed by validation by the Director of the Department from which the purchase request originates.

Invoices received are compared with the appropriate items delivered and/or the appropriate services provided subsequent to submission of the relevant contract or order form.

Payment of the invoices is subject to the agreement of the services concerned in the purchasing process, in compliance with the internal control policy relating to the rules for the separation of each function involved.

All payments are based on the principle that there will be two signatures. If certain pre-determined amounts are exceeded, the signature of the CEO or of the Deputy CEO is also required.

As regards procurement contracts for satellites and launchers, these are approved beforehand by the Board of Directors as part of its review of the Group's activities and investment decisions. Contracts for such programmes are governed by a specific procedure (technical, legal and financial) before being signed by the CEO or Deputy CEO of Eutelsat S.A.

#### *Addressing the Group's principal financial risks*

The Group has introduced a centralised system of cash management for its operating subsidiary Eutelsat S.A. Under service agreements between Eutelsat S.A. and the entities within the Group (including the Company), the treasury function at Eutelsat S.A. manages foreign exchange risk, interest rate risk, counterparty risk and liquidity risk on behalf of all the entities in the Group.

To manage interest-rate and counterparty risk, the Group uses a number of derivative instruments, the objective of which is to limit, where appropriate, the fluctuation of revenues and cash-flows caused by variations in interest rates and foreign exchange values. The Group's policy is to use derivatives to cover such exposure. The Group does not engage in financial transactions whose associated risk cannot be quantified at maturity, i.e. the Group never sells assets it does not possess, or about which it is uncertain whether it will subsequently possess them.

#### **Foreign-exchange risk**

The Group's functional currency is the euro. The Group is therefore principally exposed to fluctuations in the value of the U.S. dollar. For the financial year ended 30 June 2011, the Group hedged certain future U.S. dollar revenues by means of financial instruments such as knock-in foreign-exchange options and foreign-currency deposits. These instruments are traded over-the-counter with A-rated banking counterparties. Some contracts with suppliers (for satellites or launch services) are denominated in US dollars.

#### **Interest-rate risk**

The Group manages its exposure to interest-rate variations by keeping part of its debt at fixed rates (Eutelsat SA bonded debt), and by applying a policy of fully hedging its variable rate revolving credit facilities. To hedge its debt, the Group uses interest-rate hedges both for the Company and for Eutelsat S.A.

#### **Counterparty risk**

Counterparty risk includes issuer risk, execution risk in connection with derivatives or monetary instruments, and credit risk related to liquidity and forward investments.

The Group minimises its exposure to issuer risk and its exposure to execution and credit risk by acquiring financial products exclusively from A-rated financial institutions or banks. Exposure to these risks is closely monitored and maintained within predetermined limits.

#### **Liquidity risk**

The Group manages liquidity risk by using a tool that enables it to monitor and manage its recurring requirements and liquidity needs. This tool takes into account the maturity of financial investments, financial assets and estimated future cash flows from operating activities.

The Group's objective is to maintain a balance between the continuity of its funding needs and their flexibility through the use of overdraft facilities, bank loans and bonded debt, revolving credits from banks, and satellite leases.

## 5. RISK MANAGEMENT POLICY

Due to the highly complex nature of the activities involved in operating and developing its satellite fleet, the Group's Management has always been particularly aware of risk management within the Group. Nevertheless, the notion of a company incurring risks has broadened considerably in scope in recent years, largely as a result of emerging financial and commercial regulations. To mark the increased importance being given to the concept of managing risks, therefore, and on the basis of a recommendation made by the Audit Committee of the Board of Directors, the Group created a new post for a Director of Risk Management in 2008.

Reporting directly to the Group's Management, the risk management function performs the following main tasks:

- Identify the major risks likely to affect the Group's operations and activities and define an associated policy and process for reducing those risks with the other functions involved;
- Assist the Group's Management and Audit Committee in applying a risk management policy comprising all the measures foreseen to prevent and reduce risks, improve their control and organise contingency plans;
- Monitor the adoption of the risk management policy by staff and carry out the appropriate communication initiatives in this area;
- Ensure the Group's interests are protected by making sure that risks likely to affect the Group are defined in a suitable manner and that the operations and activities and the internal control procedures of the Company are carried out in such a way as to minimise the risks to the Group as much as possible;
- Ensure that risk management policies are implemented in an appropriate manner and that they are taken into account in the realisation of the Company's activities.

During the financial year 2010-11, mapping of the risks for the Group was updated, the purpose being to identify and measure the magnitude of the risks that are likely to affect the performance of the Group's operations and activities. The risk-management function also continued to develop and implement a new methodological approach that is more cross-disciplinary in nature, applied to the Group's various business activities.

During 2010-11, the work on risk management continued to focus on the notion of access to space, with a systematic evaluation of the risks of failure or delay when launching satellites carried out in conjunction with the technical, commercial and finance departments, and defined solutions for minimising the impact of such risks as far as possible. One of the consequences was the application by the technical department of a new policy for acquiring launch services to enable more optimum management of access to space.

A detailed review of the actions to be implemented in the event of a partial or total loss of one of the satellites in the fleet is under way, in cooperation with all the departments within the Company.

During the financial year, new commercial projects and plans to invest in new satellites were also the object of in-depth risk analysis.

The importance assigned to the notion of risks within the Group, as seen for example in the development of this new function, shows the level of attention being given by Management and the Board of Directors to a pro-active policy of risk reduction to protect the Company's assets, activities and interests in the best possible way.

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