

Eutelsat Communications S.A. (previously named SatBirds S.A.S.)

COMPANY EUTELSAT COMMUNICATIONS

Joint stock Company with a capital of 278,732,598 euros

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**EUTELSAT COMMUNICATIONS COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTH PERIOD ENDED JUNE 30, 2005**

Eutelsat Communications S.A. (previously named SatBirds S.A.S.)

CONSOLIDATED BALANCE SHEET
(In thousands of euros)

ASSETS	Notes	June 30, 2005
Non-current assets		
Goodwill	3,4	790,996
Intangible assets	3,4	918,688
Satellites and other fixed assets, net	5	1,827,903
Prepayments for satellites under construction	5	236,341
Investments in associates	6	111,425
Financial assets	7	1,585
Deferred tax assets	18	72,841
TOTAL NON-CURRENT ASSETS		3,959,779
Current assets		
Inventories	8	1,371
Accounts receivable	9	212,183
Other current assets	10	29,828
Current tax receivable	18	-
Financial instruments	23	1,499
Cash and cash equivalents	11	37,043
TOTAL CURRENT ASSETS		281,924
TOTAL ASSETS		4,241,703
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Common stock	12	278,733
Additional paid-in capital		
Retained earnings		(26,281)
Cumulative translation adjustment		
Minority interests		120,400
TOTAL SHAREHOLDERS' EQUITY		372,852
Non-current liabilities		
Long-term bank debt	13	2,921,550
Financial Instruments	23	35,027
Other long-term liabilities	14,15	195,659
Provisions (long-term)	19	49,387
Deferred tax liabilities	18	316,304
TOTAL NON-CURRENT LIABILITIES		3,517,927
Current liabilities		
Short-term bank debt / current portion of long-term bank debt	13	77,811
Current portion of other debt	14,15	73,233
Accounts payable		44,354
Fixed assets payable		25,630
Taxes payable		22,468
Other payables and deferred revenues	17	100,291
Provisions (short-term)	16	7,137
TOTAL CURRENT LIABILITIES		350,924
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY		4,241,703

The Notes that follow are an integral part of the Consolidated Financial Statements

Eutelsat Communications S.A. (previously named SatBirds S.A.S.)

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

	<u>Notes</u>	<u>Three-month period ended June 30, 2005</u>
Revenues	20	188,680
Revenues from Operations		188,680
Operating costs		(19,351)
Selling and administrative expenses		(32,949)
Depreciation and amortization	5	(73,241)
Other operating costs		(695)
Operating income		(62,444)
Financial Revenues		3,035
Financial Expenses		(59,640)
Financial result	21	(56,605)
Income from equity investments	6	66
Income before tax and minority interests		5,905
Income tax expense	16	(14,250)
Net income (loss)		(8,345)
Group share of net income (loss)		(13,428)
Minority interest's share of net income (loss)		5,083
Earnings per share attributable to Eutelsat Communications' shareholders	22	
Basic earnings per share in €		(0.056)
Diluted earnings per share in €		(0.057)

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Eutelsat Communications S.A. (previously named SatBirds S.A.S.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of euros)

	Three-month period Notes ended June 30, 2005
Cash flow from operating activities	
Net loss	(8,345)
Income from equity investments	(66)
Loss on disposal of assets	95
Other non-operating items	38,148
Depreciation, amortization and provisions	75,179
Deferred taxes	(268)
Accounts receivable	28,440
Other assets	(2,657)
Accounts payable	2,356
Other payables and deferred revenues	11,168
Taxes paid	(12,003)
ET CASH INFLOW FROM OPERATING ACTIVITIES	132,047
h flow from investing activities	
Acquisition of Eutelsat, net of cash acquired ⁽¹⁾	1,856,513
Satellites and other property and equipment	5 (27,221)
Proceeds from disposal of assets	8
Acquisition of investments	
Changes in other long-term assets	759
ET CASH INFLOW FROM INVESTING ACTIVITIES	1,882,967
h flow from financing activities	
Additional long-term and short-term debt	2,163,294
Repayment of debt	(256, 923)
Repayments in respect of performance incentives and long-term leases	(29,304)
Interest and other fees paid	(94,300)
Interest received	604
Other cash flows	22
NET CASH INFLOW FROM FINANCING ACTIVITIES	1,783,393
Impact of exchange rate on cash and cash equivalents	96
Increase in cash and cash equivalents	32,569
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37
CASH AND CASH EQUIVALENTS, END OF PERIOD	32,606
Cash reconciliation	
Cash and cash equivalents	11 37,043
Bank overdraft included under debt	(4,437)
Cash and cash equivalents per cash flow statement	32,606

(1) including Eutelsat's cash and cash equivalents of €37,948 thousand at the acquisition date.

The Notes that follow are an integral part of the Consolidated Financial Statements.

Eutelsat Communications S.A. (previously named SatBirds S.A.S.)

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

	<u>Common stock</u>		<u>Retained earnings and reserves</u>	<u>Minority interests</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>			
As of April 1, 2005	37,000	37			37
Net profit for the period ended June 30, 2005			(13,428)	5,083	(8,345)
Issue of capital	278,695,598	278,696			278,696
Change in scope of consolidation			20	116,838	116,858
Translation adjustment			66	11	77
Change in fair value of cash flow hedges			(15,614)	(1,985)	(17,599)
Grant of stock options			3,090	523	3,613
Adjustment of rights on stock options granted			(414)	(70)	(484)
As of June 30, 2005	278,732, 598	278, 733	(26,280)	120,400	372,852

The Notes that follow are an integral part of the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL OVERVIEW

1.1 - Incorporation

SatBirds was incorporated on February 25, 2005 as a simplified joint stock company (*société par actions simplifiée*) under French law. Its trade register listing will expire on February 25, 2104.

On April 4, 2005, the main direct and indirect shareholders of Eutelsat S.A. contributed and sold their Eutelsat shares to SatBirds S.A.S., hereinafter referred to as the “Company” (see Note 3 – Impact of the Acquisition of Eutelsat S.A.). The term “Group” refers to the group of companies composed of the Company and all of its subsidiaries.

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

1.2 - Information relating to the Company

As of August 16, 2005, the Board of Directors has approved and authorized the release of the consolidated financial statements of Eutelsat Communications (previously known as SatBirds) for the period ended June 30, 2005.

1.3 - Business

Eutelsat Communications S.A. is a holding company which does not have any business activity other than having an indirect ownership in Eutelsat S.A. The Eutelsat Communications Group via Eutelsat S.A. and its subsidiaries is a private satellite communications operator involved in the design, establishment, operation and maintenance of a satellite telecommunications system covering a large geographic area (Extended Europe -- which includes North Africa, Russia and the Middle East -- the east of North America, Latin America, Sub-Saharan Africa and Asia).

On July 2, 2001, Eutelsat S.A., a shell company, has received all of the operating activities, assets, liabilities and commitments of the Eutelsat Inter-Governmental Organization (IGO). Since then, the assignment of frequencies for the use of the frequency spectrum resources used by Eutelsat S.A. in regards to the operations of these satellites continue to be under the joint responsibility of the member countries of the IGO, and of the IGO.

As of June 30, 2005, via Eutelsat S.A., the Group owns and operates 18 satellites in geostationary orbit, which provide capacity to major international telecommunications operators and broadcasting companies for television and radio broadcasting services (both analogue and digital), business telecommunications services, multimedia applications and messaging and global positioning services. The satellites are operated through five earth stations, located in Belgium (Redu), France (Rambouillet), Italy (Fucino), Portugal (Sintra) and Russia (Dubna). In addition, the Group leases capacity on certain transponders on five satellites owned by related and unrelated parties.

Two additional satellites (HOT BIRDTM7A, HOT BIRDTM8) are currently under construction and are expected to be launched in late 2005 and early 2006, respectively.

1.4 - Basis of presentation

The annual closing date for the statutory accounts of the parent company is June 30. Due to the fact that the Company was created on February 25, 2005 and that its first fiscal year lasted 33 days and ended on March 31, 2005, the consolidated financial statements at June 30, 2005 cover a three-month period. The consolidated financial statements are not comparable with the period ended March 31, 2005 for the following reasons:

- The length of accounting periods are not the same;
- The company was created near the end of the period ended March 31, 2005, therefore the financial statements for this period are only composed of share capital of €37,000 and a loss of €700 recognized in the initial 33 days.

In addition, unaudited pro forma financial information for a period of twelve months is presented in Note 29.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

2.1 – Accounting standards

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

The consolidated financial statements have thus been prepared in accordance with IFRS principles: true and fair view, compliance with IFRS, going concern, accruals basis, consistency, materiality and aggregation. They have been prepared on a cost basis, except for certain items for which the standards requires measurement at fair value.

The IFRS framework rules include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union and effective as of June 30, 2005.

2.2 – The use of estimates

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

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

2.3 – Consolidation methods

The consolidated financial statements include the accounts of all companies controlled directly or indirectly by Eutelsat Communications, even if the Company does not directly own any of the equity of these companies. The Group generally has control when it holds directly or indirectly more than 50% of voting rights. The determination of control takes into account the existence of potential voting rights, provided that these are immediately exercisable or convertible.

Associate companies, defined as companies over which the Group exerts significant influence (generally between 20% and 50% of voting rights), are consolidated using the equity method. Significant influence is defined as the power to participate in the financial and operational decisions of the investee without having joint or sole control over them.

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

Intra-group balances and transactions are eliminated on consolidation.

2.4 – Accounting treatment for business combinations

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

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

Provisional fair values assigned at the date of acquisition to identifiable assets and liabilities may require adjustment as additional evidence becomes available to assist with the estimation (expert assessments still in progress at the acquisition date or additional analyses). When such adjustments are made prior to the end of a twelve-month period commencing on the date of acquisition, goodwill or negative goodwill is adjusted to the amount that would have been determined if the adjusted fair values had been available at the date of acquisition. When the carrying amounts are adjusted following the end of the twelve-month period, income or expense is recognized rather than an adjustment to goodwill or negative goodwill, except where these adjustments correspond to corrections of errors.

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

2.5 – Acquisition of minority interests

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

2.6 – Foreign currency transactions

The Company’s functional currency as well as the currency in which the Company’s financial statements are presented is the euro.

Transactions in foreign currencies – transactions denominated in foreign currencies are translated into the functional currency at the rate prevailing on the date of the transactions. Gains and losses arising on remeasurement are recorded in the income statement. The principal foreign currency used is the U.S. dollar. The closing exchange rate used as at June 30, 2005 is 1.21 U.S. dollars per euro and the average exchange rate used for the three-month period is 1.22 U.S. dollars per euro.

At period-end, receivables and payables denominated in currencies other than the euro are translated into euro at the rate prevailing at the balance sheet date. The resulting unrealized gains and losses are recorded in the income statement. Foreign exchange gains and losses arising from the translation of capitalizable advances made to foreign subsidiaries and included in the net investment in the foreign consolidated subsidiary are recognized directly as a “Cumulative translation adjustment” within shareholders’ equity.

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

2.7 – Intangible assets

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

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

Intangible assets consist of the “Eutelsat” brand and the “Customer Contracts and Relationship” assets. The “Eutelsat” brand has been determined to be a long-lived asset with an indefinite useful life and is thus not amortized but tested for impairment on a yearly basis.

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The “Customer Contracts and Relationships” assets are amortized on a straight-line basis over 20 years.

This useful life was estimated on the basis of the average length of the contractual relationships existing at the date of acquisition of Eutelsat and taking account of anticipated contract renewal rates.

(See Note 2.10 – Impairment of non-current assets).

Research and Development Costs

Development costs are recorded as intangible assets if the capitalization criteria defined under IAS 38, “Intangible assets” are met. Otherwise, they are expensed as incurred. Research costs are expensed as incurred.

For the period ending June 30, 2005, no development costs were capitalized by the Group.

Research and development costs were mainly incurred for the Group’s multimedia operations and are recorded in the income statement under “Selling and administrative expenses.”

2.8– Goodwill

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

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

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

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

2.9 – Satellites and other fixed assets

Satellites and other fixed assets (“tangible fixed assets”) are recognized at their acquisition cost, which includes all costs directly attributable to making the asset ready for use, less accumulated depreciation. Tangible fixed assets are recognized using the component approach which requires separate recognition and depreciation of each significant cost component of a tangible fixed asset whose useful life differs from that of the asset’s other components.

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

Satellites – Satellite costs include all expenses incurred in bringing individual satellites into operational use, and comprise manufacturing, launch and attributable launch insurance costs,

capitalized interest, performance incentives, and costs directly associated with the monitoring and support of the satellite program (studies, staff and consultancy costs).

Satellite performance incentives – The Group has certain contracts with its satellite manufacturers that require the Group to make performance incentives payments upon the initial successful operation of the satellites and with respect to future years of successful satellite operation. The Group records the present value of such payments as a liability and capitalizes these costs in the cost of the satellite. The amount of these performance incentives depends on whether the satellite operates satisfactorily. If the performance incentive is cancelled for one or more years, the cost of the satellite is adjusted, as well as the liability, and depreciation is adjusted on a prospective basis.

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

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

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

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

The Group performs an annual review of the remaining useful lives of its in-orbit satellites on the basis of both their forecast utilization and the technical assessment of their useful lives. When changes occur, depreciation is charged over the assets’ new residual useful lives.

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

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

2.10 – Impairment of non-current assets

Goodwill and other intangible assets with an indefinite useful life, such as the Eutelsat brand, are tested for impairment annually, irrespective of whether there is any evidence indicating

that an asset may be impaired, or when an event occurs indicating a potential decline in its value.

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

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

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

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

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

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

As of June 30, 2005, the following CGUs have been identified:

- Each of the 23 satellites
- The investment in the Hispasat group
- Each of the four assets related to “client contracts and relationships.”

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

2.11 – Inventories

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

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

2.12 – Financial instruments

Financial assets in respect of which changes in fair value are recorded in the income statement, including trading financial assets and derivative instruments, are recorded at fair value on initial recognition. Other financial assets and liabilities are recorded at fair value after taking into consideration costs directly attributable to the transaction.

In accordance with IAS 39 “Financial instruments: recognition and measurement” and IAS 32 “Financial instruments: disclosure and presentation”, the Group has adopted the following classification for financial assets and liabilities which is based upon the objectives determined by management at the time of their purchase. The designation and classification of investment securities are determined at initial recognition.

2.12.1 Financial assets

Financial assets are classified, reported and measured as follows:

Financial assets measured at fair value through the income statement

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

These financial assets are recognized at fair value. Realized or unrealized gains and losses arising from changes in the fair value of these assets are recorded as financial income or expense.

Assets held to maturity

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

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

Assets available for sale

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

Available-for-sale financial assets are recognized at fair value. Gains and losses arising from changes in the fair value of available-for sale assets are recorded in shareholders’ equity in the

period in which they arise. Upon their sale or where there is objective evidence that the asset is impaired, the cumulative gains and losses initially recognized in shareholders' equity are recognized in the income statement (financial result).

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that do not have a quoted market price in an active market. Loans are included in current assets under "Other current assets" and trade receivables are recorded in "Accounts receivable", except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets under "Financial assets." Loans and receivables are measured at amortized cost using the effective interest method.

2.12.2 – Financial Liabilities

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

2.12.3 – Derivative instruments

Derivative instruments that are not designated as hedging instruments are initially recognized at fair value and subsequently re-measured at fair value. Changes in fair value are recorded under financial result.

Where a derivative instrument can be qualified as a hedging instrument, it is valued and recorded in accordance with the hedge accounting rules in IAS 39 (see Note 2.12.5 "Hedging transactions").

2.12.4 – Impairment

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

Impairment losses are recorded as financial expenses.

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

Specific cases of changes of allowances on client receivables

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

2.12.5 – Hedging transactions

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

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

These criteria are applied where the Group uses derivative instruments designated as fair value hedging instruments, cash flow hedging instruments or hedging instruments for net investments in foreign entities.

Fair value hedging

Fair value hedging involves the hedge of an exposure to changes in the fair value of a recognized asset or liability, or the hedge of an exposure to changes in the fair value of an unrecognized firm commitment, that will affect reported income.

Cash flow hedging

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

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

The cumulative changes in the fair value of a hedging instrument previously recognized in shareholders' equity are reclassified into the income statement when the hedged item affects profit or loss. Reclassified gains and losses are recorded under "Other operating income" or

“Other operating costs” in the case of cash flow hedges of operational exposures and under “Financial Result” in the case of cash flows hedges of investment and financing exposures.

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

Hedging of net investment in a foreign entity

The hedging of net investments in foreign entities is accounted for in a similar manner to cash flow hedges. Any gain or loss in the fair value of the hedging instrument relating to the effective portion of the hedge is recorded in shareholders’ equity; the gain or loss relating to any ineffective portion is recognized in the income statement. Gains and losses accumulated in shareholders’ equity are included in the income statement under “Other operating income” or under “Other operating costs” when the investment in the foreign entity is sold.

2.12.6. Fair value of financial instruments

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

The fair value of financial assets and liabilities traded on active markets (current and non-current investments, derivatives) is determined on the basis of their quoted values on those markets at the balance sheet date.

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

2.13– Cash and cash equivalents

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

2.14 – Shareholders’ equity

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

2.15 – Revenue recognition

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

These contracts are mainly defined over periods ranging from one year to the end of life of the satellite. Contracts usually provide for the right to free-of-charge time in case of interruptions caused by under-performing transponders. However, the Group is not liable for damage or loss suffered by a customer when the Group was not able, despite its efforts, to restore the

allotted capacity in the case of a service interruption or a degradation of the technical parameters of a transponder. The Group is liable only for damages resulting from the violation of its obligation under a customer lease agreement. This liability is usually limited to a specified amount. Pursuant to certain contractual termination rights, the agreement can usually be terminated after two years with a one-year notice period and, depending on the type of lease, payment of the difference between the contractual price and the price that would have been paid for a lease with a duration similar to the expired period, plus interest for late payment, or by paying a percentage of the annual price applied to the residual period of the lease.

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

Deferred revenues include the unearned balances of amounts for a period of no more than one year received from customers pursuant to transponder lease prepayment options. These amounts are recognized as revenue on a straight-line basis over the respective service period.

2.16 – Deferred taxes

Deferred taxes are recognized using the balance sheet liability method with respect to temporary differences arising between the tax base of an asset or liability and its carrying amount.

The determination of deferred tax is performed by each taxable entity and through the use of the liability method, according to which all temporary differences are taken into account.

Deferred tax liabilities are recognized for all taxable temporary differences except:

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

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

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

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

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

2.17 – Earnings per share

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

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

2.18 – Post-employment benefits

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

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

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

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

When actuarial gains and losses arising as a result of changes in actuarial assumptions exceed 10% of the greater of the defined benefit obligation or the fair value of plan assets at the balance sheet date, a portion of that net gain or loss is recognized immediately as income or expense. The portion recognized is the excess divided by the expected average remaining working lives of the employees benefiting from these plans.

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

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

2.19– Financial guarantee granted to a pension plan

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Following the purchase of Eutelsat S.A. in April 2005, the Group granted a financial guarantee to the pension fund related to obligations that were assigned to a trust prior to the contribution transactions which led to the creation of Eutelsat S.A. This defined-benefit pension scheme was closed and the vested pension rights frozen prior to the transfer. The risk resulting from this financial guarantee is analyzed, assessed and reported according to accounting standards applicable to consolidated financial statements in the same way as the pension obligation described in note 2.18, despite the fact that the Group has not assumed the legal commitments entered into by the Inter Governmental Organization “IGO” in respect of the pension fund.

2.20 – Stock options

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

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

2.21 – Provisions

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

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

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

Any movement in provisions due to the time value of money or discounting is recognized as financial expenses on the face of the income statement.

NOTE 3 – IMPACT OF THE ACQUISITION OF EUTELSAT S.A.

- Description of the acquisition

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

The total consideration with respect to this transaction included a cash component (88.2%) and a stock component, consisting of SatBirds S.A.S. shares (11.8%). The payment of the cash portion was funded by several credit facilities contracted by two intermediary structures,

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SatBirds Capital Participations S.C.A. and SatBirds Finance Sàrl, both wholly owned subsidiaries of SatBirds S.A.S. (see Note 13 –Bank Debt). Following these contributions and sale transactions performed by SatBirds S.A.S., the acquired interest was contributed, through the intermediary of the two holding structures having obtained the financing, to SatBirds 2, a wholly owned subsidiary of SatBirds Finance Sàrl and an indirect subsidiary of SatBirds S.A.S. On completion of these transactions, SatBirds 2 had direct control of 75.28% of the capital of Eutelsat S.A. and indirect control, through WhiteBirds S.A.S., of 10.36% of the capital of this same company.

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

- Accounting treatment of the acquisition

The arrangement between Eutelsat Communications and Eutelsat S.A. was recorded as a business combination in compliance with IFRS 3, “*Business combinations*”, in which Eutelsat Communications was considered as the acquirer. On this basis, the assets and liabilities of Eutelsat S.A. were measured initially, in application of the acquisition method, at their fair values at the acquisition date.

The acquisition date is considered to be the date of the share exchange transaction and thus April 4, 2005.

The total acquisition cost of this investment corresponding to 85.65% of Eutelsat amounted to €2,221,095 thousand and breaks down as follows:

(In thousands of euros)

Number of Eutelsat Communications shares issued in exchange for Eutelsat S.A. shares	222,956
Number of Eutelsat Communications shares issued in exchange for receivables	2,488
Price of Eutelsat Communications shares issued	1 €
Portion of the price remunerated in Eutelsat Communications shares	225,444
Portion of the price paid in cash in exchange for Eutelsat S.A. shares	1,685,096
Direct Acquisition expenses, after tax	47,200
Total acquisition cost paid by SatBirds 2	1,957,740
Acquisition cost of the shares owned by WhiteBirds	263,355
Total acquisition cost	2,221,095

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The net assets of Eutelsat S.A. acquired, on the basis of the situation as of March 31, 2005, are as follows (net values in thousands of euros):

	Fair Value	Carrying Amount (IFRS)
Non-Current Assets		
Intangible assets (1)	929,800	-
Satellites and other fixed assets, net (including satellites under construction)	2,085,478	2,085,478
Investments in associates (2)	111,359	111,359
Financial assets	3,133	3,133
Deferred tax assets	61,416	61,416
TOTAL NON-CURRENT ASSETS	3,191,186	2,261,386
Current assets		
Inventories	2,336	2,336
Accounts receivable	217,847	217,847
Other current assets	28,378	28,378
Financial instruments	849	849
Cash and cash equivalents	50,613	50,613
TOTAL CURRENT ASSETS	300,023	300,023
TOTAL ASSETS	3 491 209	2 561 409
Non-current liabilities		
Long-term bank debt	772,430	772,430
Financial Instruments	5,104	5,104
Other long-term liabilities	203,766	203,766
Provisions (3)	49,000	26,401
Deferred tax liabilities	312,349	-
TOTAL NON-CURRENT LIABILITIES	1,342,649	1,007,701
Current liabilities		
Short-term bank debt / current portion of long-term bank debt	144,033	144,033
Current portion of other debt	89,894	89,894
Accounts payable	34,343	34,343
Fixed assets payable	13,885	13,885
Taxes payable	19,569	19,569
Other payables and deferred revenues	97,756	97,756
Provisions	9,408	9,408
TOTAL CURRENT LIABILITIES	408,888	408,888
TOTAL LIABILITIES	1,751,537	1,416,589
Eutelsat's Net Assets	1,739,672	1,144,820
% Interest acquired	85.648%	
Eutelsat Communications' share of the fair value of net assets acquired	1,489,995	
Acquisition Cost	2,221,095	
Goodwill (4)	731,100	

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- (1) Intangible fixed assets identified and valued in connection with the acquisition consist of Customer contracts and relationships (€889,000 thousand) and the Eutelsat brand (€40,800 thousand)

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

- *revenue* assumptions based on the order book used to prepare the medium-term business plan, which takes into account the likelihood of renewals at the expiration of contracts.
- assumptions of recognition on a straight-line basis per transponder of operating costs and depreciation, and of their allocation to each orbital position taking into account the number of transponders per position.
- a discount rate of 8.5%.

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

- (2) The measurement of equity-accounted investments did not give rise to any adjustment in the carrying amount, as the latter was already adjusted to the recoverable amount or fair value determined on the basis of the business plans prepared by management at the entity in question (see Note 6 – Investments in associates).
- (3) The adjustment to provisions is related to the measurement at fair value of the pension benefit obligation.

The accumulated actuarial gains or losses at the acquisition date arising from the financial guarantee given to a pension fund (see Note 2.19) were taken into account upon the measurement of the fair value of the pension fund obligation.

- (4) Goodwill (€731,100 thousand)

Goodwill arises from the difference between the acquisition price and the acquirer’s share in the fair value of Eutelsat S.A.’s assets and liabilities. It represents Eutelsat’s potential for generating new contracts for new or existing orbital positions.

The fair values of assets acquired were determined with the assistance of independent valuers on the basis of the situation of Eutelsat S.A. at the acquisition date. However, in consideration of the time available to prepare them as well as the size and complexity of the acquisition, they represent provisional assessments that may be adjusted with respect to additional information obtained upon the definitive allocation of the purchase price. Should any adjustments be necessary, both the new value obtained and related goodwill will be corrected as if this information had been available on initial recognition of the business combination.

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As of June 30, 2005, Eutelsat's S.A. income and expense items recorded in the consolidated income statement of Eutelsat Communications are as follows:

<i>(In thousands of euros)</i>	<u>Three-month period ended June 30, 2005</u>
Revenues	188,680
Operating costs	(19,351)
Selling and administrative expenses	(31,944)
Depreciation and amortization	(62,128)
Operating income	75,257
Financial result	(14,851)
Income from equity investments	66
Income before tax and minority interests	60,472
Income tax	(18,076)
Net income before minority interests	42,396

- Purchase of Minority Interests

On June 30, 2005, minority shareholders of Eutelsat S.A., representing 7.67% of the capital of Eutelsat S.A., sold and/or contributed their Eutelsat shares in exchange for shares of the Company on the basis of €2.57 per Eutelsat S.A. share and €1 per share of Eutelsat Communications (formerly SatBirds S.A.S.). This additional acquisition of 7.67% of the capital of Eutelsat S.A. gave rise to the recognition of additional goodwill of €59,897 thousand in the consolidated financial statements of Eutelsat Communications. The additional acquisition cost paid to Eutelsat's minority shareholders resulted in the issue of 22,075,116 shares of the Company and a cash payment of €172,630 thousand. The total amount of acquisition expenses before tax was €384 thousand.

NOTE 4– GOODWILL AND OTHER INTANGIBLES

“Goodwill and Other Intangibles”, breaks down as follows:

Change in gross value of assets

<i>(In thousands of euros)</i>	Goodwill	Customer Contract and Relationships	Eutelsat Brand	Total
April 1, 2005	-	-	-	-
Effect of change in the scope of consolidation	790,996	889,000	40,800	1,720,796
Additions	-	-	-	-
Disposals	-	-	-	-
Transfers.....	-	-	-	-
June 30, 2005	790,996	889,000	40,800	1,720,796

Goodwill includes the amount of goodwill relating to the purchase of the minority interests of €59,897 thousand (see Note 3).

Change in amortization and impairment

<i>(In thousands of euros)</i>	Goodwill	Customer Contract and Relationships	Eutelsat Brand	Total
April 1, 2005	-	-	-	-
Amortization Expense	-	(11,112)	-	(11,112)
Reversals	-	-	-	-
Impairment	-	-	-	-
June 30, 2005	-	(11,112)		(11,112)
Net value at June 30, 2005	790,996	877,888	40,800	1,709,684

NOTE 5 – SATELLITES AND OTHER FIXED ASSETS, NET

“Satellite and other fixed assets, net”, breaks down as follows (including assets acquired under finance lease):

Change in gross value of assets

<i>(In thousands of euros)</i>	Satellites	Other fixed assets	Satellites under construction	Total
April 1, 2005				
Effect of change in the scope of consolidation.....	1,820,260	58,016	207,202	2,085,478
Additions	-	11,882	29,139	41,021
Disposals	-	(127)	-	(127)
Transfers.....	-	-	-	-
June 30, 2005	[1] 1,820,260	69,771	236,341	2,126,372

Change in depreciation and impairment

<i>(In thousands of euros)</i>	Satellites	Other fixed assets	Satellites under construction	Total
April 1, 2005	-	-	-	-
Depreciation Expense	57,473	4,668	-	62,141
Reversals	-	(13)	-	(13)
Impairment	-	-	-	-
June 30, 2005	57,473	4,655	-	62,128
Net value at June 30, 2005	[1] 1,762,787	65,116	236,341	2,064,244

[1] Satellites and other fixed assets subject to finance leases

<i>(In thousands of euros)</i>	
Gross amount	130,549
Net amount	126,092

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In particular this item refers to three satellites for which capacity is leased, the relevant agreements considered as finance leases, recognized as assets in the context of the business combination:

- in an amount of €59,959 thousand, for the agreement signed with the related party in March 2004 covering 12 transponders of the SESAT 2 satellite for a term equal to the satellite's lifetime.
- in an amount of €9,046 thousand, for the agreement signed with the related party in May 2001 covering 5 transponders of the EXPRESS A3 satellite for a term equal to the satellite's lifetime. The entire amount of contractual lease payments were settled in advance for this contract.
- in an amount of €45,237 thousand, for the agreement signed in April 2000 with a financial institution and a satellite manufacturer for the in-orbit delivery of ATLANTIC BIRD™ 1 for a term of 11¼ years commencing on its date of entry into service in October 2002.

This amount takes into account the expected impairment of this satellite subsequent to its entry into operation arising from several interruptions in service requiring the implementation of corrective measures (as of today, the manufacturer is not able to guarantee the absence of further interruptions) and the inability to make commercial use of the transponders.

The joint insurance claim brought by the manufacturer and by Eutelsat S.A., in their respective capacities as insured and secondary insured, asserting the satellite as a total loss was rejected by the insurers in January 2005. While reserving its right to contest this rejection, Eutelsat maintains its participation alongside the manufacturer in discussions with the insurers with a view to reaching an alternative settlement for damages. This fact was not taken into account in the valuation of the acquired assets and liabilities of Eutelsat.

As of June 30, 2005, two satellites were under construction, HOT BIRD™7A and HOT BIRD™8.

NOTE 6 – INVESTMENTS IN ASSOCIATES

As of June 30, 2005, the Group owns, through its subsidiary Eutelsat S.A., 27.69% of Hispasat, a non listed Spanish satellite operator. An initial 21.15% was acquired on December 28, 2001, with an additional 6.54% acquired on April 8, 2002.

The effects of the acquisition of Eutelsat S.A. by Eutelsat Communications based upon the valuation of independent experts as of December 31, 2004 did not change the value of the assets and liabilities as indicated in the table below:

<i>(In millions of euros)</i>	June 30, 2005
Intangible assets (1)	27.7
Service contract (2)	2.1
Investment in Hispasat..	5.0
Subtotal	34.8
Hispasat net assets	76.6
Total	111.4

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- (1) These relate to rights to the use of frequencies at the 30 degrees West orbital position, together with long-term contractual relationships with customers. The useful life of the orbital position has been considered indefinite, given the high probability of renewal of the administrative authorizations for the use of frequencies (which are given for a period of 75 years), and the specific nature of the customer contracts.
- (2) The useful lives of the other identified intangible assets have been estimated at 15 years.

As of June 30, 2005, a review of the value in use of the investment has not led to an adjustment of its value in the balance sheet. This was based on cash flow projections covering a five-year period as prepared by the Company's management and reviewed by Eutelsat's S.A. management. The cash flows have been extrapolated with a growth rate of 1% until the probable expiration of the rights on the orbital positions and discounted using rates of 10% and 11% respectively for European and South American operations. In terms of sensitivity analysis, a change of 1% in the discount rate has an impact of approximately 15% on the investment value.

This analysis took into account the problems linked to the operation of the AMAZONAS satellite. Following the orbiting phase, a performance test uncovered a loss of pressure on the satellite's propulsion tanks. According to analysis performed by the supplier, the satellite's operational life has been reduced to less than 10 years. This useful life has not been subject to any revisions at the acquisition date.

At this stage and because the damage has been notified to the insurer, Hispasat's management considers that the insurance policy is sufficient to cover the damage and its consequences.

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

The following table presents summarized data in respect of Hispasat at December 31, 2004:

<i>(In millions of euros)</i>	<u>December 31, 2004</u>
Assets	646,988
Equity	277,917
Revenue	84,368
Net income	<u>921</u>

NOTE 7- NON-CURRENT FINANCIAL ASSETS

Non-current financial assets are made up of:

<i>(In thousands of euros)</i>	<u>June 30, 2005</u>
Available for sale financial assets (1)	400
Long term loans and advances	1,185
Total	<u>1,585</u>

(1) non listed investments valued at cost less impairment

- Available for sale financial assets

Available for sale non-consolidated investments are mainly made up of investments in Sitcom representing 11.56% of ownership. These investments were acquired by Eutelsat GmbH and

had a net value of €370 thousand as of March 31, 2005. No impairment has been recorded on these investments as of June 30, 2005.

- Long term loans and advances

Long term loans and advances are mainly composed of employee loans in a net amount of €0.9 million at June 30, 2005. The balance represents rental guarantee deposits for Eutelsat S.A.'s Paris premises.

NOTE 8 – INVENTORIES

Net inventories amount to €1,371 thousand at June 30, 2005. They mainly comprise reception aerials and modems.

NOTE 9 – ACCOUNTS RECEIVABLE

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

As of June 30, 2005, the net value of these receivables was €12,183 thousand. The allowance for bad debts was €2,465 thousand.

NOTE 10 – OTHER CURRENT ASSETS

Other current assets were as follows at June 30, 2005:

<i>(In thousands of euros)</i>	June 30, 2005
Prepaid expenses	18,633
Foreign VAT receivable	6,504
Other receivables	4,691
Total	29,828

10.1 – Prepaid expenses

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

10.2 – Other receivables

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

NOTE 11 – CASH AND CASH EQUIVALENTS

At June 30, 2005, cash and cash equivalents were as follows (in thousands of euros):

<i>(In thousands of euros)</i>	June 30, 2005
Cash	15,347
Cash equivalents	21,696
Total	37,043

NOTE 12 – SHAREHOLDERS’ EQUITY

12.1 - Shareholders’ equity

As of June 30, 2005, the share capital of Eutelsat Communications S.A. consists of 278,732,598 shares, with a par value of €1 per share. Eutelsat Communications does not hold any treasury stock.

12.2 - Impact of the acquisition of Eutelsat S.A. on shareholders’ equity

As a result of the acquisition of 85.65% of Eutelsat S.A. on April 4, 2005 and an additional 7.67% on June 30, 2005, the Company increased its capital by a total amount of €278,696 thousand, through the issue of 278,695,598 new shares with a par value of €1, as consideration respectively for the 86,753,409 Eutelsat S.A. shares contributed, and for the contribution by SatBirds Capital Participations of 87,198 shares and of €55,642 thousand of receivables.

12.3 - Share subscription and share purchase option plans of Eutelsat S.A

The information set forth in this note concerns only the Eutelsat sub-group and its board of directors and supervisory boards.

Following the decision taken by the General Meeting of Shareholders of December 10, 2004 to make an exceptional distribution of reserves from the distributable reserves and from “Additional paid-in capital,” and in accordance with the rules of the “Partners” and “Managers” stock-option plans and legal and regulatory provisions, the Board of Directors implemented measures to protect the rights of those holding stock options granted but not yet exercised as of the date of the General Meeting in question (December 10, 2004).

These protective measures involve adjusting the subscription conditions, the conversion bases and the original procedures for exchange or grant, in order to take into account of the effect of the distribution of reserves.

Pursuant to regulatory provisions, this adjustment involved the following measures:

- A downward adjustment to the exercise price for options granted but not exercised, and
- An upward adjustment to the number of underlying shares for each option not yet exercised, so that each holder would be able to invest the amount originally foreseen.

It should also be noted that beneficiaries of “Partners” stock options not yet exercised at the date of the General Meeting have benefited from particular protection measures, since the reduction in the subscription price (originally fixed at €1.10 for this plan) cannot have the effect of reducing the subscription price to below the par value of the shares (fixed at €1.00).

If the Article D 174-12 had been applied, the subscription price of the stock option would have been less than €1.

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The General Meeting of shareholders therefore approved a resolution to assign €0.47 (i.e. €0.57-0.10) per “Partners” plan option not yet exercised (a total amount of €734,023.44) to a special reserve account for those holding such options, with the amount required being taken from “Additional paid-in capital.” The reserve is released as and when these options are exercised by their holders.

The Board of Directors also decided (on May 12, 2005) to cancel the conditions for a holding period before exercising options under all stock-option plans outstanding as of that date, so as not to penalize the holders of options in the event of a dividend payment. All options granted are therefore exercisable. The following table presents the summary of how the plans have evolved:

Plans	Granted	Exercised	Cancelled	Balance	Exercise price (€)
<u>Before distribution</u>					
Partners	4,233,788	(2,515,497)	(156,539)	1,561,752	1.10
Managers	2,010,000	-	-	2,010,000	2.00
Managers II					
- 13/12/02	3,150,180	(58,266)	-	3,091,914	1.79
- 24/02/03	56,000	-	-	56,000	1.79
Managers III					
- 17/12/03	8,011,938	-	-	8,011,938	1.70
- 08/04/04	1,102,000	-	-	1,102,000	1.70
- 28/06/04	325,000	-	-	325,000	2.00
Managers IV	3,000,000	-	-	3,000,000	2.20
Total	21,888,906	(2,573,763)	(156,539)	19,158,604	-
<u>After distribution</u>					
Partners	4,389,963	(3,545,738)	(191,878)	652,347	1.00
Managers	2,603,627	(97,151)	-	2,506,476	1.54
Managers II					
- 13/12/02	4,063,336	(154,555)	-	3,908,781	1.38
- 24/02/03	72,539	-	-	72,539	1.38
Managers III					
- 17/12/03	10,378,158	-	-	10,378,158	1.31
- 08/04/04	1,427,461	(64,042)	(64,767)	1,298,652	1.31
- 28/06/04	420,985	-	-	420,985	1.54
Managers IV	3,886,033	(113,628)	-	3,772,405	1.70
Total	27,242,102	(3,975,114)	(256,645)	23,010,343	-

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On July 2, 2001, the shareholders authorized a “Partners” Stock Option Plan which provides for the grant of stock options to the employees and the members of the Management Board within a period of one month for a maximum of 0.5% of the Company’s share capital. A total of 4,233,788 options were granted at an exercise price of €1.10. Half of the options vest immediately. However, if not exercised within one month of the grant date, vesting occurs after a two-year period. The remaining half vest two years after the grant date. The options expire eight years after the grant date.

On October 15, 2001, the shareholders authorized a “Managers” Stock Option Plan, which provides for the grant of stock options to certain employees and members of the Management Board within a period of one month, for a maximum of 1% of the Company’s share capital less the number of options already granted under the earlier authorization. A total of 2,010,000 options were granted at an exercise price of €2.00. The options vested within four years after the grant date and expire eight years after the grant date.

On November 5, 2002, at an Extraordinary General Meeting of shareholders, authorization was granted for a “Managers II” Stock Option Plan, which provides for the grant of stock options to officers (*mandataires sociaux*) of Eutelsat S.A., senior managers and key personnel within a period of 38 months, for a maximum of 2.7% of the Company’s share capital. A total of 3,206,180 options were granted at an exercise price of €1.79. The options vest in portions of one third at July 1 in the three years following the year of the grant date and expire eight years after the grant date.

At an Extraordinary General Meeting of shareholders on November 25, 2003, the delegation of authority given to the Management Board on November 5, 2002 was amended in order to grant Company stock options. The Management Board now has authority to implement a program over the next 26 months for the grant of stock options or buy-back of shares to the benefit of the officers, employees and staff employed by the Company, up to a maximum of 2.37% of the Company’s share capital. According to the “Managers III” Plan so authorized, 9,113,938 options were granted at an exercise price of €1.70 (the options vest in portions of one third at April 8 in the three years following the year of the grant date and expire eight years later) and 325,000 options were granted at an exercise price of €2.00 (the options vest from the meeting of shareholders that approves the financial statements for financial year 2004 and expire eight years later).

On November 23, 2004, the Board of Directors, acting in pursuance of the Company’s stock-option program authorized by the Extraordinary General Meeting of November 25, 2003, decided to introduce the “Managers IV” plan to grant 3,000,000 stock options to key managers and personnel at an exercise price of €2.20. The options vested in portions of one third as at November 23 in the three years following the year of the grant date and expire eight years later.

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A summary of the activity relating to stock options plans is presented below:

	Number of shares reserved for future grants	Stock options outstanding	Weighted average exercise price (in €) after distribution
Balance as of April 1, 2005	5,946,498	24,449,952	1.32
Authorized.....	-	-	-
Granted	-	-	-
Exercised	-	(1,374,842)	1.14
Cancelled.....	-	(64,767)	1.20
Balance at June 30, 2005	5,946,498	23,010,343	1.41

The weighted average remaining contractual life of options outstanding is 6.17 years: 4.01 years for “Partners” plan options; 4.32 years for “Managers” plan options; 5.46 years for “Managers II” plan options; 6.52 years for “Managers III” plan options and 7.41 years for “Managers IV” plan options.

Options have been measured at fair value by the Company using the Black & Scholes method based on estimated volatility of 26.36% and a weighted average unit cost of €1.68 per option. Valuations are performed when options are issued and are not subsequently modified. The value of options is then spread on a straight-line basis over the vesting period whilst taking account of option cancellations.

Following the immediate vesting of rights on the basis of the decision of the Board of Directors of May 12, 2005, compensation expense of €3.6 million was recognized in respect of stock option plans for the three-month period ended June 30, 2005. This was offset by a corresponding entry to equity.

12.4- Minority Interests

Nebozzo Sàrl and a minority shareholder signed an agreement on March 14, 2005 relating to the sale by the minority shareholder RSCC of 34,284,270 shares of Eutelsat S.A. at a price of €2.58 per share. The completion of this sale is subject to several conditions, such as the minority shareholder receiving the required administrative authorizations. Nebozzo Sàrl will purchase these shares and the transaction will be financed by the Sponsors. Nebozzo Sàrl has committed to Eurazeo, GSCP and to Cinven that it will immediately sell these Eutelsat shares purchased from the minority shareholder to SatBirds 2. In exchange it is planned that Nebozzo Sàrl will redistribute to Eurazeo, GSCP and to Cinven, their share of the proceeds from the sale of the Eutelsat shares as a payment in both cash and in SatBirds 2 notes. Thereafter, it is envisaged that these notes will be contributed to Eutelsat Communications on October 6, 2005.

NOTE 13 – BANK DEBT

13.1 – Non-current portion

In order to fund the acquisition of Eutelsat on April 4 and June 30, 2005, the Group entered into the following loan agreements on March 30 and April 4, 2005:

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- On April 4, 2005, SatBirds Finance Sàrl completed a senior credit lines facility (“Senior Credit Facilities”), which consists of three components: (i) a 7-year Term A loan with a maximum principal amount of €750 million, (ii) an 8-year Term B loan with a maximum principal amount of €875 million, and (iii) a 7-year revolving credit facility with a maximum principal amount of €150 million.
- On the same date, SatBirds Finance Sàrl also completed an 8½-year second lien credit facility (“Second Lien Credit Facility”), with a maximum principal amount of €475 million.
- On March 30, 2005, SatBirds Capital Participations SCA entered into a €300 million floating rate senior PIK loan facility agreement, the “PIK Loan”, repayable at maturity on May 1, 2014.

a) Senior Credit Facilities and Second Lien Credit Facility

The undrawn amounts of the Term A and Term B loans must be used principally to fund future contribution and sale transactions involving Eutelsat shares.

Interest rates

The amounts drawn on the components of the Senior Credit Facilities bear interest at EURIBOR plus a margin, subject to quarterly adjustments based on the ratio of total net debt to EBITDA (as defined under the terms of the contract, total net debt specifically excludes the PIK Loan). With respect to the Senior Credit Facilities, this margin falls in the range of 1.25 to 2.25% for the Term A loan and the revolving credit facility, and in the range of 2 to 2.75% for the Term B loan. Amounts drawn on the Second Lien Credit Facility bear interest at EURIBOR plus 4.25%.

Early repayment obligations

The terms of the agreements include the obligation to make early repayment of all amounts due, in the event of certain types of modifications in the control of the Company and/or its investment in Eutelsat S.A.

Furthermore, these agreements entail an obligation to make partial early repayment of amounts due in the event of a cash surplus at the level of the parent companies of Eutelsat S.A. However, following a “qualifying” IPO, this obligation for partial early repayment applies only if the ratio of total net debt to EBITDA (as defined under the terms of the agreement, total net debt specifically excludes the PIK Loan) is greater than 5.00 to 1. Under the terms of these agreements, an IPO by the Company is considered to be “qualifying” if upon its completion the ratio of total net debt to EBITDA is less than or equal to 5.00 to 1.

Restrictive clauses

The Senior Credit Facilities and the Second Lien Credit Facility also include restrictive clauses limiting the capacity of Group companies, in particular to:

- pay dividends or carry out other types of distributions. Specifically, the payment of dividends or other distributions is not authorized if the ratio of total net debt to EBITDA is greater than 5.00 to 1;

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- grant security interests or guarantees;
- enter into agreements resulting in additional liabilities (including hedging instruments) or issue preferred shares;
- purchase, retire or redeem subordinated debt prior to maturity;
- grant loans and carry out certain types of investments;
- enter into merger, acquisition, asset disposal, or lease transactions; and
- modify the nature of the business of Eutelsat S.A. or its subsidiaries.

In addition, the agreements entail an obligation concerning the subscription of launch-plus-one-year insurance policies similar to that entailed by Eutelsat S.A.’s syndicated credit facility, described below under (c).

Early redemption options

SatBirds Finance Sàrl has the option to redeem (in part or in full) all components of the Senior Credit Facilities at any time prior to maturity, without penalty or premium. In addition, it may opt for early redemption of the Second Lien Credit Facility (in part or in full) (i) by April 4, 2006 upon payment of 102% of its face value, (ii) between April 5, 2006 and April 4, 2007 upon payment of 101% of its face value, and (iii) from April 4, 2007 upon payment of 100% of its face value. In general, any early redemption must be split between the two types of facilities, with two-thirds of the amount allocated to the Senior Credit Facilities and one-third allocated to the Second Lien Credit Facility.

Financial ratios

The Senior Credit Facilities agreement and the Second Lien Credit Facility agreement require the Group to maintain certain financial ratios, which are tested each quarter on the basis of financial information for the four quarters preceding the test date. In the event of a “qualifying” IPO, and provided that the ratio of total net debt to EBITDA remains less than 5.00 to 1, the financial ratios will be tested twice a year and two of them will no longer apply. The first test date for these ratios is September 30, 2005. In the normal course of events, the applicable net debt ratios and that of consolidated EBITDA to the total payable cash interest expense decrease over time.

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

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

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- 1 The total consolidated debt of SatBirds Capital Participations S.C.A. and its subsidiaries, less the PIK Loan and cash on hand; the total net debt of Eutelsat S.A. and its subsidiaries being multiplied by the percentage of Eutelsat shares held directly or indirectly by SatBirds Capital Participations S.C.A. at the test date.
- 2 The EBITDA of Eutelsat S.A. and its subsidiaries multiplied by the percentage of Eutelsat S.A. shares held directly or indirectly by SatBirds Capital Participations S.C.A. at the test date.
- 3 The total net debt as defined above, less any amounts owed under the Second Lien Credit Facility.
- 4 All distributions made by Eutelsat S.A. to its shareholders, multiplied by the percentage of Eutelsat S.A. shares held directly or indirectly by SatBirds Capital Participations S.C.A. at the test date, plus certain amounts that may have been drawn on the revolving credit facility component of the Senior Credit Facilities, plus certain accrued interest amounts on cash balances, divided by the net interest expense related to the Senior Credit Facilities and the Second Lien Credit Facility.
- 5 The net interest payable in cash of SatBirds Capital Participations S.C.A. and its subsidiaries (with the exception of Eutelsat S.A. and its subsidiaries).

All of these ratios are defined for the entire term of the various credit facilities and decrease over the period, except for the minimum ratio of “consolidated EBITDA to net cash interest payable, which increases over the period.

Default

These credit facilities are subject to an early redemption obligation upon customary events of default, notably if a circumstance has an unfavorable, material impact on the business or the financial situation of the Group and on its capacity to discharge its debt, or if the statutory auditors issue a qualification on the Group’s consolidated financial statements that could have a material impact on the financing.

Security interests and guarantors

SatBirds Finance Sàrl’s obligations under the terms of the Senior Credit Facilities agreement are secured by certain of its subsidiaries as guarantors. These obligations are also secured by a lien on all of the shares of the Group held by the Company and its subsidiaries (with the exception of shares held by Eutelsat S.A. in its subsidiaries) as well as on all intercompany loans.

The Second Lien Credit Facility is secured in the same manner as the Senior Credit Facilities, on a subordinated basis, and with the same security interests, but by a second priority lien.

Interest rate hedging

In accordance with its obligations under the terms of the Senior Credit Facilities and Second Lien Credit Facility agreements, SatBirds Finance Sàrl uses hedging instruments to limit its exposure to interest rate risk for no less than 50% of the amounts drawn on the Senior Credit Facilities (for a minimum period of three years). (see Note 23 – Financial instruments).

b) PIK Loan

On March 30, 2005, SatBirds Capital Participations S.C.A. entered into a €300 million floating rate senior PIK Loan facility agreement (“PIK Loan”), bearing interest at 6-month EURIBOR plus 8.25% (with the possibility of an additional 2% increase from May 1, 2008 if certain debt reduction targets have not been met). The PIK Loan is redeemable at maturity on May 1, 2014. Interest on the PIK Loan is payable, at the discretion of the borrower, either in cash or through capitalization of the interest expense.

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The PIK Loan agreement includes restrictive clauses, combined with exceptions and reservations, limiting the capacity of the Group's companies, in particular to:

- dispose of assets (including equity investments), with the requirement that the income from such a disposal be allocated, in its entirety or in part, to the repayment of the loan or the acquisition of other assets;
- merge with other companies;
- carry out certain types of investments or acquisitions;
- subscribe to or act as guarantor for additional borrowings, or issue preferred shares;
- create certain security interests;
- perform certain transactions with subsidiaries;
- enter into lease agreements.

Furthermore, under the terms of the PIK Loan agreement, SatBirds Capital Participations S.C.A. may not (i) pay dividends or other types of distributions (with the exception of dividends paid in shares), (ii) buy back or redeem its own shares, or (iii) complete early redemption of any subordinated debts.

The agreement also entails an obligation concerning the subscription of launch-plus-one-year insurance policies similar to that entailed by Eutelsat S.A.'s syndicated credit facility, described below under (c).

SatBirds Capital Participations S.C.A. may redeem the PIK Loan, in part or in full, (i) between October 1, 2005 and October 1, 2006 upon payment of 100.5% of its face value, (ii) between October 1, 2006 and October 1, 2007 upon payment of 102% of its face value, (iii) between October 1, 2007 and October 1, 2008 upon payment of 101% of its face value, and (iv) from October 1, 2008 upon payment of 100% of its face value. Moreover, if the control structure of SatBirds Capital Participations is modified, each lender may also obtain early redemption.

c) Syndicated credit facility

On November 24, 2004, Eutelsat S.A. completed a €1.3 billion 7-year syndicated credit facility including (i) a €50 million loan repayable at maturity, and (ii) a €50 million renewable credit facility, to be utilized, in order of priority, in the following manner:

- for the early redemption of pre-existing credit facilities;
- for the refinancing of other liabilities; and
- for the general requirements of the company.

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

Under the terms of this credit facility, Eutelsat S.A. is required to maintain a total net debt to EBITDA (as these terms are defined contractually) ratio of less than or equal to 3.75 to 1, and this ratio is tested at June 30 and December 31 each year. In addition, apart from the usual restrictions, the agreement includes clauses limiting the capacity of Eutelsat S.A. to create

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security interests on its assets, to dispose of assets, or to utilize the income from the disposal of assets for the payment of dividends. However, Eutelsat S.A. is authorized to sell one or more of its satellites (or related assets) for a maximum amount of €450 million, provided that less than half of the net income from these disposals is allocated to the payment of dividends or other types of distributions. Furthermore, this credit facility includes a clause requiring that Eutelsat S.A. subscribe to launch-plus-one-year insurance policies for nearly all its satellites.

d) Medium-term loan agreement

On December 5, 2001, Eutelsat S.A. concluded an agreement for a €150 million medium-term loan with Banca OPI, which reaches maturity on December 24, 2006. Proceeds from this loan were utilized in part to refinance the €500 million bilateral renewable credit facility that was completed on May 30, 2001 with Banca OPI.

Under the terms of this medium-term loan agreement, Eutelsat S.A. must maintain certain financial ratios, which are tested each year. The agreement requires Eutelsat S.A. to maintain a ratio of total net debt to total equity of 1.35 to 1, a ratio of total net debt to EBITDA of 3.5 to 1, and a ratio of EBITDA to net interest expense less than or equal to 5 to 1. At the most recent test date (June 30, 2005), Eutelsat S.A. was in compliance with the financial clauses contained within this loan agreement. In addition, these clauses limit Eutelsat S.A.'s capacity to create security interests on its assets, dispose of its assets, and undertake any other action generally subject to restriction in loan agreements. Furthermore, this credit facility includes a clause requiring Eutelsat to maintain a launch-plus-one-year insurance policy for its satellites. The amounts drawn on this credit facility bear interest at the nominal annual rate of 4.8%.

e) Financial information at June 30, 2005

The non-current portion of the Group's long-term bank debt at June 30, 2005 breaks down as follows:

<i>(In thousands of euros)</i>	June 30, 2005	
	Fair value	Carrying amount
Senior Term A loan (variable rate)	585,293	585,293
Senior Term B loan (variable rate)	875,000	875,000
Revolving credit facility (variable rate)	8,000	8,000
Second Lien Credit Facility (variable rate)	475,000	475,000
Senior PIK Loan (variable rate)	300,000	300,000
Credit facilities (variable rate)	70,000	70,000
Interest-only loan (variable rate)	650,000	650,000
Loan (fixed rate) (*)	26,072	26,527
Subtotal of debts (non-current portion)	2,989,365	2,989,820
Issue costs		(68,270)
Total	2,989,365	2,921,550

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

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Issue costs for the loans contracted for the acquisition of Eutelsat S.A. shares are amortized using the effective interest rate method. Costs remaining to be amortized at June 30, 2005 were charged to the carrying amount of the loans. At June 30, 2005, they represent a balance of €8,270 thousand.

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

At June 30, 2005, the Group had access to the following main credit facilities:

<i>(In millions of euros)</i>	June 30, 2005		
	Amount granted	Amount utilized	Maturity
Senior Term A loan	750	585	4/4/2012
Senior Term B loan	875	875	4/4/2013
Revolving credit facility	150	8	4/4/2012
Second Lien Credit Facility	475	475	10/4/2013
Senior PIK Loan	300	300	5/1/2014
Revolving credit facility	650	70	11/24/2011
Interest-only loan	650	650	11/24/2011
Total	3,850	2,963	

The weighted average interest rate for the period ended June 30, 2005 on amounts drawn under these credit facilities is 5.5%.

At June 30, 2005, the non-current debt maturity analysis is as follows:

<i>(In thousands of euros)</i>	June 30, 2005	Maturity		
		within one year	between 1 and 5 years	Maturity after 5 years
Senior Term A loan	585,293	-	-	585,293
Senior Term B loan	875,000	-	-	875,000
Revolving credit facility	8,000	-	-	8,000
Second Lien Credit Facility	475,000	-	-	475,000
Senior PIK Loan	300,000	-	-	300,000
Interest-only loan	650,000	-	-	650,000
Fixed-rate loan	77,708	51,181	26,527	-
Revolving credit facility	70,000	-	-	70,000
Total	3,041,001	51,181	26,527	2,963,293

13.2 – Current portion

Current debts include accrued interest at June 30, 2005 on the debts described above in Note 13.1. These current debts consist of the following elements:

(In thousands of euros)	June 30, 2005
Bank overdrafts	<u>4,437</u>
Accrued interest	<u>22,193</u>
Portion of the fixed-rate loan due within one year	<u>51,181</u>
Total	<u>77,811</u>

An increase of 10 basis points (+0.1%) in the EURIBOR interest rate has an impact amounting to €2,763 thousand for the entire year in the income statement at June 30, 2005.

NOTE 14 – OTHER LIABILITIES

14.1- Long term portion

Other liabilities principally comprise “performance incentives” and liabilities recognized under finance leases (see note 2.9).

<i>(In thousands of euros)</i>	June 30, 2005	
	Fair value	Carrying amount
Performance incentives	92,369	83,827
Capital leases	115,377	111,832
Total	<u>207,746</u>	<u>195,659</u>

Long-term interest related to performance incentives amounted to €16,462 thousand at June 30, 2005.

14.2 – Current portion

Current liabilities are as follows at June 30, 2005:

<i>(In thousands of euros)</i>	June 30, 2005
Performance incentives (1)	<u>18,123</u>
Capital leases (2)	<u>55,110</u>
Total	<u>73,233</u>

(1) Including accrued interest of €5,017 thousand at June 30, 2005.

(2) Including accrued interest of €18,406 thousand at June 30, 2005.

NOTE 15 – OPERATING AND FINANCE LEASES

15.1 – Operating lease

The Group pays rent for use of Eutelsat S.A.'s registered office located in Paris. The lease was renewed on June 21, 2005 for a period of 9 years. Rent expense amounted to €1,036 thousand for the period ended June 30, 2005. Future rent expense is as follows:

<i>(In thousands of euros)</i>	Total	Short term	From 1 to 5 years	Thereafter
Rental expenses	<u>32,106</u>	<u>3,210</u>	<u>14,448</u>	<u>14,448</u>

15.2 – Finance leases

The Group operates five satellites under finance leases. Except for the ATLANTIC BIRD™ 1 satellite (see note 24.1, Purchase commitments), the lease contracts do not contain a purchase option at the expiry of the lease term.

The finance lease contracts expire in 2016. The minimum future lease payments due in respect of these contracts are as follows:

<i>(In thousands of euros)</i>	June 30, 2005
Less than 1 year	55,110
From 1 to 5 years	80,560
After 5 years	60,387
Total	<u>196,057</u>
Interest component	47,521
Present value of minimum lease payments	<u>148,536</u>

Interest expense for the satellites subject to capital leases amounted to €1,784 thousand for the period ended June 30, 2005.

NOTE 16 – PROVISIONS (SHORT TERM PORTION)

The change in provisions (short term portion) for 2005 is as follows:

<i>(In thousands of euros)</i>	Provisions
April 1, 2005	7,876
Increase in provisions	972
Reversal of provisions not required	(1,621)
Use of provisions	(90)
June 30, 2005	<u>7,137</u>

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

NOTE 17 – OTHER PAYABLES AND DEFERRED REVENUE

Other liabilities and deferred revenue were as follows at June 30, 2005:

<i>(In thousands of euros)</i>	<u>June 30, 2005</u>
Deferred revenue	42,875
Guarantees and advances	21,738
Tax liabilities	22,812
Liabilities for social contributions	8,875
Other liabilities	3,991
Total	<u><u>100,291</u></u>

NOTE 18 – CURRENT AND DEFERRED TAX

Income tax payable for the year ended June 30, 2005 has been estimated by applying the transitional arrangements for the five-year period, as defined by the French tax authorities, with effect from the transfer of operations, according to which the standard corporate income tax rate is applied to a tax base reduced by 20% in the fourth year and by 10% in the fifth year before the reduction expires in the sixth year.

It may be noted that the supplementary finance act for 2003 introduced the possibility of accelerated depreciation of satellites acquired or built with effect from January 1, 2003. Treated as tax accelerated depreciation in the Company's individual statutory accounts, this measure has no impact on consolidated results.

18.1 – Income tax

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

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

<i>(In thousands of euros)</i>	<u>Three-month period ended June 30, 2005</u>
Current tax expense	(14,518)
Deferred tax income	268
Total income tax expense	<u><u>(14,250)</u></u>

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

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<i>(In thousands of euros)</i>	<u>Year ended June 30, 2005</u>
Income before tax and share of income of associates	5,840
Standard French corporate income tax rate	34,93%
Theoretical income tax charge	(2,040)
Impact of transitional provisions	4,220
Permanent differences and other items	<u>(16,430)</u>
Actual corporate income tax expense	<u>(14,250)</u>
Actual corporate income tax rate	<u>243%</u>

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

18.2- Balance sheet tax balances

Changes in the deferred tax balances between April 1, 2005 and June 30, 2005 were as follows:

<i>(In thousands of euros)</i>	April 1, 2005	Recognized in the net income of the period	Recognized in equity	June 30, 2005
Bad debt provisions	17,583	2,702	-	20,285
Financial guarantee granted to the pension fund	14, 810	(6, 552)		8, 258
Provisions for impairment of assets	45,489	110		45,599
Finance lease	2,670	(799)		1,871
Performance incentives	2,379	768		3,147
Pension provisions	1,793	35		1,828
Capitalized interests	(2,755)	(15)		(2,770)
Tax accelerated depreciation	(16,431)	(2,370)		(18,801)
Financial instruments	1,170	1,503	7,202	9,875
Provision for risks and charges	1,857	133		1,990
Accrued liabilities	2,269	445		2,714
Other non deductible provisions and miscellaneous items	(1,637)	482		(1,155)
Total net deferred tax assets	<u>69, 197</u>	<u>(3, 558)</u>	<u>7,202</u>	<u>72, 841</u>
Intangible assets	<u>(320,130)</u>	<u>3,826</u>		<u>(316,304)</u>
Total deferred tax liabilities	<u>(320,130)</u>	<u>3,826</u>		<u>(316,304)</u>
Net total	<u>(250,933)</u>	<u>268</u>	<u>7, 202</u>	<u>(243,463)</u>

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Net deferred taxes break down as follows:

	Deferred tax assets	Deferred tax liabilities
Due within one year	6,601	(15,304)
Due after one year	66,240	(301,000)
Total	72,841	(316,304)

Deferred tax liabilities relate to the fair value of “Customer contracts and similar arrangements” and of the Eutelsat brand, valued at €29,800 thousand, giving rise to a deferred tax liability of €20,130 thousand. The amortization of customer contracts over 20 years, amounting to €1,113 thousand in the three-month period, generated deferred tax income of €826 thousand.

Eutelsat S.A. was subject to a tax audit for the periods ending June 30, 2002, 2003 and 2004. No notification had been received from the tax authorities with respect to this audit at June 30, 2005. At this point in time, the Company is not aware of any specific positions likely to give rise to a contingent liability.

NOTE 19 – PROVISIONS (LONG TERM PORTION)

See Note 16 (Provisions (Short Term Portion))

<i>(In thousands of euros)</i>	<u>June 30, 2005</u>
Financial guarantee to a pension fund	43,129
Retirement and other post-employment benefits	6,258
Total long term provisions	<u>49,387</u>

19.1 – Financial guarantee to a pension fund

Eutelsat S.A., as a result of the transfer by the IGO of its operational business as of July 2, 2001, granted its financial guarantee to the Trust managing the pension plan established by the IGO. Before this date, the pension plan had been shut down, and the accrued rights were frozen.

This guarantee can be called under certain conditions to compensate for future under-funding of the plan. During the year ended June 30, 2005, as a result of the significant decline in long-term interest rates, the guarantee was called upon in an amount of €2.3 million. This amount was valued on the basis of the trust’s projections of future market developments.

At June 30, 2005, no payments had yet been made.

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The actuarial valuations at June 30, 2005 were based on the following assumptions:

	<u>June 30, 2005</u>
Discount rate	4.00%
Expected rate of return on assets	4.00%
Inflation rate	2.00%

At June 30, 2005, the situation is as follows:

<u>Reconciliation of assets and liabilities recognized in the balance sheet</u> <i>(In thousands of euros)</i>	<u>June 30, 2005</u>
Present value of obligations	168,714
Fair value of plan assets	<u>(125,585)</u>
Net financing recognized in the balance sheet	<u>43,129</u>

The fair value of plan assets does not include any amounts relating to any financial instruments issued by Eutelsat S.A. nor any real estate or other fixed assets owned or used by the Company.

<u>Movements over the year in the provision recognized in the balance sheet</u>	<i>(In thousands of euros)</i>
Provision at April 1, 2005	<u>(43,012)</u>
Net expense recognized in the income statement	(117)
Provision at June 30, 2005	<u>(43,129)</u>

<u>Net expense recognized in the income statement</u> <i>(In thousands of euros)</i>	Three-month period ended June 30, 2005
Current service cost	<u>-</u>
Interest expense	1,614
Expected return on plan assets	(1,497)
Actuarial difference: (gain) / loss.	<u>-</u>
Net expense recognized in the income statement	<u>117</u>

Due to the freezing of rights and the closing of the IGO plan before the transfer on July 2, 2001, the current service cost is nil.

The actual return on the plan's assets was €3.1 million.

19.2- Post employment benefits

a) Retirement indemnities

French law also requires payment, as appropriate, of a lump sum retirement indemnity to employees based upon years of service and compensation at retirement. Benefits do not vest prior to retirement. This scheme is not financed.

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

	June 30, 2005
Discount rate	4.00%
Inflation rate	2.50%

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

	June 30, 2005
<u>Reconciliation of the assets and liabilities recognized in the balance sheet (in thousands of euros):</u>	
Fair value of unfinanced obligations	3,740
Past service costs amortized over 23 years	1,419
Actuarial losses	(29)
Liability recognized in the balance sheet	5,130

Movements during the year in the liability recognized in the balance sheet (in thousands of euros):

Liability at April 1, 2005	5,052
Net expense recognized in the income statement	78
Benefits paid	-
Liability at June 30, 2005	5,130

Net expense recognized in the income statement (in thousands of euros)

	Three-month period ended June 30, 2005
Service cost of the period	57
Financing cost	38
Past service cost	(17)
Actuarial (gains) / losses.	
Net expense recognized in the income statement	78

b) Supplementary schemes

The Group has an additional defined contribution plan for its employees (excluding salaried corporate officers), financed by contributions of 6% of gross annual salary, limited to eight times the Social Security threshold. The Group has no further liability in connection with these contributions. The employer's contributions paid for this purpose were €62 thousand.

The Eutelsat S.A. sub-group has an additional defined benefit plan for corporate officers, established following a supervisory board decision taken in July 2002, which is financed by contributions of 12% of their total gross compensation. The present value of the obligation at June 30, 2005, amounts to €1,127 thousand and is partly financed.

c) Mandatory schemes

In accordance with French law, the Group meets its obligations to finance pensions for employees in France by paying contributions based on salaries to the relevant entities that manage mandatory pension schemes. The Group has no other commitments in relation to these contributions. The employer's contribution paid during the period was €2,882 thousand.

NOTE 20 – SEGMENT INFORMATION

20.1 – Segment analysis

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

The distribution of the Group's revenues by services for the period ended June 30, 2005 is as follows:

<i>(In thousands of euros)</i>	Three-month period ended June 30, 2005
Full-time transponder lease services	159,177
Part-time transponder lease services	3,328
Business services	23,926
Mobile services	1,498
Other	751
Total consolidated revenues	188,680

20.2 – Analysis by geographical zone

The Group's revenue by geographical zone, based on invoice addresses for the year ended June 30, 2005, was as follows (in thousands of euros and as a percentage of total revenue):

<i>(In thousands of euros and as a percentage)</i>	Three-month period ended June 30, 2005	
Region	Amount	%
France	29,429	15.6
Italy	28,032	14.9
United Kingdom	33,580	17.8
Europe (other)	67,352	35.8
North and South America	14,808	7.9
Middle East	9,520	5.1
Other	5,959	3.0
Total	188,680	100.0

NOTE 21 – FINANCIAL RESULT

The financial result is made up as follows:

<i>(In thousands of euros)</i>	<u>June 30, 2005</u>
Interest expense (banks)	(38,799)
Other interest expense	(3,304)
Loan set up fees	(2,291)
Capitalized interest	895
Interest income	646
Commitment fees and other charges	(502)
Financial instruments costs	(14,265)
Provisions for risks	(117)
Provisions on financial assets	370
Foreign exchange losses	(362)
Foreign exchange gains	1,124
Net financial expense	<u>(56,605)</u>

Capitalized interest for the period ended June 30, 2005 amounted to €895 thousand.

The capitalization rates used to determine the amount of interest expense eligible for capitalization were 4% for the twelve-month period ended June 30, 2005. “Other interest expense” comprises interest related to satellite performance incentives and to finance leases for respectively €1.5 million and €1.8 million for the period ended June 30, 2005.

NOTE 22 – EARNINGS PER SHARE

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

	<u>June 30, 2005</u>
Weighted average number of shares outstanding used to compute basic earnings per share	256,902,763
Incremental number of additional shares that would result from the exercise of outstanding stock options	0
Weighted average number of ordinary shares used to compute diluted earnings per share	256,902,763

As of June 30, 2005, there are no dilutive instruments originating from Eutelsat Communications. The only instruments of dilution relate to Eutelsat S.A.

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

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

Basic earnings per share:

	<u>June 30, 2005</u>
Net earnings (in thousands of euros)	(14,376)
Weighted average number of shares outstanding	256,902,763
Basic earnings per share (euros)	(0.056)

Diluted earnings per share:

	<u>June 30, 2005</u>
Net earnings (in thousands of euros)	(14,756)
Weighted average number of shares used to compute diluted earnings per share	256,902,763
Diluted earnings per share (euros)	(0.057)

NOTE 23 – FINANCIAL INSTRUMENTS

The Group has exposure to market risks in particular with regard to foreign exchange and interest rates. Such risks are actively managed by management and for this purpose the Group employs a certain number of derivatives, the objective of which is to limit, where appropriate, exposure of revenue and cash flows to interest rate and foreign exchange risks. The Group 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.

23.1 – Foreign exchange risk

The Group's functional currency is the euro and the Group is therefore principally exposed to fluctuations in the value of the U.S. dollar. The Group consequently, as a means of preserving the value of assets, commitments and forecast transactions, enters into contracts whose value fluctuates in line with changes in the euro/dollar exchange rate. In particular, the Group hedges certain future U.S. dollar revenues by means of financial instruments such as options, forward currency transactions and foreign currency deposits which are entered into with first rate banking counterparties.

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

During the period ended June 30, 2005 the Group only purchased foreign exchange options (euro calls and U.S. dollar puts).

23.2 – Interest rate risk

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

Following the completion of credit contracts for the acquisition of Eutelsat, the Group has set up the following interest rate hedges:

- A 3-year tunnel (purchase of a cap and sale of a floor) for a nominal amount of €1,700 million intended to hedge Eutelsat Communications' credit facilities.

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- - A forward pay fixed/receive variable swap for an amount of €850 million and a purchase of a forward cap for a nominal amount of €850 million, intended to serve as a partial hedge of Eutelsat Communications' credit facilities, both covering an additional two years (years 4 and 5).

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

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

23.3 – Counterparty risk

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

23.4 – Key figures as of June 30, 2005

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

<i>(In thousands of euros)</i>	Contractual or nominal amounts	Fair value at June 30, 2005	Change in fair value during the period	Impact on income statement	Impact on equity
Foreign exchange options	82,400	1,499	(1,540)	(1,540)	-
<i>Total foreign exchange derivatives</i>	82,400	1,499	(1,540)	(1,540)	-
Swap (Eutelsat S.A.)	650,000	(26,021)	(20,917)	-	(20,917)
Forward swap (Eutelsat Communications)	850,000	(4,287)	(1,081)	-	(1,081)
Purchased cap (Eutelsat Communications)	850,000	3,029	(177)	(177)	-
Tunnel (Eutelsat Communications)	1,700,000	(5 709)	(12,152)	(9,350)	(2,802)
Tunnel (Eutelsat S.A.)	450,000	(2 039)	(3,198)	(3,198)	-
<i>Total interest rate derivatives</i>	4,500,000	(35,027)	(37,524)	(12,725)	(24,800)
Total derivatives	4,582,400	(33,528)	(39,064)	(14,265)	(24,800)

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During the period ended June 30, 2005 the variations in fair value recognized within financial income or expense in respect of financial instruments amounted to an expense of € 14,265 thousand.

As of June 30, 2005, an increase in EURIBOR's interest rate of 10 basis points (0.1%) would have an impact on an annual basis of €2,763 thousand on the finance costs.

Breakdown of financial instruments qualifying as hedges as of June 30, 2005:

<i>(In thousands of euros)</i>	Contractual or notional amounts	Fair value at June 30, 2005	Change in fair value during the period	Impact on income statement (inefficient portion)	Impact on equity (efficient portion)
Forward swap (Eutelsat Communications)	850,000	(4,287)	(1,081)	-	<i>(1,081)</i>
Swap (Eutelsat S.A.)	650,000	(26,021)	(20,917)	-	<i>(20,917)</i>
Tunnel (Eutelsat Communications)	1,700,000	(5,709)	(12,152)	<i>(9,350)</i>	<i>(2,802)</i>
Total hedging derivatives	3,200,000	(36,017)	(34,150)	<i>(9,350)</i>	<i>(24,800)</i>

NOTE 24 – OTHER COMMITMENTS

As of June 30, 2005, management considers that, to the best of its knowledge, no commitments existed that may have an impact on the Group's present or future financial position with the exception of the following items.

24.1 – Purchase commitments

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

Future minimum payments at June 30, 2005 are scheduled to be paid as follows:

<i>(In millions of euros)</i>	As of June 30, 2005
2006	25
2007	8
2008	8
2009	7
2010 and thereafter	20
Total	68

The above total includes €8.9 million for purchase commitments with related parties (see Note 23 Financial Instruments).

At June 30, 2005, future payments under satellite construction contracts amount to €2 million and future payments under launch and launch-insurance agreements amount to €42 million.

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In April 2000, Eutelsat S.A. entered into initial agreements for use of satellite capacity with a financial institution and a satellite manufacturer from the in-orbit delivery of ATLANTIC BIRD™ 1. In-orbit insurance still outstanding over the next 8.5 years is €8.5 million. The Group has a satellite purchase option, which it can exercise between 5 and 9.25 years after the date of delivery in audit.

In October 2000, Eutelsat S.A. entered into a lease agreement with a related party for 12 transponders on the EXPRESS AM1 satellite. The agreement entered into with the same related party for SESAT 2 resulted in the termination of this agreement at no cost.

24.2 – Satellite insurance

As of June 30, 2005, most of the satellites are covered by in-orbit insurance over satellite lives. Satellites launched ten or more years ago (the EUTELSAT II series, including HOT BIRD™ 1) are no longer insured in orbit.

The others are insured as follows:

- A first policy covers up to €80 million per satellite and applies to 11 of Eutelsat S.A.'s 18 satellites. Each of these satellites is covered for its net book value, adjusted to cover the revenues at risk on certain satellites and in particular HOT BIRD™.
- A second policy covers €80 million to €10 million (cumulative) and applies to 16 of the 18 satellites.
- A third policy covers €10 million to €80 million (cumulative) and applies to the same 16 satellites.
- An additional amount is covered separately for W3A.

The last three policies cover satellite net book values.

These policies cover total loss and partial loss, except for the additional amount insured for W3A, which is limited to total loss.

This in-orbit insurance cost is recorded as an expense in the accounting period to which the insurance cover applies.

24.3 - Litigation

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

NOTE 25 – RELATED-PARTY TRANSACTIONS

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

<i>(In thousands of euros)</i>	Three-month period ended June 30, 2005
Gross receivables (includes unbilled revenue)	130,576
Liabilities (includes accrued invoices)	15,338

Current assets comprise trade receivable balances and unbilled revenue, and do not take into account the provisions for bad debts.

Transactions with related parties included in the income statement for the period ended June 30, 2005 are as follows:

<i>(In thousands of euros)</i>	Three-month period ended June 30, 2005
Revenues	48,640
Operating costs, selling, general and administrative expenses	1,095
Financial result	67

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

The Group entered into transactions with certain shareholders for services related to the provision of services relating to the monitoring and control of satellite operations.

Transactions with related parties included in the acquisition cost of Eutelsat S.A. shares amount to €37,961 thousand.

NOTE 26 – STAFF COSTS

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

<i>(In thousands of euros)</i>	Three-month period ended June 30, 2005
Operating costs	4,824
Selling, general and administration expenses	13,710
Total	18,534

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The average number of employees is as follows:

	Three-month period ended June 30, 2005
Operations	178
Selling, general and administrative	299
Total	477

As of June 30, 2005, the Group has 481 employees.

No compensation has been paid to the company officers of Eutelsat Communications for the three-month period ended June 30, 2005.

No attendance fees were paid to members of the Board of Directors for the three-month period ended June 30, 2005.

The Group has an employee savings plan (*Plan d'Epargne d'Entreprise*) reserved for its employees with more than three months of service, funded by voluntary contribution of the employees.

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

NOTE 27– EVENTS AFTER THE BALANCE SHEET DATE

On August 10, 2005, the W1 satellite experienced a technical incident resulting in an interruption in service lasting for several hours. Preliminary inquiries revealed that a failure affecting one of the satellite's two solar panels resulted in a reduction in the nominal power of the unit, leading to a decrease in its functional capacity and in all likelihood its useful life as well, to an extent that remains to be determined. On the morning of August 11, the vast majority of customers were restored to normal operating conditions on the W1 satellite or, in a few cases, on other satellites of the Group's fleet.

At June 30, the net carrying value of this satellite amounted to €14.8 million, including in-orbit satellite performance incentives.

Pursuant to the Group's insurance policy, the satellite is partially covered. The Group will conduct a more precise assessment of damages in the very near future.

During the month of July 2005, the Group offered to repurchase from all holders any shares originating from the exercise of stock options under the Eutelsat S.A. "Partners" plan before June 30, 2005 which were not invested in the company savings plan (*plan d'épargne d'entreprise*), under the following conditions:

- Purchase Price: €2,57
- Sale order signed before September 8, 2005

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- Payment to be made before on September 30, 2005

The number of qualifying shares eligible for this offer is 2,029,995.

On June 30, 2005, the shareholder group granted powers to the president of the Board of Directors in order for him to proceed with one or more issuances of shares with warrants attached (*actions à bons de souscription d'action*) (ABSA). These shares are reserved for managers and officers of the Eutelsat group subject to a maximum capital increase (par value) of €6,660,000. This increase can be executed immediately or after a certain period but must be previously authorized by the Board of Directors.

The Board of Directors in its meeting on July 15, 2005 has authorized the president to proceed with the issuance of 835,200 ABSA1 and 882,380 ABSA2, with the following characteristics:

- ABSA1: sold at €1.378 per share
- ABSA2: sold at €1.54 per share
- Each ABSA is granted with 2.7 warrants
- Each warrant will give the right to purchase one share of Eutelsat Communications.

The subscription price of the ABSA is required to be fully paid in cash on subscription. The difference between the subscription price of each ABSA and the par value of the shares will be booked as “Additional Paid-in Capital.”

The above transaction relates to put and call option agreements with each manager and officer concerned for shares of Eutelsat S.A. The put and call agreements are related to shares issued, or which would be issued, upon the exercise of stock options granted by Eutelsat S.A. via its various «Managers » stock option plans, representing about 18.3 million shares, and are detailed as follows:

Call option agreement:

- Provided by each of the managers and officers for the benefit of Eutelsat Communications
- Exercise price per share: €2.80
- The exercise period: for a period of three months after the end of the tax-free period applicable to each of the relevant groups of shares.

Put option agreement:

- Granted by Eutelsat Communications
- The exercise price was determined on the basis of a valuation of Eutelsat equal to 8.5 of the Eutelsat group’s consolidated EBITDA (after having deducted the net debt of the Eutelsat group).
- The exercise period: for each of the group of shares concerned, up to one month after the end of the exercise period of the corresponding call options.

NOTE 28 – COMPANIES INCLUDED IN THE CONSOLIDATION

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

Company	Country	Consolidation method	% of voting rights as of June 30, 2005	% interest as of June 30, 2005
SatBirds Capital Participations SCA	Luxembourg	Full consolidation	100%	100%
SatBirds Capital Sarl	Luxembourg	Full consolidation	100%	100%
SatBirds Finance Sarl	Luxembourg	Full consolidation	100%	100%
SatBirds II SAS	France	Full consolidation	100%	100%
White Birds	France	Full consolidation	100%	100%
Eutelsat S.A.	France	Full consolidation	93.18%	93.18%
Eutelsat S.A. Group		Full consolidation		
- Eutelsat do Brasil S.A.	Brazil	Full consolidation	100%	93.18%
- Eutelsat Italia	Italy	Full consolidation	100%	93.18%
- Skylogic Italia s.r.l.	Italy	Full consolidation	100%	93.18%
- Eutelsat Services und Beteiligungen GmbH	Germany	Full consolidation	100%	93.18%
- Visavision GmbH	Germany	Full consolidation	100%	93.18%
- Eutelsat Inc.	USA	Full consolidation	100%	93.18%
- Eutelsat UK Limited	UK	Full consolidation	100%	93.18%
- Eutelsat Polska s.p.z.o.o.	Poland	Full consolidation	100%	93.18%
- Skylogic Polska s.p.z.o.o.	Poland	Full consolidation	100%	93.18%
- Hispasat	Spain	Equity method	27.69%	25,80%

Hispasat's last accounting period was for the year ended on December 31, 2004. The consolidation of Hispasat under the equity method was performed using Hispasat's financials as of June 30, 2005.

NOTE 29 – PRO FORMA FINANCIAL INFORMATION RELATING TO EUTELSAT COMMUNICATIONS GROUP

Pro forma financial information is based on Eutelsat Communications' IFRS financial statements for the three months ended June 30, 2005 and Eutelsat S.A.'s IFRS financial statements for the year ended June 30, 2005.

Pro forma financial information includes the most significant adjustments in Eutelsat Communications' consolidated income statement and the consolidated balance sheet for the period ending June 30, 2005. The objective of these adjustments is to reflect, without being representative, the impact on the Group's financial position and the net income (loss) that would have resulted if:

- The acquisition of 85.65% of the Eutelsat group completed on April 4, 2005 and the additional acquisition of 7.67% completed on June 30, 2005 had both been completed on July 1, 2004.
- The Term A and B Loans and the revolving facility under the Senior Credit Facilities, the Second Lien Credit Facility and the PIK Loan contracted as of April 4, 2005 for the step acquisitions of the Eutelsat group had been contracted as of July 1, 2004.

However, the Group's interest rate hedging instruments used for debts mentioned above such as swaps, tunnels and caps contracted in April 2005 are not subject to pro forma adjustments which could have impacted the balance sheet and the income statement if these hedging instruments were considered to have been contracted as of July 1, 2004.

These adjustments are made on the basis of estimates and assumptions made by the Group's management.

Pro forma financial information may not reflect what the Group's financial position, net result, cash flows and changes in shareholders' equity would have been if Eutelsat's acquisition and the related debt financing had been completed as of July 1, 2004.

Description of pro forma adjustments

- (a) This adjustment represents 12 months of amortization expense on the "customer contracts and relationships" intangible asset, identified during the Eutelsat group's acquisition. The value allocated to this identified intangible asset during the purchase price allocation was €18,688 thousand. It is amortized on a straight-line basis over 20 years.
- (b) Adjustments of financial expenses relating to debts incurred for financing the Eutelsat group's acquisition. The interest expense for 12 months is computed using the effective interest rate for each line of debt and is recognized in the three-month income statement of Eutelsat Communications for the period ended June 30, 2005.
- (c) Adjustment of income tax relating to the recognition of a deferred tax liability on the intangible asset "customer contracts and relationships." A deferred tax liability of €20,130 thousand is recognized as of July 1, 2004 and adjusted by €15,305 thousand of which €3,826 thousand have already been adjusted during the period ended June 30, 2005.
- (d) The share of net result from equity investments has been adjusted by €2,272 thousand, in order to maintain a percentage of Group ownership in Eutelsat which is stable over the period. The consolidated pro forma net result shows minority interests of 6.82% between July 1, 2004 and June 30, 2005.

CONSOLIDATED PRO FORMA INCOME STATEMENT

	Eutelsat	Sub-group	Pro forma		Eutelsat
	June 30, 2005	Eutelsat	Adjustments	Ref.	Communication
<i>(In thousands of euros)</i>	(12 months)	Communications			s
		(3 months)			June 30, 2005
					(12 months)
Revenues	750,402	-	-		750,402
Operating costs	(69,022)	-	-		(69,022)
Selling and administrative expenses	(101,132)	(1,005)	-		(102,137)
Depreciation and amortization	(262,392)	(11,112)	(33,339)	(a)	(306,843)
Other operating expenses	(84,000)	(695)			(84,695)
Operating income (loss)	233,856	(12,812)	(33,339)		187,705
Financial result	(47,312)	(41,755)	(109,361)	(b)	(198,428)
Income from equity investments	315				315
Income (loss) before tax and minority interest	186,859	(54,567)	(142,700)		(10,408)
Income tax	(49,847)	3,826	11,479	(c)	(34,542)
Income (loss) before minority interest	137,012	(50,741)	(131,221)		(44,950)
Minority interest		(5,083)	(2,272)	(d)	(7,355)
Net result	137,012	(55,824)	(133,493)		(52,305)