

**EUTELSAT COMMUNICATIONS**  
***société anonyme* with a Board of Directors**  
**and a share capital of 219 641 955 euros**  
**Registered office: 70 rue Balard,**  
**75015 Paris**

481 043 040 R.C.S. PARIS



REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS  
OF EUTELSAT COMMUNICATIONS  
IN APPLICATION OF ARTICLE L. 225-37 OF THE *CODE DE COMMERCE*

## INDEX

1.	INTRODUCTION.....	3
2.	GOVERNANCE OF THE COMPANY.....	3
2.1	Absence of concerted action or control.....	3
2.2	Combining the functions of Chairman and CEO.....	3
2.3	Change in the composition of the Board of Directors.....	4
2.4	Independent directors.....	4
2.5	Employee representation on the Board of Directors.....	4
2.6	Mission of the Board of Directors.....	5
2.7	Committees and Working Groups of the Board of Directors.....	5
2.8	Board meetings and information communicated to the Board of Directors.....	7
2.9	Main issues examined by the Board of Directors.....	7
2.9.1	Strategic Plan and Annual Budget.....	7
2.9.2	Review of the consolidated half-year and full-year accounts.....	8
2.9.3	Investment decisions.....	8
2.10	Conflicts of interest and regulated agreements.....	8
2.11	Other information concerning the members of the Board of Directors.....	9
2.11.1	Functions of Board Members in other companies under French law (as of 30 June 2008):.....	9
2.11.2	Grant of stock options or free shares to the Company representatives ( <i>mandataires sociaux</i> ).....	9
2.12	Conditions for admittance to and participation in General Meetings of Shareholders.....	10
3.	MANAGEMENT OF THE EUTELSAT GROUP.....	10
4.	Internal control procedures.....	10
4.1	Appointment of a Director of Risk Management.....	11
4.2	Procedures for the management of satellite risks.....	11
4.2.1	Procedures for the protection and integrity of the satellite fleet.....	11
4.2.2	Follow-up of the security project and the certification process for the satellite control system.....	12
4.3	Procedures for managing the Group's other operating risks.....	12
4.3.1	Follow-up of the projected introduction of a continuity plan for the Company's activities.....	12
4.3.2	Security procedures at the Balard and Rambouillet sites.....	13
4.3.3	Addressing the operating risks related to the security of the information systems.....	13
4.4	Procedures for handling accounting and financial information.....	14
4.4.1	Controlling the actions of the subsidiaries that manage the Group's equity interests.....	14
4.4.2	Procedures for preparing the consolidated financial statements.....	15
4.4.3	Management of responsibility and authorisation levels within the Group.....	15
4.4.4	Managing delegations of authority.....	15
4.4.5	Procedure for management and follow-up of contracts signed by the Group with its suppliers and sources of financing.....	15
4.4.6	Procedure for management and follow-up of contracts with customers.....	16
4.4.7	Purchasing procedures.....	16
4.4.8	Management of the Group's principal financial risks.....	17

Dear Shareholders,

In accordance with Article L.225-37 of the *Code de Commerce*, this report provides information on the preparation and organisation of the work of the Board of Directors of Eutelsat Communications during the financial year ended 30 June 2008 and on the internal control procedures set up 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 *Code de Commerce*.

## **1. INTRODUCTION**

After 2007, which was marked by profound changes in the composition of the Group's working bodies, the year ended 30 June 2008 was a period of consolidation for the Company in terms of its role in determining the financial and strategic direction of the Eutelsat Group, the 3<sup>rd</sup> largest operator of Fixed Satellite Services in the world. This period of consolidation saw a reinforcement of current practices as regards governance of the Group via the introduction of an Audit Committee as part of the Board of Directors. The Group's internal control procedures were also reinforced.

The Group's main business is the operation and commercialisation of a geostationary satellite system for broadcasting and communications purposes, which is positioned at an altitude of more than 36,000 kilometres.

As of 30 June 2008, the Group was operating 24 satellites in stable geostationary orbit, positioned above the Equator between 15° West and 70.5° East.

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

### **2.1 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, directly or indirectly, by itself or with others, exercised control within the meaning of Article L. 233-3 of the *Code de Commerce*.

This situation has not been altered by the changes in the make-up of the Company's share capital over this and previous years.

The major shareholders of our Group are represented on the Company's Board of Directors. These are ABERTIS TELECOM, with 31.85% of the share capital, and *Caisse des Dépôts et Consignations- Infrastructure*, with 25.8% of the share capital, as of 30 June 2008.

As of 30 June 2008, no shareholder of our Company, directly or indirectly, by itself or with others, exercised control within the meaning of Articles L. 233-3 et seq. of the *Code de Commerce*.

### **2.2 Combining the functions of Chairman and CEO**

Under Article 148 of the decree of 23 March 1967, the Board of Directors decided at its meeting of 31 August 2005 to combine the functions of Chairman of the Board and CEO. Mr Giuliano Berretta, Chairman of the Board of Directors, is accordingly responsible for the overall management of the Company as CEO.

### 2.3 Change in the composition of the Board of Directors

Apart from the co-opting of Mr Guarguaglini by the Board of Directors on 25 July 2007, a co-option that was ratified by the General Meeting of Shareholders on 9 November 2007, there was no change in the composition of the Board of Directors during the year. This is shown in the table below.

Name	Date of appointment	End of term of office
Jean-Luc ARCHAMBAULT	10/05/2007	OGM accounts 30 June 2011
Bertrand MABILLE	10/05/2007	OGM accounts 30 June 2011
CDC- Infrastructure represented by Jean BENSÄÏD	14/02/2007	OGM accounts 30 June 2011
Carlos SAGASTA- REUSSI	23/01/2007	OGM accounts 30 June 2011
Tobías MARTÍNEZ GIMENO	23/01/2007	OGM accounts 30 June 2011
Andrea LUMINARI	23/01/2007	OGM accounts 30 June 2011
Carlos ESPINÓS-GÓMEZ	23/01/2007	OGM accounts 30 June 2011
Lord John BIRT	10/11/2006	OGM accounts 30 June 2012
Pier Francesco GUARGUAGLINI	25/07/2007	OGM accounts 30 June 2012
Giuliano BERRETTA	31/08/2005	OGM accounts 30 June 2011

In application both of the Letter-Agreement between the Company and EUTELSAT IGO, and also the Company's by-laws, Mr Roisse, Executive Secretary of EUTELSAT IGO, sits on the Board of Directors as an observer (*censeur*).

### 2.4 Independent directors

In accordance with the practices of sound governance, the Board of Directors undertook a procedure for the selection of independent directors, i.e. directors having no conflict of interests and no business relations with the Eutelsat Group that would be such as to affect the director's judgement.

Resolutions were voted by the Ordinary General Meeting of Shareholders on 10 November 2006 and 9 November 2007, and two independent directors were elected for a six-year term of office to expire at the end of the General Meeting of Shareholders called upon to examine the accounts of the Company for the year ending 30 June 2012.

They are Lord John Birt, former Director General of the BBC, and Mr Guarguaglini, Chairman of the FINMECCANICA Group, whose co-option as a replacement for Mr Dangeard, who had resigned, was ratified by the General Meeting of Shareholders on 9 November 2007.

The Board considers that its composition, seeing as it does the presence of independent directors alongside directors exercising management functions within the Group or representing major shareholders, is an element of sound governance.

### 2.5 Employee representation on the Board of Directors

As part of a policy aimed at strengthening communication between the Group's management and employees, the Company entered into an agreement with the works' council of our operating subsidiary Eutelsat S.A. 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. It has seen the introduction of a procedure for informing the Eutelsat S.A. works' council when operations are undertaken by the Company that are liable to affect the operations and field of activity of our operating subsidiary Eutelsat S.A. Under the same agreement, 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.

## 2.6 Mission of the Board of Directors

Under Article L.225.35 of the *Code de Commerce*, the Board of Directors is notably responsible for orienting the Company's business activities and ensuring this framework is properly implemented. 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 Eutelsat Group.

Over and above the powers provided by law and in application of the Board's internal rules, a number of strategic decisions and undertakings require the prior approval of the Board of Directors.

These decisions can be grouped under the following headings:

**Operations affecting the by-laws:** Any operation that results in an increase in the Company's capital or a modification of the Company's by-laws is subject to prior approval by the Board of Directors.

**Strategic operations:** 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 of more than 50 million euros or of more than 25 million euros if the relevant investment operation is not foreseen in the Strategic Plan.

**Financial commitments and investments:** The Group's consolidated Annual Budget 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 (or in excess of 25 million euros if not included in the Annual Budget) is subject to prior approval by the Board of Directors. Prior approval by the Board is also required for any loan or financing contract that is not included in the Annual Budget and results in an increase in the Group's indebtedness by more than 50 million euros. The same applies to any decision to dispose of, loan, lease or transfer assets of the Group (excluding commercial operations) or any decision to disinvest any amount in excess of 50 million euros that is not included the Annual Budget.

**Composition of the Board of Directors and management of the Group** The Board of Directors is in charge of defining the requirements for independence and selection of the independent directors. Its prior approval is needed before a Manager whose remuneration is one of the six highest in the Group can be recruited or dismissed.

**Other matters:** Any projected take-over or merger of the Company, any offer to buy another company for which payment would be wholly or partly in Company shares, and any draft reference or offer documents for investors also have to be submitted for approval by the Board of Directors.

You are reminded that the General Meeting of Shareholders of 9 November 2007 delegated its powers to the Board of Directors for purposes of issuing stock warrants (free of charge) known as "Bons Bretons" in the event of a takeover bid concerning the Group. This delegation of powers was not used or implemented in the course of the financial year.

## 2.7 Committees and Working Groups of the Board of Directors

During the year, the Board of Directors decided to set up a specialised Working Group and an ad hoc Working Group to provide advice to the Board in their respective areas of competence:

**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 Chairman of the Board & CEO and of the Deputy CEO, (ii) the introduction of stock-option plans or plans for the purchase or grant of shares within the Group, (iii) the allocation of fees to members of the Board, (iv) the selection of the independent directors, and (v) the recruitment or dismissal of any employee whose remuneration is one of the six highest in the Group (cf chapter 9 of Board report for further informations).

The Committee is currently chaired by Mr Martinez Gimeno. Messrs Bensaïd, Espinós-Gómez and Lord John Birt are also members. The Secretary to the Committee is Mr Izy Béhar, Director of Human Resources.

The Committee met 9 times during the financial year. All Committee members took part in all meetings of the Committee.

In the course of the year, the Committee's work included the employee shareholding policy and consideration of how to ensure the loyalty of the Group's key personnel.

Based on a recommendation by the Committee, the Board of Directors decided on 25 July 2007 to introduce a plan for the allocation of free shares to all employees of the Group, including the Company representatives (*mandataires sociaux*). In accordance with Article L.225-197 of the *Code de Commerce*, definitive acquisition of these free shares will only become absolute provided the beneficiaries are still with the Group in two years time (i.e. until 25 July 2009) and will only become available after a further period of two years has expired, i.e. as of 26 July 2011. It should be noted that under these plans, definitive acquisition of the free shares granted is also subject to the achievement of certain performance objectives over a two-year period.

The Committee also made recommendations to the Board of Directors to amend the conditions applying to the formal commitments entered into by Messrs Berretta and Brillaud, Chairman of the Board & CEO and Deputy CEO respectively, to sell to the Company Eutelsat S.A. shares deriving from the "Managers 3" stock-option plan.

The Committee was also required to supervise the process of recruiting a new Chief Financial Officer, following Mr Ehlinger's departure from the Group in July 2007, and reviewed the applications put forward by Management. On the Committee's recommendation, the Board of Directors approved the decision of the Chairman of the Board & CEO to appoint Mrs Catherine Guillaud to the position of Chief Financial Officer.

**Strategy and Investment Working Group:** This Working Group was set up in April 2007. It meets on an ad hoc basis and has the task of submitting recommendations to the Board as appropriate on any projected external growth operations and investments under the Strategic Plan or Annual Budget.

The members of the Working Group are Jean Bensaïd and Carlos Espinós-Gómez. They are assisted by the other directors as necessary.

The Working Group met 10 times during the financial year. In the course of its work, the Working Group oversaw a strategic study on the Group's growth strategy, as well as preparation of the Group's 2008-2013 Strategic Plan and preparation of the Group's consolidated Annual Budget for 2008-2009.

Finally, as part of the prior examination of the Group's projected investments, the Working Group made recommendations to the Board on the launch and implementation of the KA SAT Tooway™ programme, notably in relation to the setting into place of a partnership with ViaSat in Europe, and the possibility of the Group taking a minority stake in the "ViaSat 1" project for operation of a satellite in Ka band in the United States. The Working Group also provided a recommendation to the Board on the W3B satellite programme and the requirements necessary for the strategy to be adopted to secure the Group's in-orbit infrastructure.

## **Audit Committee**

The Board also decided to set up an Audit Committee. In addition to its Chairman, Mr Archambault, the Audit Committee is composed of Lord Birt and Mr Sagasta-Reussi.

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 accounts (consolidated and Company accounts), (ii) expressing recommendations on the draft consolidated Annual Budget proposed by Management, prior to its examination by the Board, (iii) expressing recommendations to the Management of the Company and to the Board of Directors on the policy and methods for ensuring the production of accounting and financial information that is reliable and sincere, (iv) making sure that the internal controls applied within the Group are appropriately implemented, and (v) presenting recommendations to the Board and Management on the appropriate method of handling any risk of any kind liable to affect the Group's operations.

The Audit Committee met 6 times during the financial year. All Committee members took part in all meetings of the Committee.

In the course of its work, the Audit Committee ensured mapping of all risks liable to affect the operations of the Group, and made a recommendation on the creation of a new post for a Director of Risk Management to report directly to the Company's Management and to have the task of defining, implementing and supervising a coordinated and cross-disciplinary approach to the management of risks of any nature liable to affect the Group and its operations.

Further to this recommendation, Mr José Ignacio González-Nuñez was appointed by the Chairman of the Board & CEO as the Group's Director of Risk Management.

The Audit Committee has also engaged in regular dialogue with the Company's Auditors. The Auditors attend Audit Committee meetings when half-year and full-year accounts are being prepared, prior to their adoption by the Board of Directors.

## **2.8 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 at meetings during the financial year exceeded 95%, with only 3 directors unable to participate in all Board meetings held during that period.

Except in an emergency, invitations to attend meetings of the Board of Directors are sent out to Board members at least 5 days before the meeting concerned.

In accordance with the relevant provisions of the internal rules of the Board of Directors, documents for the Board meeting are sent to its members at least 5 days before the meeting of the Board takes place. For an emergency meeting of the Board, documents are sent out in a shorter timeframe.

During the year, the Chairman requested Lord Birt, with the support of the Secretary to the Board and the Deputy CEO, to issue a set of recommendations for improving the Board's work, especially documentation for Board meetings, and to propose *inter alia* the introduction of a single format for all documents.

These recommendations were examined and approved by the Board on 26 April 2008.

To provide directors with a better knowledge of the Group's operations and business activities, the Chairman of the Board & CEO gives a status report at each Board meeting 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.

## **2.9 Main issues examined by the Board of Directors**

The Board's regular work cycle mainly concerns the second six-months of the financial year, largely due to preparation of the Annual Budget and 5-Year Strategic Plan and to the legal provisions for the preparation of the accounts.

### **2.9.1 Strategic Plan and Annual Budget**

In the second half of each financial year, the Board of Directors examines the Group's draft 5-Year Strategic Plan.

The Strategic Plan is designed to establish the Group's strategic objectives and determine not only the tools needed to achieve those objectives but also the financial and business activity forecasts for the Group.

The Strategic Plan for the period 2008-2009 to 2012-2013 was approved on 30 July 2008.

The Group's consolidated Annual Budget, which fixes the financial and budgetary objectives for the coming year and which is included as part of the Strategic Plan is reviewed by the Board in the last quarter of the year. This Annual Budget for 2008-2009 was approved by the Board on 25 June 2008.

## 2.9.2 Review of the consolidated half-year and full-year accounts

In addition to the information provided on follow-up of the Group's business activities, and in application of the relevant legal provisions, the Board of Directors adopts the interim half-year and full-year accounts. The half-year accounts are adopted in the 3<sup>rd</sup> quarter (January to March) of each financial year and the Company accounts and consolidated accounts for the full year are adopted in the 1<sup>st</sup> quarter of the following financial year (July to September).

It should be noted that under the "Transparency" Directive, adoption and publication of the half-year accounts takes place in February each year.

Additionally, under Article L. 232-2 of the *Code de Commerce*, the Board of Directors adopts the management planning documents for the Company in October and April each year, at the latest.

## 2.9.3 Investment decisions

Under the internal rules, the Board of Directors has to decide any capital expenditure in excess of the pre-determined ceilings (see paragraph 2.6 above).

Using detailed documentation prepared by the Group's Management, any decisions to commit to capital expenditure – and particularly investments relating to the satellite fleet or to external growth - are first reviewed in detail by the Strategy and Investment ad hoc Working Group and then by the Board of Directors, which determines whether the investment is advisable and whether the proposed capital expenditure decision is in line with the Group's strategic objectives. It should be observed that proposed capital expenditure is integrated as part of the Group's consolidated Annual Budget examined by the Board of Directors in the normal course of its business.

During the year, the Board of Directors reviewed the terms and conditions for a partnership with the ViaSat company in Europe and a minority equity investment in the project for a Ka-band satellite introduced by this company in the United States. The Board also approved (November 2007) the procurement of a new satellite (W3B).

### 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, simplified income statement, situation regarding indebtedness, treasury and costs, etc.) to enable the Board to have 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.

The Chairman of the Board & CEO also gives a regular status report on the Group's operations and business activities at each Board meeting.

### Other issues examined by the Board of Directors

Under its by-laws and internal rules, the Board is informed whenever statutory thresholds are exceeded.

This information is also brought to the attention of EUTELSAT IGO under the Letter-Agreement of September 2005.

## 2.10 Conflicts of interest and regulated agreements

Apart from the employment contract between Mr Berretta and Eutelsat S.A., there is as of 30 June 2008 no employment contract or service contract between the other directors of the Company and any of its subsidiaries providing for the grant of benefits of any nature.

We have continued to apply the tax consolidation agreements entered into last year under Article L.225-38 of the *Code de Commerce* on regulated agreements.

You are also informed that the Board of Directors meeting of 25 September 2007 (with the Chairman of the Board & CEO taking part neither in the discussion nor the vote) decided, upon a recommendation by the Selection and Remuneration Committee, to add an Amendment to the formal commitments to buy and to sell shares deriving from the Eutelsat S.A. "Managers" stock-option plans signed in 2005 with certain key employees and Company representatives (*mandataires sociaux*) of Eutelsat S.A.

For further information, please refer to section 9 of the Company's management report.

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

### 2.11.1 Functions of Board Members in other companies under French law (as of 30 June 2008):

Functions of Board members as of 30 June 2008 in other companies under French law are listed below:

Name	Function	Other functions or offices exercised in French companies
G. Berretta	Chairman of the Board & CEO	Chairman of the Board & CEO of Eutelsat S.A.
J. Bensaïd	Permanent representative of CDC Infrastructure, Board member	Chairman of MAP SUB Board Member of Eutelsat S.A. Board Member of CDC Infrastructure, GALAXY Permanent representative of CDC on the Supervisory Board of Tower Participations Chairman and representative of CDC in the Bac Gestion company. Permanent representative of CDC on the Board of Directors of Seche Environnement, TDF (TéléDiffusion de France), SANEF (Société des Autoroutes du Nord et de l'Est de la France)
J. Martínez Gimeno	Board Member	Board Member of Eutelsat S.A.
C. Sagasta Reussi	Board Member	Board Member of Eutelsat S.A.
C. Espinós Gómez	Board Member	Board Member of Eutelsat S.A.
A. Luminari	Board Member	Board Member of Eutelsat S.A.
B. Mabile	Board Member	Board Member of Eutelsat S.A.
J-L. Archambault	Board Member	Board Member of Eutelsat S.A. Chairman of Lysios SAS
J. Birt	Board Member	None
P. F. Guarguaglini	Board Member	None
C. Roisse	<i>Censeur</i> (Observer)	<i>Censeur</i> on the Board of Directors of Eutelsat S.A.

### 2.11.2 Grant of stock options or free shares to the Company representatives (*mandataires sociaux*)

The Board meeting of 25 July 2007 decided to establish a plan for the allocation of free shares to all employees and Company representatives (*mandataires sociaux*) of the Eutelsat Group. Under this plan, and on a recommendation by the Selection and Remuneration Committee, the Board decided to grant to Mr Giuliano Berretta, Chairman of the Board & CEO, and to Mr Jean-Paul Brillaud, Deputy CEO, 76 431 and 25 991 free shares respectively.

Under Article L.225-197 of the *Code de Commerce*, definitive acquisition of these free shares will only become absolute provided the beneficiaries are still with the Group in two years time; the shares will only become available after they have been held for a further period of two years. Definitive acquisition of these free shares is subject to the achievement of certain performance objectives over a two-year period.

No stock-option or stock-purchase plan was granted by the Board during the financial year ended 30 June 2008.

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

You are informed that within the Group there are no preemptive shares and no shares with double voting rights attached. Resolutions of 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 principle of one share, one vote.

Conditions for taking part in General Meetings of Shareholders are stipulated in Article 22 of the Company's by-laws.

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

There was no change in the composition of the Group's Management during the year. You are reminded that on 22 December 2005, the Board of Directors decided to appoint Mr Jean-Paul Brillaud as Deputy CEO, following a proposal by Mr Berretta. As Deputy CEO, Mr Brillaud has the same powers of representation and management as Mr Berretta. Mr Brillaud is also Deputy CEO of Eutelsat S.A.

Subsequent to the departure of Mr Ehlinger from the position of Chief Financial Officer, Mrs Catherine Guillaud joined the Group as Chief Financial Officer in September 2007.

Management is assisted by a Group Executive Committee consisting of Messrs Berretta and Brillaud, the Chief Financial Officer of Eutelsat S.A. (Mrs Catherine Guillaud) and the Eutelsat S.A. Legal Counsel (Mr Philippe Mc Allister).

Mr Philippe Mc Allister also acts as Secretary to the Board of Directors of Eutelsat Communications and Eutelsat S.A. and is Chairman of Eutelsat Communications Finance SAS, SatBirds 2 SAS and WhiteBirds France SAS.

The Group considers that the identical nature of the mandates and functions exercised by Messrs Berretta and Brillaud, as well as the streamlining of the Group's Management, are evidence of the coherence of the decisions taken by the managing bodies of the subsidiaries and the proper execution of the decisions of the Board of Directors of Eutelsat Communications within the Group and particularly within Eutelsat S.A., the Group's principal operating subsidiary.

## **4. INTERNAL CONTROL PROCEDURES**

Internal control is a Company process defined and implemented under its responsibility to ensure:

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

and, in general terms, they contribute to its expert command of its business activities, the effectiveness of its operations and the efficient use of its resources.

The Company has taken steps to adapt its internal control process to the reference framework of the AMF.

It is important to distinguish a) 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 (see section 4.2) and other Group risks (see section 4.3) and b) internal control procedures related to the preparation of accounting and financial information (under regulations currently in force) related to the business activity of the Company and its subsidiaries (see section 4.4).

The Company's role is to provide financial and strategic direction for the Eutelsat Group. The operating activities of the Group, and especially the satellite-related activities, are carried out by Eutelsat S.A. The operating procedures described in section 4.2 below are the procedures set in place at Eutelsat S.A. and its subsidiaries.

#### **4.1 Appointment of a Director of Risk Management**

Management is aware of the risks inherent in the Group's business activities, i.e. the operation of a space-based telecommunications infrastructure, and wants to ensure sound governance practices. In May 2008, it appointed Mr. José Ignacio González-Nuñez as Director of Risk Management. Acting independently of the Internal Audit unit and reporting directly to Management, the Director of Risk Management has the principal tasks of identifying any risks of any kind liable to affect the Group's operations or projects, defining a risk-management policy, and ensuring that the tools needed to identify and prevent such risks are put in place for all the functions and Departments of the Group's companies.

#### **4.2 Procedures for the management of satellite risks**

##### **4.2.1 Procedures for the protection and 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 Technical Department, which is in charge of controlling the satellites, and of the Operations Department, which is in charge of controlling the quality of the signals the satellites send and receive.

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 principal control centre and recovery by the back-up facilities.

The control centres see that the satellites are protected and that operational continuity of the signal is maintained in order to meet the requirements of the Group's customers. Relevant recommendations and technical procedures for the satellites are duly observed.

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 a situation where a technical incident or crisis situation occurs. Procedures are periodically reviewed, tested and activated to ensure *inter alia* that the controllers are kept continuously up-to-date.

An incident affecting a satellite or one of the signals transported (e.g. a technical failure or signal interruption) is dealt with internally by the Technical and Operations Departments under 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 liable 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, reviewed also by a panel of independent experts, depending on the nature of the incidents that have occurred,
- Reported in a Press Release.

#### 4.2.2 Follow-up of the security project and the certification process for the satellite control system

An audit by a specialised company in 2007 concluded that the level of security was satisfactory as regards the information systems of the team in charge of satellite control. The recommendations of the Auditors are addressed in an action plan.

The team has also introduced a plan for setting up an information security management system, coordinated by the IS security manager. This system could lead to security certification (ISO 27001) for satellite-control activities in order to:

- Give tangible form to the Company's security concerns for its satellite control systems and provide proper proof thereof for its "stakeholders" (customers, partners, shareholders).
- Anticipate changes (new threats, new areas of vulnerability, new systems, etc.) and obtain reassurance via a formalised and auditable process that the protective measures in place are in line with the analysed risks.

The following actions were taken in the course of the year:

- Validation of the security standards and regulations (organisational, technical, HR and physical security) in force in the division.
- Application of a procedure to handle security-related incidents and implementation of a facility whereby such incidents can be qualified, an effective response provided and the procedures and safeguards in place improved.
- Introduction of a campaign to make all engineers and controllers forming part of the satellite control team aware of security issues.
- ISO 9001 certification

Certification of satellite control activities under ISO 9001, which was obtained in 2005, was valid until end-June 2008. A new certification audit took place at the end of April, resulting in renewal of the certification certificate for three more years.

Certification covers: control and operation of the satellites, the satellite launch and orbiting operations and the satellite control system on the ground (definition, development, procurement, deployment, operation and maintenance).

### **4.3 Procedures for managing the Group's other operating risks**

#### 4.3.1 Follow-up of the projected introduction of a continuity plan for the Company's activities

At the beginning of 2006, Eutelsat S.A. launched a continuity plan for its activities to reduce the strategic, economic and financial risks in the event of prolonged non-availability of its registered office at rue Balard, Paris.

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

Activities linked directly 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 (see section 4.1. of this report).

In the first six-month period of 2006, the first phase of the project identified critical activities, a choice of crisis scenarios and the selection of technical and organisational solutions.

The next phase began in June 2006 and consisted in defining operational principles, and drawing up the detailed procedures of the plan for the recovery of critical activities, formalising the emergency plan and the crisis management plan for setting the required organisation in place, and implementing the chosen IT solutions (redundant infrastructures between the site at Balard and the teleport at Rambouillet).

In June 2007, this phase was complete as regards the Company's most critical activities (i.e. activities whose operation is essential for Eutelsat S.A.'s survival during the first week of a major crisis at the Balard site, namely: the allocation and sale of satellite resources (cross-departmental process that groups together the activities of several departments, including transponder capacity management engineering, contracts management, customer support), management of partners and commercial projects, and cash-flow management.

The following actions were undertaken in 2007/2008:

- Definition of the necessary means of recovering all financial processes beyond Week 1 of the crisis;
- Finalisation of operational procedures and related facilities for the back-up site, necessary for correct activation of the continuity plan (PCA);
- Deployment of a simulation exercise for the IT back-up plan. This is referred to as the "PSI Plan" (infrastructure, applications and work stations).

Testing of the PSI will be followed by testing of the PCA during the next financial year.

#### 4.3.2 Security procedures at the Balard and Rambouillet sites

You are reminded that an audit report on security at the facilities of the Balard and Rambouillet sites was provided in October 2005 and that it had highlighted no major risk liable to have a significant impact on the level of security required for the Balard and Rambouillet sites.

The written procedures governing control of access, security staff and video-surveillance have, however, been strengthened following submission of the report, in order to satisfy recommendations that could be implemented quickly, in order to guard even more effectively against already identified risks. The Company has consequently introduced a system for controlling access and providing uniform video-surveillance between the two sites so that there is a permanent back-up facility.

Management pays regular attention to the control of security-related risks at the sites, and adequate measures are taken immediately they become necessary.

#### 4.3.3 Addressing the operating risks related to the security of the information systems

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

The objectives of this function at Eutelsat are as follows:

- Map the risks related to the security of the information systems and assess their impact for operation of the Company
- Introduce a policy and also standards adapted to the security requirements of the Company
- Draw up an action plan and lead a cross-department security committee with the task of monitoring its implementation
- Evaluate the protective measures in place (organisational and technical);
- Introduce and subsequently assume the role of IT and freedoms correspondent for the CNIL (*Commission Nationale de l'Informatique et des Libertés*) to limit certain administrative formalities and ensure the law on IT and freedoms is properly applied.

The following measures were taken in the course of the year:

- Creation of an information security committee, bringing together at least one representative of each Department of the Company;

The permanent remit of this Committee is to ensure security measures are coherent, analyse the risks, monitor the relevant legal and regulatory obligations and, where appropriate, alert the Management of the Company;

- Designation of the IS Security Manager as personal data protection correspondent for purposes of the CNIL. The CNIL's validation was received by the Company in November 2007;
- Enhanced security for the corporate information systems, in accordance with security action plans, by putting organisational procedures in place (control of data between systems, incident management, security standards, etc.) and also technical procedures (assessment of sensitive data stored on plug-in media, reinforcement of system and network configurations; etc.).

#### **4.4 Procedures for handling accounting and financial information**

As well as establishing control procedures for its principal business activity, the Group has to a significant extent developed control procedures for the handling of accounting and financial information, both for its operating subsidiaries and for its subsidiaries that deal with management of its equity interests.

Monthly reporting procedures are in place under the supervision of the Deputy CEO. 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 vouchers and legal documentation.

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

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

Eutelsat S.A. and its subsidiaries and equity interests are held by the Company through a number of subsidiaries whose mission is to manage equity interests.

The subsidiaries given the task of managing the Company's equity interests have no operational role. Some were used to carry the financing received a) when Eutelsat S.A. and its subsidiaries were acquired by Eutelsat Communications, b) when the Eutelsat Communications IPO was undertaken, and c) when the refinancing operation took place in June 2006.

Control of the undertakings and actions of these subsidiaries is essentially based on the applicable legal provisions and by-laws.

These subsidiaries are simplified stock corporations under French law. The sole Chairman of these subsidiaries is Mr Mc Allister, Eutelsat S.A.'s Legal Counsel. There is no limit under the by-laws on 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 by-laws, an increase in capital, a merger and/or transformation constitute such matters.

During the 2007/2008 financial year, the Company's Management took action to reinforce visibility over the activities of Eutelsat S.A.'s subsidiaries. Two new control mechanisms were introduced:

- September 2007: creation of a post to provide financial control over subsidiaries and equity interests
- January 2008: creation of a "Subsidiaries Committee", which meets on a quarterly basis and whose main task is to provide increased supervision of the subsidiaries' activities and ensure that Group procedures are being duly applied;

This Committee reports directly to the Deputy CEO and is composed of members of Senior Management (including the CFO, the Director of Human Resources and the Legal Counsel), the financial controller for the subsidiaries, the legal expert responsible for the subsidiaries, and the internal auditor.

#### 4.4.2 Procedures for 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' Auditors.

As part of their audit at each close, the Eutelsat Communications' Auditors make sure that the accounting policy and procedures applied by the Company are appropriate and that the accounts prepared by the Board of Directors present fairly and faithfully 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 has been using a consolidation and reporting system since July 2007, guaranteeing:

- that there is a single point of provenance, managed in a communal database, for the information required 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 retained.

#### 4.4.3 Management of responsibility and authorisation levels within the Group

In 2005, authorisation and responsibility matrices were validated and distributed to the operating subsidiaries and to the subsidiaries responsible for representing and promoting the business activities of Eutelsat S.A.

The matrices foresee the necessary types of responsibility and authorisation levels upon the creation of the subsidiary and subsequently during its day-to-day life. Where appropriate, a distinction is made between threshold levels for certain functions. These matrices (both) cover all legal, litigation-related, budget-related, financial and accounting aspects, as well as commitments to suppliers, customers and employees.

Eutelsat S.A. Management ensures that the management staff of the subsidiaries respect the provisions foreseen in the matrices. As part of its mission, the Subsidiaries Committee ensures that there is compatibility between the requirements defined in the matrices and the structure and constraints imposed by the national laws that apply to each subsidiary.

#### 4.4.4 Managing delegations of authority

In principle, all contracts and documents embodying a commitment for the Company are submitted for signature by the Chairman of the Board & CEO or by the Deputy CEO. However, in special cases and for certain specific operations, delegations of authority or of signature have been granted by the Chairman of the Board & CEO to certain persons within the Group. These delegations of authority or of signature are prepared by the Legal Counsel, who ensures that they are properly followed up. The Chairman of the Board & 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 rules are properly respected.

#### 4.4.5 Procedure for management and follow-up of contracts signed by the Group with its suppliers and sources of financing

Preparation, negotiation and follow-up of 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 Chairman of the Board & CEO, by the Deputy CEO or by the Directors to whom the Chairman of the Board & CEO has delegated his signature.

Financing contracts are approved by the Board in accordance with the Board's internal rules.

#### 4.4.6 Procedure for management and follow-up of contracts with customers

The Group's contracts with customers are concluded by Eutelsat S.A. or its subsidiaries on the basis of standard models prepared by the Department of Legal Affairs and the Commercial Department of Eutelsat S.A.

Any change to this standard format is examined in advance by Eutelsat S.A.'s Department of Legal Affairs before being signed by those responsible.

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

The procedures leading up to the signature of capacity allotment agreements are complex and end in the billing of the customers. During each financial year, the selling process, which the Management of the Group deems to be one of the key processes, is the subject of an in-depth audit. The objectives of these recurring annual audits, which are carried out internally, are to evaluate the suitability 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.

#### 4.4.7 Purchasing procedures

Procedures have been established to guarantee that all commitments to order goods or services are 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 Chairman of the Board & 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 Chairman of the Board & CEO or Deputy CEO of Eutelsat S.A.

#### 4.4.8 Management of 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-currency exchange risk and interest-rate risk on behalf of all entities in the Group,

To meet such risks the Group employs a number of derivatives, 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 manage such exposure. 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.

##### ***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 2008, the Group hedged 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 counterparts. 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 risk by applying a policy of fully hedging its variable-rate bullet loans and partially hedging its variable-rate revolver credit facilities. To hedge its debt, the Group uses interest-rate hedges both for the Company and for Eutelsat S.A.

\* \* \*