2006 FINANCIAL REPORT

We will always need to innovate

CONTENTS

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

We have convened this Combined General Meeting in accordance with provisions of law and of our articles of association, in order to report on the operations of CS Communication & Systèmes and its subsidiaries during the financial year 2006 and to submit for your approval the balance sheet, income statement and notes as of December 31, 2006.

I/ COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Since 2005, the CS Group has presented its consolidated financial statements using International Financial Reporting Standards (IFRS).

Consolidated 2006 revenues amounted to € 331.2 million compared to € 345.5 million in 2005. During the year, the CS Group grew its business outside of France (+17%) with the share of total CS Group sales for these operations steadily advancing to 14.2% in 2006 (11.7% in 2005).

Order intake stood at € 384.7 million (+5.5% compared with 2005).

Operating margin for 2006 reached € 10.7 million (3.2% of revenues, up 41% to gain 1 point compared with 2005).

Other operating expenses and income were negative at -€ 5.4 million compared to –€ 10.7 in 2005.

This resulted in operating income of € 5.4 million compared to a loss of -€ 3.0 million for the preceding financial year.

After taking net interest charges of -€ 3.4 million and the impact of deferred taxes into account, attributable net profit totaled € 5.5 million (1.7% of sales) compared to a loss of -€3.3 million in 2005.

The improvement in cash flow (€ 4.4 million compared to € 1.3 million in 2005) and the favorable variation in working capital requirements (€ 6.3 million) combined to improve net cash, which stood at € 31.4 million at December 31, 2006, excluding borrowings with maturities over and under one year (€ 19.4 million).

Working capital requirements remained negative at -€ 36.9 million that is 11% of revenues ex-VAT. Gearing stood at -26% compared to -11% at December 31, 2005.

Net cash included outstanding factored receivables totaling € 45.4 million compared to € 21.7 million at December 31, 2005.

At December 31, 2006, consolidated shareholders' equity stood at € 46.3 million.

II/ COMMENTS ON THE CS COMMUNICATION & SYSTÈMES COMPANY FINANCIAL STATEMENTS

Revenues for the year amounted to € 2.9 million (€3.0 million in 2005), and consisted mainly of amounts charged back to subsidiaries under related-party agreements.

Operating income was virtually breakeven (€ 8,000) compared to a loss of € 325,000 in 2005.

The positive financial income of € 5.9 million includes reversals of provisions on equity interests, following the performance of impairment tests. Last year, this result was depressed by a write-off of a € 5.9 million loan, extended to the subsidiary, CSSI.

An exceptional € 200,000 one-off charge was registered. As the parent company of a consolidated tax group, CS Group also registered a tax refund of € 230,000.

For the financial year 2006, the Company earned net income of € 5.9 million compared to net income of € 4.4 million in 2005.

The Company's shareholders' equity amounted to € 109.0 million (€ 96.3 million in 2005).

III/ ALLOCATION OF NET INCOME

Net income for 2006 amounted to € 5,942,209.94 which, when allocated to past retained earnings of € 21,560,369.80, will give a total of € 27,502,579.74. The Board recommends to the General Meeting to allocate this amount as follows:

- statutory reserve: € 162,355 in order to bring this reserve up to € 3,149,549, i.e. a maximum of 10% of the share capital;
- the balance of € 27,340,224.74 to be allocated to retained earnings.

No dividends will be paid for the financial year 2006.

In accordance with provisions of law, we recall that CS Communication & Systèmes has not paid any dividends for the past three financial years.

IV/ ACTIVITIES OF BUSINESS DIVISIONS AND OTHER CONSOLIDATED SUBSIDIARIES

As prime contractor for the design, integration and operation of mission critical systems, CS operates all along its customers' value chains. CS generates more than 73% of its revenues from its systems design and integration business (Build) and 27% from its systems operation business (Run). CS generates around 80% of its revenues billed using the fixed-price project method, and 20% billed as services on a time-and-materials basis.

In the overall IT service marketplace, CS Group benefits from a distinct positioning that reflects the company's three main strengths:

- its prime-contracting expertise for large, complex projects,
- its ability to innovate and propose solutions, adapted to customer needs and budgets,
- its capacity to leverage the complementary nature of its activities in order to offer its customers an end-to-end business paradigm: Design / Build / Run.

Today, CS positions itself as an established provider, acknowledged by large customers who have remained loyal for more than twenty years, thanks to the know-how, commitment and sense of service of its employees.

CS Communication & Systèmes revenues by activity are as follows:

TRENDS IN REVENUES AND OPERATING MARGIN BEFORE NON-RECURRING ITEMS

Net revenues in € M	IFRS	2004	2005	2006
Build		219.7	256.7	250.8
Run		105.6	96.5	91.6
Eliminations		-5.6	-7.6	-11 .2
Total		**319.7**	**345.5**	**331.2**

Operating margin	IFRS	2004	2005	2006
Build		9.6	14.1	14.3
As % of revenues		4,4 %	5,5%	5,7%
Run		-2.0	-4.7	-3.1
As % of revenues		- 1.9%	- 4.9%	-3.4%
Eliminations		-1.3	-1.9	-0.4
		N.A.	N.A.	N.A.
Total		**6.3**	**7.6**	**10.7**
(% of total revenues)		2.0%	2.2%	3.2

2004 revenues by activity

- BUILD : 70% of revenues
- RUN : 30 % of revenues

2005 revenues by activity

- BUILD : 73% of revenues
- RUN : 27% of revenues

2006 revenues by activity

- BUILD : 73% of revenues
- RUN : 27% of revenues

For the 2006 financial year, revenues from the "Build" business totaled € 250.8 million, down 2.2% compared with the preceding year, due to the phasing out of low value-added activity in deployments for telecom operators. Excluding the impact of these deployments (-€ 12 million over the year 2006), there was 3% growth. Order intake over the entire year for the "Build" business was up 6%, to reach € 289.5 million, and the book-to-bill ratio attained 1.15.

Revenues for the year from the "Run" business totaled € 91.6 million, with a 2006 fourth quarter advance of 2.6% compared with the fourth quarter of the preceding year, and an 11% jump over the third quarter in 2006. Order intake for the business in 2006 increased 8.5% compared with 2005, to reach 106.5 million, with a book-to-bill ratio of 1.16 for the year, thanks to acceleration in order intake during the second half.

Production volume figures for the last three years:

CS Group 2006 consolidated revenues amounted to € 331.2 million, surpassing the announced objective of € 330 million. Order intake stood at € 384.7 million (+5.5% compared with 2005).

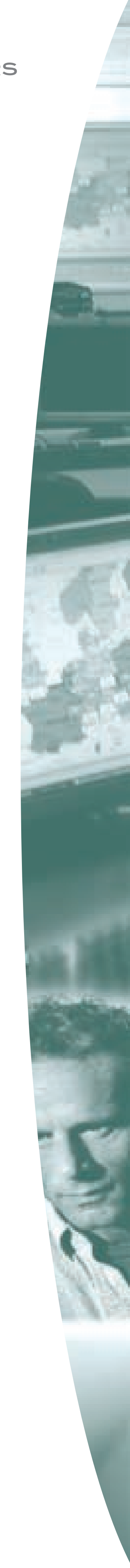
Consolidated 2006 revenues amounted to € 331.2 million compared to € 345.5 million in 2005. During the year, the CS Group grew its business outside of France (+17%) with the share of total CS Group sales for these operations steadily advancing to 14.2% in 2006 compared to 11.7% in 2005.

In 2006, CS generated 85.8% of revenues in France and 14.2% (up 17%) abroad, through subsidiaries in Germany, Romania, Croatia, the U.S., Canada, Chile, Puerto Rico, and the United Kingdom.

CS has concentrated its positioning around two fields of expertise: mission critical systems and infrastructures. During the financial year 2006, CS organized its activities into two divisions, corresponding to its fields of expertise. Through these two divisions, CS offers its customers integrated solutions covering the complete lifecycles of projects: Design / Build / Run.

Since adhering to IFRS, CS financial communications focus on its businesses "Build" (design and integration of systems) and "Run" (systems operation). Starting in 2007, CS will align its financial communications with its structure and its fields of expertise: on the one hand mission critical systems and infrastructures on the other.

	2006 key figures	Offerings	Stakes
Mission Critical Systems Division	• Sales: € 205.9 M, 61% of total revenues • Operating margin: 6% • Employees: 1,695	• Defense & Security: air defense (ATC), IT security, surveillance, crisis management, and C4ISR • Intelligent Transportation Systems • Space Systems • Cross-organizational competencies: simulation & virtual reality, embedded systems / avionics, specialty IS (PLM, EDM, GIS, ILS, etc.)	• Prime contractor management • International expansion
Mission Critical Infrastructures Division	• Sales: € 137.7 M, 39% of total revenues • Operating margin: 6% • Employees: 1,695	• Audit & Consulting • Integration, deployment and optimization • Managed Services: insourcing & outsourcing • Maintenance	• Cover the entire scope of IT and networking • Industrialization and high performance



CS is the preferred partner of broad economic sectors, notably in the fields of defense, aerospace, energy, transportation, the public sector, finance, and industry.
CS places the most innovative technologies at the service of its customers in order to build global systems and offer IT service solutions.
CS ranks amongst the European leaders in its markets, thanks to its capacity for innovation, combined with human and technological potential.

The main sector in which CS operates is Aerospace and Defense, which accounts for 50% of Group revenues.

MISSION CRITICAL SYSTEMS DIVISION

→ DEFENSE & SECURITY

Air Defense: A major operator in systems integration for air defense, CS is positioned as project manager for aviation safety. As project manager for the creation of a new ground-to-air radio communication system, SRSA (successor to METEOR) for the French Air Force, CS plans to create air traffic control centers with new, secure voice and data transmission systems for communication with aircraft. Furthermore, CS is carrying out a complete overhaul of control towers and approach control centers on 26 military air bases pursuant to the contract, CLA 2000. This project, for a total of € 150 million, of which the realization phase began in early 2002, will continue into 2009.

To supplement its offer in this area, CS acquired Diginext during the final quarter of 2004. Specializing in design and construction of complex communication systems. This acquisition allows CS to strengthen its positioning in the area of tactical data links, thus complementing its offering to meet the needs of the French armed forces and NATO.

Homeland Security: Confronted with fresh challenges and security requirements, homeland security is an increasingly dynamic marketplace, and was a natural investment choice for CS. With a long-standing presence in the field of C4ISR (Command, Control, Communication, Computing, Intelligence, Surveillance & Recognition) and IT security, CS deploys its expertise to the benefit of national and collective security. In this context, CS proposes an offering in the fields of intelligence, command centers, sensitive site security, risk management, and preparation of civil and military security missions.
CS was hired in 2004 by the French Ministry of the Interior as project manager for the creation of the National Police's Centers of Information and Command (CIC). During 2006, CS designed the system, trained operators and deployed 11 CICs. Also during the year, CS developed a nationwide application of an electronic complaint-filing system for the French Interior Ministry, as well as developing Defensive IT Prevention resources for the French Defense Ministry.
Thanks to its expertise in signal processing, communication, simulation and other technologies, CS is involved in programs to define future electronic warfare systems, ground-to-ground, ground-to-air and satellite communication systems, and systems for civil security operation centers.
CS aims to expand its international reach, especially in NATO and Middle Eastern countries.

→ AERONAUTICS/INDUSTRY

Involved in major aeronautics domains, CS guides far-reaching projects and designs, develops and validates embedded software that responds to the most stringent operating safety requirements (DO178 B). CS is one of the main players in the design and realization of real-time critical embedded software. CS has developed an offering that covers the entire lifecycle of embedded software packages: from the articulation of needs through to specifications and creation, all the way to maintenance. CS is there every step of the way to develop these project components and to answer the requirements of security, dependability and performance.
As a main partner of Airbus for embedded systems, CS has a presence across the entire range of the manufacturer's aircraft. In addition, it is gaining ground with engineering teams as well as in the field of specialized information system development, notably PDM/PLM.

CS ensures the optimization for its customers of their IT systems and implements solutions for:

•PLM (Product Lifecycle Management), document engineering, logistical support systems, assistance in maintenance, repair and operations (MRO), groupware, and decision support,

•scientific computing: mathematical modeling and digital simulation,

•virtual reality,

•software engineering: methods, programs and environments for developing real-time or non-real-time software,

•consulting in quality, safety and methods (UML), assistance with project management and execution.

In the context of the "Aerospace Valley" competitive cluster, CS is OVALIE project coordinator, developing a tool to check embedded software through static analysis. With an operation in Canada, CS has developed embedded systems for the leading aeronautics industry manufacturers (Pratt & Whitney, Lockheed Martin, Sikorsky, Hispano-Suiza, Goodrich, and others). CS relies on its Romanian subsidiary for offshore internal leverage to boost project productivity. In a related development during the financial year 2006, CS was awarded CMMI Level 3 certification.

→ SPACE

CS builds on and places at the service of its customers its unique experience in creating components for civil and military space programs: centers for mission control and space mechanics, real-time embedded software, satellite system quality and operation, and virtual reality applications. With over 30 years of experience in the field of engineering for earth stations and mission control centers, CS is the first European company to supply operational systems for the European Space Agency (ESA), the French Space Agency (CNES), and the German Space Agency (DLR).

CS has strengthened its presence in digital image processing and covers the complete range of software components in the image data chain, from reception to delivery of value-added products to end users.

CS uses and develops space data to create innovative applications as spinoffs to other customer sectors. It brings global solutions to the areas of risk management, environmental data management, GSM/GPS (geo-positioning), and homeland security.

The combination of its aerospace know-how and systems operation expertise has enabled CS to assume responsibility for global processes (technical process outsourcing), for example, the overall process of allocating agricultural subsidies.

In 2006, CS worked for CNES as systems project manager for the earth segment of Pleiades (space-borne system for earth observation). In another development, it was awarded contracts for projects involving space mechanics.

→ ENERGY/UTILITIES

CS has partnered with the CEA (French atomic energy commission) and EDF (French electric company) for many years. It is especially active in the design, development and maintenance of scientific coding and applications. CS offers a global service in high-performance simulation, access to powerful computing tools, and highly-developed scientific coding in order to optimize simulation and modeling studies, and thus accelerates design and product development phases. CS is a partner in the CEA Ter@tec initiative, one of the foremost European competency clusters in simulation and intensive computing, and is consortium leader in the IOLS project within the SYSTEM@TIC competitive cluster.

At the heart of critical processes, CS is also active in the development of control and instrumentation applications, particularly in Romania, where CS developed the systems, SCADA (Supervisory Control and Data Acquisition) and DCS (Distributed Control Systems), for Hidroelectrica, as well as the control and instrumentation systems for hydroelectric power plants on the Danube.

In the area of dismantling power plants, the CS offer is backed by its expertise in virtual reality, simulation, configuration management, and mission planning and follow-up.

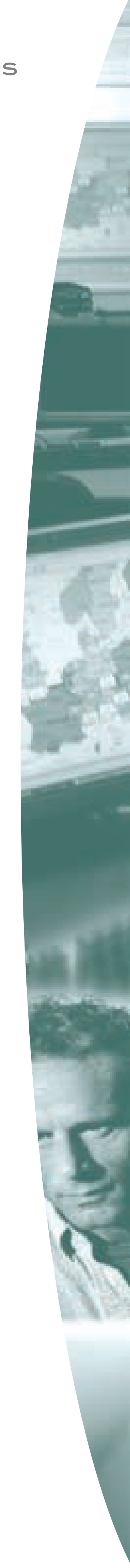
→PUBLIC SECTOR

A longtime partner of central, local and regional governments, CS offers a comprehensive range of services to help government IT systems come into their own and to improve service to citizens.

• Design and implementation of secure, collaborative IT infrastructure

• Freeware: testing and development platform, data migration

• Architectural design, network implementation



For instance, CS rolled out the first trans-regional government portal for nationwide administrative management of individual address changes. CS also deployed an intranet for the French Ministry of Agriculture, which enables its 20,000 civil servants around France to communicate.

→ TRANSPORTATION

The leader in toll collection, «contactless» toll collection (free flow), and traffic management systems, CS is number three worldwide with its global offering in response to the road traffic stakes in Europe and around the world.
Combining its know-how in the management of transportation infrastructure, fleet management, geo-positioning, traffic information, and e-money, CS blends its multifaceted expertise to offer innovative systems. CS operates along the entire value chain, from systems rollout to outsourced maintenance and systems operation.
In 2006, CS confirmed its international stature by winning in the Middle East its first customer reference in this region for the deployment of the intelligent transportation system on King Fahd Causeway, linking Bahrain with Saudi Arabia. Authorities responsible for the Golden Ears Bridge in Vancouver, Canada, also awarded CS a contract for a complete, electronic, toll collection system.

→ FINANCE

Recognized for its expertise in working with high-performance systems and applications that bring innovation and security together with time and cost control, CS provides its customers security and the assurance of continuous operation.
In this context, CS designed and deployed the new banking services network (e-RSB) on behalf of GIE Cartes Bancaires, a leading payment card operator, and maintains the network in operational condition.

MISSION CRITICAL INFRASTRUCTURES DIVISION

The Mission Critical Infrastructures division is dedicated to offer its customers a single entry point for consulting, design, integration, deployment, and managed services (insourcing/outsourcing). This way, they are assured of performance, security and continuity of operations for their IT and networking infrastructures.
Crucial to organizational efficiency, IT and networking infrastructures must be managed, optimized and justified in order to ensure maintainability and evolution for applications and the systems that run them. In this sense, the Mission Critical Infrastructures division is perfectly complementary with Mission Critical Systems division.

→ AUDITS AND TECHNOLOGY CONSULTING

CS, acting as a technology consultancy, incorporates consulting in information and communication systems, assistance in project management for IT and networking infrastructure design and roll-out, as well as development quality and methods (ITIL, etc.). CS allies its technical know-how with experience in the business sectors of its customers. Moreover, multidisciplinary teams, who work in close cooperation with CS experts, back this offering.

→ INTEGRATION, DEPLOYMENT AND OPTIMIZATION OF IT INFRASTRUCTURES

CS designs, integrates and deploys secure, high-performance communication systems and infrastructures. As an integrator of corporate networks and value-added services, CS is acknowledged for its expertise in the arena of mission critical infrastructures for IT & Telecoms. Its capacity to design and deploy evolving architectures, which guarantee quality of service to end users, eases the implementation of new applications and services.
In 2006, CS was hired by the French Ministry of the Economy, Finance and Industry in order to undertake the overhaul of their entire local area network (LAN). This design-to-budget contract, worth a maximum of € 10 million, was signed for 4 years and includes a call for auditing, consulting in architecture, deployment and maintenance, plus training networking users from four ministerial departments.

→ MANAGED SERVICES (INSOURCING/OUTSOURCING)

CS offers its customers an industrial approach to the management and evolution of information and communication systems. Workstations, servers, networks and security – CS covers the complete spectrum of the infrastructure needs of its customers. Specialist in the management of critical environments, CS ensures a service, adapted to customer requirements and activities, and proposes a level of service and commitment that matches corporate constraints and user profiles perfectly.

CS also offers network management and security, thanks to its cumulative know-how in "Build" and "Run." Already a designer and operator for the French research network, RENATER, and for GEANT, its European equivalent, in 2005, the Sanofi-Aventis group selected CS to ensure worldwide supervision of its networking. Then in 2006, the Caisse d'Epargne group chose CS to ensure supervision for its backbone network and for networking among the 5,000 branch offices of the group.

CS works with customers on change strategy and offers proposals in the evolution and transformation of their infrastructures.

→ DATA MIGRATION AND SYSTEMS CONVERSION

An acknowledged player in the industrialization of data migration and systems conversion, CS accompanies its customers in their transformations by assuring them of complete security and integrity in the evolution of a source system to a target system. This business is particularly relevant to the banking sector.

Furthermore, CS implements service centers in order to accompany its customers in the transformation of their information systems, through its offering of TMA, TRA or application development solutions. For instance, France Telecom (SIFAC) chose CS to qualify the billing application for its installed base of mobile subscribers from the customer-companies of Orange (DISE application).

→ MAINTENANCE

On completion of its project management contracts and deployment of communication infrastructures, CS guarantees maintenance of equipment in working order for customers. France's leading provider for maintenance, CS offers 24/7 service and assures its customers that they have a local service solution, thanks to its regional presence across 27 service sites. In addition, CS has a dedicated logistics platform for maintenance in order to ensure responsiveness and availability. CS maintains 180,000 installations, on 50,000 sites and makes 15,000 on-site maintenance calls a year.

CS can even take responsibility for mixed equipment-manufacturer environments and guarantee the overall availability of a customer environment, thanks to its strong commitment to aligning remuneration and results.

V/ RESEARCH & DEVELOPMENT

R&D is adapted to the position of CS as a mission critical systems integrator, differentiating itself through strong technological innovation. R&D thus represents 4% of revenues, of which 0.7% is cash flow. The objective is to maintain CS development methodologies at the highest level of the market, to acquire technological components that continue to set the CS Group apart, and to accompany major customers in their strategic programs.

In 2006, R&D activity primarily focused on the various challenges of homeland security (the ALBA product for radio surveillance, as well as command, crisis management, and heavily-secured communication infrastructures and information systems), intelligent transportation systems (contactless toll collection/free flow, and traffic management using satellite-based geo-positioning), scientific, technical and operational simulation (high-performance and grid computing, virtual reality and 3D displays), and software engineering for real-time critical applications. Significant innovation has been achieved based on virtual reality, open source software, the IP protocol in critical environments, security and assured continuous operation. Also in 2006, ten patents and ten software programs were registered.

Within the framework of these projects, CS intervenes upstream in the definition of technical standards, participating in the committees of the international bodies concerned, in particular, for the introduction of IP technologies in aviation navigation (European open sky, project SESAR), for critical embedded software in aeronautics, and for short-range hyperfrequency links (ETSI).

For several years, CS has participated in research programs supported by the French Ministries for Research and Industry, and in programs supported by the European Commission under the Sixth Framework Program for Research and Technological Development. Moreover, CS is very active in defense R&D programs. The European projects in which CS participates last an average of two to three years; CS is associated with such partners as CERN, INRIA, INA, France Telecom, CEA, EADS, Dassault Systèmes, and Airbus.

In 2006, CS was involved in 23 projects of this nature; of note was its active contribution to competitive clusters of international stature, approved by the CIADT (*Comité interministériel de l'aménagement et du développement du territoire,* or French interministerial committee for land use and development):

→ SYSTEM@TIC is in the Paris region. CS is a major industrial partner of the cluster, devoted to complex systems and software. In particular, CS manages the IOLS project (*Infrastructures et Outils Logiciels pour la Simulation,* or infrastructures and software tools for simulation) for development and optimization of simulation software necessary for the analysis, design, and optimization of increasingly complex, innovative products and systems.

→ Aerospace Valley in the Midi-Pyrenees and Aquitaine regions operates in the fields of aeronautics, space and embedded systems. CS, a major player in the world of aerospace and with a strong regional presence, is an active participant in the activities of Aerospace Valley. The Es-Pass consortium (for the project, OVALIE), which develops test tools using static analysis of critical embedded software, is coordinated by CS and has the objective of introducing new technologies to the industrial process of mission critical systems development.

→ Cancer-Biotechnology-Health (Cancéropôle), in the Midi-Pyrenees and Limousine regions, focuses on the fight against cancer. CS and IBM are partnering on the Cancéropôle site to set up a shared, transverse services platform dedicated to competitiveness.

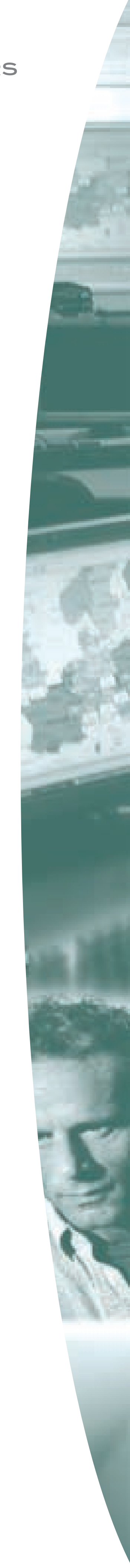
→ Sea, Security, Safety and Sustainable Development in the Paris-Alps-Côte d'Azur regions. CS and its subsidiary Diginext are involved directly in homeland security and more particularly in close-in protection systems for persons, goods and installations in a high-value zone for maritime operations. This activity, in the maritime segment, forms part of the overall development strategy of CS in homeland security.

VI/ ENVIRONMENTAL AND SOCIAL POLICY

Nearly 3,200 employees participate daily in achieving a common goal: to offer customers solutions adapted to their expectations and to help them define and apply their strategies for change. CS values: listen to the customer, transparency, a spirit of service and recognized know-how.
CS is acknowledged for the expertise of its people in mastering the most critical projects. In this area, CS has a network of experts whose purpose is to counsel customers and to bring them the technological solutions best adapted to their needs and their advancement. The mission of CS staff: to meet tomorrow's challenges. For this purpose, CS has also made its experts available to schools and universities, where they teach courses in the state-of-the-art.
CS is an IT service company. As a consequence, its activities present no industrial or environmental risks.

VII/ HUMAN RESOURCES POLICY

The CS Group's workforce as of December 31, 2006 stood at 3,195 employees, compared with 3,207 at December 31, 2005.
In 2006, 4% of the payroll expense was dedicated to training. In line with the management of its subsidiaries, contract management skills and enhancing expertise, CS continued to extend its training program. This program is associated with a certificate, which enables CS to validate the competencies and effectiveness of its staff and to provide them with a framework for career advancement and recognition of their status.



→ Organization of work time

A collective agreement was signed with employee representatives in July 2000, fixing weekly work time at 36.65 hours, with the grant of 10 days per annum of compensatory time off.
In 2006, absenteeism represented between 2% and 2.5% of the workforce.

→ Compensation trends

In 2006, the compensation policy was to grant an across-the-board wage increase to all employees, plus individual wage measures; overall wage increases represented 2% of the total payroll expense.
Payroll taxes represented 51% of gross salary to the employee.

→ Bonuses, profit sharing and employee savings plans

CS has not set up a profit sharing agreement. Moreover, in the absence of a taxable profit, there is no profit-sharing reserve.
A corporate savings plan is offered, with two UCITS investment funds.

→ Gender equality and workforce diversity

The annual statutory report identified a few irregularities, for the most part due to specific cases; a more in-depth study during the year is set to analyze any possible structural problems.
The Company pays a legal contribution in favor of the employment of disabled persons, since less than ten disabled persons are included in its workforce.

→ Charitable contributions

These represented 0.88% of payroll expenses.

→ Outsourcing

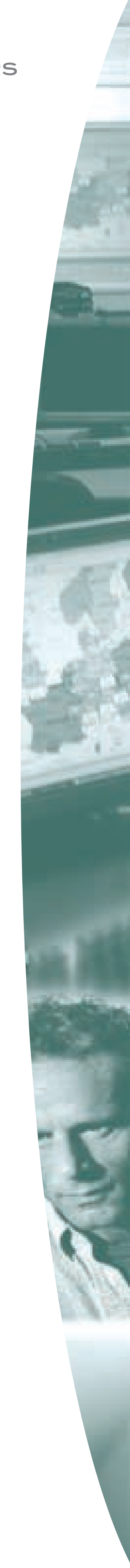
This represented 4.3% of the equivalent full-time workforce in 2006.

VIII/ CHANGES IN THE COMPANY'S FINANCIAL POSITION

Growth in order intake and a book-to-bill ratio of 1.16 for the financial year (1.27 for the second half) meant that 2007 began with an improved order book that represented 14 months of revenues.
The continued improvement in the CS Group's operating margin, which reached 3.2% of revenues in 2006, the increase in shareholders' equity (€ 46.3M at the end of 2006), the improvement in net cash (€ 12M at December 31, 2006) and the outlook for enhanced profitability, especially following the recovery in progress for the mission critical infrastructures division, allow the CS Group to face the changes in its business and particularly to put into place the sureties and financial arrangements necessary to enable it to obtain large multi-year contracts.

IX/ DESCRIPTION OF THE MOST IMPORTANT RISKS

At present, there is no known strategy or factor, whether in the economy, the national budget, monetary policy or government policy in general, other than those expressly mentioned in this chapter, that Management believes has or can have a marked influence on the CS Group's operations, whether directly or indirectly.



→ Volatility in IT service markets

The markets, in which CS Communication & Systèmes operates, have been growing since 2005. They are subject to fluctuations in demand that can affect CS Communication & Systèmes earnings. Increased competition reduces margins and puts greater pressure on the CS Group's performance; it can also slow down improvement in profitability. Customer priorities remain the control and indeed the reduction of costs, thereby reducing the number of outside service providers. Purchasing departments have set up ever more drastic systems for drawing up their lists of suppliers, which are above all aimed at reducing the cost of services as well as the number of service providers. This is particularly true of government contracting. This situation can affect the ability of CS to retain or increase market share, since about 17% of sales are realized with government departments and another 15% with other public-sector entities, mainly in France. The need to respect the Maastricht criteria could lead the French government to slow down capital expenditures and hence the growth potential of CS in this marketplace.

→ Market risks (interest and exchange rate risks, securities risks, and credit risks)

The CS Group's purpose is not to engage in speculative operations. Hence, various financial instruments, negotiated solely with first-rank financial institutions, are used only in order to hedge the CS Group's interest-rate and foreign exchange risks.

INTEREST-RATE HEDGING

In order to reduce the financial cost of medium- and long-term borrowings, CS Group policy is to manage its exposure to interest-rate risk (rate increases) on variable-rate borrowings and to benefit from any decline in interest rates in the case of fixed-rate borrowings. The financial instruments used are mainly interest-rate swaps.

Medium- and long-term debt (excluding OBSAR bonds) is essentially fixed-rate (lease contracts, financial leases, etc.) which consequently do not create any exposure to interest-rate risks.

Short-term debt is entirely constituted by the factoring of trade receivables and the use of authorized bank overdrafts. Since change in the volume of their use is extremely short-term and fluctuates with daily cash flows, no hedging has been set up.

CASH AND VARIABLE-RATE BORROWINGS AT DECEMBER 31, 2006

(only unhedged variable-rate assets and liabilities are taken into account)

	Total	In < 1 year	From 2 to 5 years	Longer
Financial assets	3,530	3,530		
Financial liabilities	-47,902	-47,902		
Net balance	-44,372	-44,372	0	0
Impact of a 1 point rise in interest rates	-444	-444	0	0

Financial assets include cash and cash equivalents, recognized using the fair value option.

The indexation of OBSAR bonds, described in note 15, appended to the 2006 consolidated financial statements, to a variable rate (three-month Euribor rate) generates a financial risk in the event of a rate increase. This risk was hedged by a three-month Euribor receiver swap and a payer swap at a fixed interest rate of 3.68%.

EXCHANGE-RATE HEDGING

The share of sales and expenses that CS realizes and recognizes in foreign currencies is small, and the CS Group's exposure to exchange-rate fluctuations is therefore slight. In 2006, consolidated sales outside of the euro zone made up only 9% of total consolidated sales.

In effect, most sales are within the euro zone. In the case of calls for tender originating outside of the zone, CS denominates its bids in euro whenever possible. In the other cases, exchange risk is normally hedged beginning with submission of the tender and continuing over the life of the contract if it is won by CS.

Receipts and disbursements in foreign currencies are made by fully identified operating units. They are hedged by put and call options and futures contracts on foreign currencies. Most of these foreign-currency receipts and disbursements are in U.S. dollars or pounds sterling.
The Group holds neither significant permanent cash positions in foreign currencies nor any futures contracts not specifically linked to operations.
Sales and disbursements of group subsidiaries are generally in local currencies and hence the CS Group's exchange risk is quite limited.
At the close of the fiscal year, receivables and payables in foreign currencies are translated at the exchange rate prevailing on that day, or at the rates on hedging instruments if this is appropriate. Unrealized exchange-rate gains and losses are recognized in the income statement.

Risks on securities

In € thousands, December 31, 2006	Third-party shares, UCITS*	Treasury shares
Asset position	3,530	0
Markdown in shareholders' equity	0	958
Off-balance sheet	0	0
Net overall position	3,530	958

* UCITS are shares in money-market funds acquired to invest surplus cash over the short-term.

Liquidity risks

In € thousands	12/31/2006		12/31/2005		12/31/2004	
	Authorized	Used	Authorized	Used	Authorized	Used
Bank overdraft facilities	5,012	2,522	6,018	1,930	8,370	2,970
Sale of receivables, Dailly Act (BDPME)	25,000	0	36,046	13,533	36,662	36,252
Factoring: financing obtained	57,000	22,743	22,583	22,583	15,000	11,742
Medium- and long-term borrowings	5,498	5,311	2,966	2,966	6,794	6,794

• Risks related to the structure of the balance sheet

On June 9, 2006, CS issued OBSARs (Obligations à Bons de Souscription d'Actions Remboursables, or bonds with redeemable warrants) in order to enhance the structure of its balance sheet.
The principal characteristics of this bond issue are the following:

Issue amount	Redemption date	Coupon value	Hedged interest rate	Blended interest rate	Original debt financed	Cost of debt financing	Original shareholders' equity
€ 14.85 M	**June 9, 2009**	**3 month Euribor + 0.734 %**	**4.414%**	**6.80%**	**€ 13.84 M**	**€ 0.64 M**	**€ 0.37 M**

CS had a negative working capital requirement (WCR) of € 36.9M at the end of 2006 compared to € 30.5M at the end of 2005. This makes it possible for the company to function without significant working capital. This negative WCR results from rigorous management of contracts: monthly forecasts for receipts and disbursements on projects are verified before sales offers are made. The billing schedule on contracts is reviewed every month, and collection of receivables is handled by a centralized team. A significant part of the variable compensation of these managers is dependent on meeting WCR objectives.

Maintaining a negative WCR relies on the ability of CS to negotiate satisfactory billing and payment conditions. This may be affected by certain major private-sector customers, who sometimes impose longer payment conditions or ask that CS spread its billing over several years for the development of the IT solutions it provides, given their own program for the delivery of equipment. Central government departments also have annual budgets for payment that are not always aligned with the commitments they have made. Hence, programs may be spread over time, which generally has a very negative impact on the financing of such contracts.

Hence, in 2006 as in 2005, the WCR of CS increased substantially, by € 5.7M and € 20.2M, respectively for the two years, notably in the defense business. Because in 2006 this was more than offset by improvements in other business activities, the overall WCR at the end of 2006 improved by € 6.3M.
At the same time, the CS Group disbursed € 0.6M to acquire shares in its subsidiaries and repaid € 1.9M in borrowings.

<u>Risks on short-term financing:</u>
The net negative debt of CS at the closing of the last four fiscal years does not preclude the need for temporary financing to meet fluctuations in business operations; the historical top figure for such needs is€ 25M. Financing is assured through bank overdraft facilities, at € 5M, and through factoring and sales of receivables for € 57M and € 25M, respectively. By definition, the amounts drawn down are determined by the volume of unpaid billings. Credit lines for CS are of unlimited duration and the limits are at a sufficient level; the volume of receivables to be financed rarely exceeds these limits. However, any slowdown in billings could affect the capacity of CS to temporarily finance its debts.

RISKS RELATIVE TO THE COMPANY'S FINANCIAL SITUATION

Since 2001, CS has pursued plans for structural improvements to reinforce its operating margin and reduce debt.
Taken together, the measures undertaken by the CS Group have made it possible to maintain a positive overall cash position of € 12.1M, based on IFRS , since June 2004. This has since been confirmed at the closing of each half-year period: € 20M at end-2004, € 11.9M at end-June 2005, € 4M at end-2005, and € 12M at end-2006. Gearing, under the IFRS definition of the ratio of net debt (including the restatement of debt on financial leases and factoring with right of recourse as borrowings) to shareholders' equity has remained negative, at -52 % at end-2004, -11% at end-2005 and -26% at end-2006.
The overall cash position of CS includes factoring of outstandings of €11.7M at December 31, 2004, € 21.7M at December 31, 2005 and € 45.38M at December 31, 2006.
In accordance with the convention signed on February 10, 2005, with its bank partners, since January 31, 2006, CS has had access to lines of credit and guarantees with an indeterminate time limit. These are not subject to any covenants, on the part of CS, which would permit the banks to terminate them without notice should CS not continue to maintain certain ratios.

The overdraft facility has been € 5.3M since December 31, 2006, while the guarantee line was increased to € 40.5M on February 1, 2005.
Under the Dailly Act, CS also has a right to draw on sales of receivables up to a limit of € 25M. This was confirmed May 5, 2006, and runs until April 30, 2007. CS also has a factoring line of indefinite duration, which was increased for the CS Group, December 21, 2006, up to € 33M. In addition, a contract for the sales of trade receivables was signed June 26, 2006. This contract stipulates a limit on these sales of € 24M, spread between Option A (€ 11M, for duration of 5 years) and Option B (€ 13M, of indeterminate duration).

These facilities are intended to cover changes in the cash position of up to € 25M over six months.
Collateral is a pledge by the parent company and a pledge of shares in its subsidiary Diginext.
The Company has not set up any credit derivatives.
To further reduce WCR, which was still structurally negative, but up to -€ 36.8M at end-2006, the CS Group has set up measures for the modification of the procedures for sales, billings, receipts and purchasing. CS has also set up a training program and included the goal of reducing WCR as one of the criteria for the variable part of compensation for its managers.
As of December 31, 2006, consolidated shareholders' equity came to € 46.3M.
The "Build" business should benefit from a more favorable market situation with a solid customer base, which in turn should permit increased sales and an improved operating margin. The Company's "Run" business aims at markets with greater value-added – outsourcing for mission critical systems – hence restoring profitability.
CS maintains as a priority the goal of improving operating margin so that in the medium term the CS Group can attain performance levels in line with those of its peers; it also aims at consolidating its gearing.
Although Management believes that the CS Group has the capacity to continue to improve profitability, effectively achieving this goal may be subject to some delays and uncertainties, in particular, the present pronounced volatility of both the financial and IT markets. Hence, Management can give shareholders no guarantees that its goals will be attained.

Legal risks

NON-RESPECT OF A COMMITMENT TO CERTAIN QUANTITATIVE TARGETS AND RISK OF CANCELLATION OR DEFEASANCE

An important part of the business of the CS Group takes the form of contracts at flat rates that include performance obligations. Such contracts may include risks that involve having to complete a contract at a lower or indeed negative profit margin, terminating the service provided with possible non-payment of all or part of invoices issued, or penalties incurred through the execution of the contract or due to its cancellation. The services provided by the CS Group are by nature essential to a customer's business. Any inadequate implementation, for example in the case of sensitive computer systems, or any breakdown in the execution of services, could be harmful to the customers of CS.

Management is not aware of any lawsuit that could have a significant impact on the end-of-year financial statements. However, the Company has been the object of complaints from customers or suppliers about services provided and cannot be sure there will be so such complaints in the future. These complaints have not led to any legal proceedings.
Certain contracts concluded by the CS Group allow customers to cancel them at any moment, subject to giving notice and payment of penalties. This possibility is an added element of uncertainty in the sales flow of the CS Group.
Management believes that it has set up a contracting policy and contract management procedures, as well as means of monitoring contract execution, which make it possible to reduce these risks. Nonetheless, they cannot be sure that no such risk will materialize and that no significant complaints will be made in the future.

RISKS RELATED TO LEGAL, REGULATORY, OR GOVERNMENTAL AUTHORIZATIONS NEEDED FOR THE COMPANY TO PURSUE ITS ACTIVITIE

In the greatest part of its business, CS operates within a profession that is not regulated other than through contractual conditions freely negotiated between parties. Exceptions are projects subject to the government procurement code or to specific regulations.
In other words, except for certain sensitive markets concerning defense or the nuclear industry, the profession of CS is not subject to any authorizations requiring accreditation. For contracts concluded concerning defense and military applications, CS Communication & Systèmes signs "Secret - Defense" or "Confidential - Defense" agreements applied to the managers, technicians and engineers working on customer premises, and holds on its own behalf accreditations, labeled AFC (Autorisations de fabrication et de commercialisation, or authorizations to manufacture and market). This authorization procedure is centrally controlled within the CS Group. Given its long-standing relationships with customers in defense and in the nuclear industry, CS Communication & Systèmes is well versed in the procedures and methods applying to accreditation. However, it is possible that the time required to obtain such authorizations could complicate the process of bringing together a project team in cases where personnel, qualified for a particular assignment, are not accredited.

EXCEPTIONAL FACTS AND LITIGATION

A provision for this contingency was recognized in the financial statements (see Note 13, appended to the 2006 Consolidated Financial Statements). A process of consultations on a job-security plan that would entail terminating 180 positions began on April 20, 2005. Implementation of the plan effectively began July 18, 2005, and employee departures began in September 2005 and were spread out through the first quarter of 2006. This job-security plan was not associated with any disposals or business closures.
There are no other governmental, legal or arbitrage procedures or any other procedure Management is aware of, which are in suspense or which threaten the Company and which are susceptible of having or have had any significant and direct effects on the financial situation or profitability of the Company and/or the CS Group in the last six months.

CONFIDENTIALITY REQUIREMENTS

Because of the nature of many of its customers - major national or international accounts - the Company is subject to confidentiality clauses in the provision of its services. These clauses do not hamper the process of developing the Company's knowledge base and do not give rise to additional financial costs, except in the case where the Company might fail to respect its obligations in this regard.

TAX ISSUES

CS Group companies are periodically subject to tax audits, both in France and in countries abroad in which the CS Group operates. Provisions will be entered unless Management believes that the points raised by the tax authorities are unjustified or that there is sufficient reason to believe that the CS Group's position will prevail in any litigation. CS and its subsidiary CSSI were the subject of a tax audit by the French authorities, concerning the financial years 1999 to 2003. Tax deficiency assessments did not generate any liabilities or additional charges.

→ Business risks

THE CUSTOMER PORTFOLIO

Most of the CS customer portfolio comprises major accounts in France and abroad. These major accounts represent many contracts involving different programs or applications. Hence, these relationships are not monolithic. Since these multi-year contracts are now in the process of being renewed, the CS Group's knowledge of the environment and the practices involved should serve to set it apart from competitors. During the two years prior to publication of this report, the CS Group did not sign any major contracts outside of the normal course of its business.

RESOURCES

As an IT company, the CS Group may face two opposed business risks. These are either a dearth of computer experts or engineers in the IT services market, or an overcapacity in the face of declining demand. In either case, as an IT company, CS needs to adapt its production capacities to the marketplace. Overcapacity in the market in the last few years has led to pressures on pricing and on the rate of employment among engineers.

TECHNOLOGY TRENDS

CS Communication & Systèmes markets are characterized by very rapid changes in technology and the frequent offer of new services, software and other products. CS Communication & Systèmes has adopted a strategy aimed at keeping up with these trends. Although Management believes that the CS Group has the capacity to adapt its offer in this context and to meet the changing needs of its customers, it cannot guarantee that this will always be the case.

→ Insurance - coverage of possible risks carried by the underwriter

PROJECT RISK MANAGEMENT

Risks surrounding the management of systems integration projects may reduce earnings on a project or do damage to a customer's image of CS Communication & Systèmes. To avert and master such risks, CS has set up a procedure for risk management and follow-up on contracts. This procedure includes the earliest possible identification of risks of all kinds that might have an impact on the project. Following their identification, the corresponding preventive measures are taken. CS provides extensive training programs to all contract managers, allowing each of them to share the best resources and practices in contract management with his or her colleagues.
Contracts identified as having potential risks, whether because of their size or their technical complexity, are subject to more intensive monitoring, including eventual periodic review by senior management.

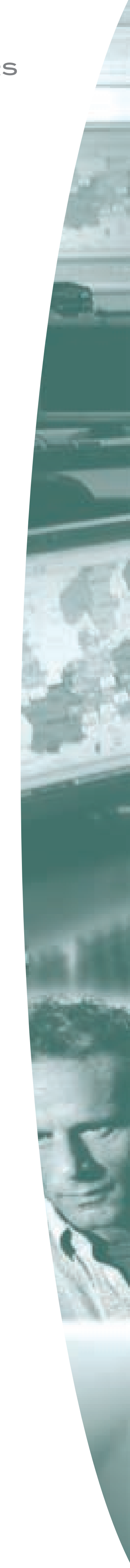
SURETIES

Some contracts with French customers or for export require setting up guarantees.

COVERAGE OF POSSIBLE RISKS CARRIED BY THE UNDERWRITER

CS has taken out a major program of insurance policies with known and solvent companies, covering both itself and its subsidiaries against financial or labor-related risks undertaken doing business. It does not subscribe to any captive companies.
There are no significant un-insured risks. The principal risks covered are:

- All risks/business interruption
- General liability, including operations, after-sale and professional faults
- General liability in aerospace projects
- Directors and officers liability



ALL RISKS / BUSINESS INTERRUPTION

The policy insures against possible damages caused to goods owned or leased by the CS Group, or otherwise made available to it, as well as any resulting operating losses.
The amount of coverage is € 61 million for each contingency insured against and for each site, after application of deductibles.

GENERAL LIABILITY, INCLUDING OPERATIONS, AFTER-SALE AND PROFESSIONAL FAULTS

This policy covers responsibility for damages as well as civil responsibility that may be incurred by the CS Group or by its personnel because of physical, material or non-material damages to third parties, including customers and sub- or co-contractors.
First-line coverage is € 10 million for each contingency insured against and for each insured year.

POST-DELIVERY CIVIL LIABILITY IN AVIATION INDUSTRY PROJECTS

This policy covers the CS Group against civil liability on products delivered, including suspension of flights, due to Company activities as a parts supplier or sub-contractor in the aviation industry, including the provision of services and ancillary activities.
The amount of coverage is € 80 million per event and for the entire period of validity of the policy. There is a sublimit of USD 125 million for flight suspensions.

CIVIL LIABILITY ON SPACE PRODUCTS

This policy insures against the financial consequences that the CS Group could incur because of physical or material damages to any person or entity caused by an occurrence which can be imputed to a defective space product sold or supplied by CS.
The amount of coverage for the first tranche is € 20 million for each contingency insured against and for the entire period of validity of the policy, i.e. from 03/1/06 to 02/28/2007.

DIRECTORS' AND OFFICERS' LIABILITY

CS has also taken out a policy with AIG covering the civil liability of Directors and officers of CS and its subsidiaries, as well as an EPL policy covering any violation of labor relations rules. There were no contingencies under this policy in 2006.

OFF-BALANCE SHEET COMMITMENTS

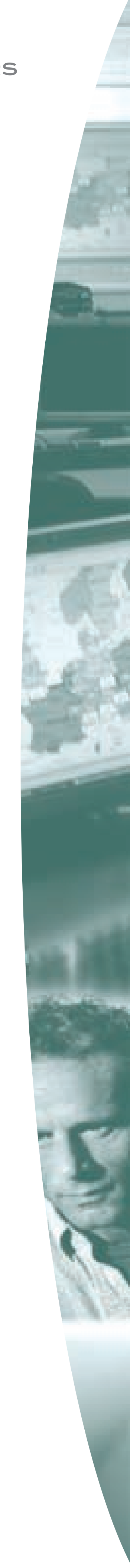
These are given in Note 23, appended to the 2006 Consolidated Financial Statements.

X/ MATERIAL POST-BALANCE SHEET EVENTS

None

XI/ OUTLOOK FOR 2007

Having completed its restructuring process, CS can now focus exclusively on commercial development in France and abroad, and improvement in operating profitability and net income.
In 2006, CS launched a new business paradigm articulated around its two core activities: a Mission Critical Systems division (61% of revenues, for approx. 1,800 employees) and a Mission Critical Infrastructures division (39% of revenues, for approx. 1,400 employees). This permitted it to give its customers better visibility of operations, to better respond to their preoccupations and stakes, and to thus provide a new impetus to sales growth. Growth in order intake and a book-to-bill ratio of 1.16 for the financial year (1.27 for the second half) meant that 2007 began with an improved order book that represented 14 months of revenues.
The work done on the international scene, notably in the defense and homeland-security sectors, is already producing results. A contract worth € 50 million over three years has just been signed in the Middle East in this sense.
In 2007, CS will continue to deploy its growth strategy, especially outside of France in the areas of Defense, Security, and Intelligent Transportation Systems, and will focus on improving its operational margin and net income.



XII/ INFORMATION ON ACQUISITIONS OF PARTICIPATING AND CONTROLLING INTERESTS

The Board of Directors reminds you that the Company acquired no shares in companies headquartered in France in the financial year 2006.

XIII/ CHANGE IN SHARE CAPITAL

The Board of Directors reminds you that the Company's share capital changed as follows during the financial year 2006:
At the beginning of 2006, the parent company's share capital reached € 29,871,940 divided into 5,974,388 shares at € 5 per share, fully paid-in and of the same category.

- The Board of Directors on February 1, 2006 acknowledged the exercise of 9,110 CS stock options and a correlating increase in capital of € 45,550. The Company's capital was therefore fixed at € 29,917,490 divided into 5,983,498 shares at € 5 per share, fully paid-in and of the same category.
- The Board of Directors on March 10, 2006 acknowledged the exercise of 13,320 CS stock options and a correlating increase in capital of € 66,600. The Company's capital was therefore fixed at € 29,984,090 divided into 5,996,818 shares at € 5 per share, fully paid-in and of the same category.
- The Board of Directors on April 28, 2006 acknowledged the exercise of 124,070 CS warrants and of 175,700 CS stock options and a correlating increase in capital of € 1,498,850. The Company's capital was therefore fixed at € 31,482,940 divided into 6,296,588 shares at € 5 per share, fully paid-in and of the same category.
- The Board of Directors on September 15, 2006 acknowledged the exercise of 1,720 CS stock options and a correlating increase in capital of € 8,600. The Company's capital was therefore fixed at € 31,491,540 divided into 6,298,308 shares at € 5 per share, fully paid-in and of the same category.
- The Board of Directors at December 15, 2006 acknowledged the exercise of 430 CS warrants and of 360 stock options and a correlating increase in capital of € 3,950. The Company's capital was therefore fixed at € 31,495,490 divided into 6,299,098 shares at € 5 per share, fully paid-in and of the same category.

XIV/ CAPITAL OWNERSHIP

Capital ownership was the following at December 31, 2006:

Shareholding structure	Number of shares	Voting rights	% of capital	% Voting rights
SAVA & Cie	2,911,439	5,659,293	46.22	61.78
ARMATEL	117,151	234,302	1.86	2.56
France/overseas float	3,270,508	3,266,782	51.92	35.66
TOTAL	**6,299,098**	**9,160,377**	**100**	**100**

The Company has no knowledge of any other shareholders that have directly, indirectly or collectively crossed the threshold of 5% or more of the capital or of the voting rights, other than Financière de l'Echiquier. It is specified that Financière de l'Echiquier, in accordance with CMF notice No. 202C0699 of June 14, 2002, declared that it had crossed the 5% threshold and then held more than 5% of the share capital. The Company has no knowledge of any pact between shareholders of CS Communication & Systèmes.
There are no shares in circulation that have special control rights.

→ Double voting rights

It is specified, in conformance with article 23 of the articles of association, that voting rights which are double those granted to other shares, regarding the portion of the share capital that they represent, are attributed to all fully paid-in shares registered in the name of the same shareholder for two years or more.

→ Rights, privileges and restrictions, concerning each category of existing shares

SHARES (ARTICLE 7 OF THE ARTICLES OF ASSOCIATION)

Shares are nominal until they have been fully paid in. After they have been paid in, they are registered or bearer shares, depending on the shareholder's choice. They are registered with the Company or with an authorized intermediary, according to the practices stipulated by legislation and regulations in force.

The Company is authorized to make use at any moment of legal and regulatory measures foreseeing the identification of owners of nominative shares and of any other title granting immediate or deferred rights relative to the share capital of the Company, as well as the number of shares held and the restrictions that may pertain to those shares, in conformance with article L.228-3 et seq. of the French Commercial Code.

With a view to identifying bearer shareholders, the Company has the right to demand at any moment of the central depository who keeps account of share issues, according to the case, the name or denomination, the nationality, the year of birth or the year of incorporation, and address of any holder of bearer shares, granting immediate or deferred voting rights at Company meetings, as well as the number of shares held and the restrictions that may pertain to those shares, in conformance with article L.228-3 et seq. of the French Commercial Code.

TRANSFER OF SHARES (ARTICLE 8 OF THE ARTICLES OF ASSOCIATION)

The sale of nominative or bearer shares results in their being recorded in an account with an authorized financial intermediary. The sale of nominative or bearer shares becomes effective, with regards to a third party and the Company, by transfer from one account to another in the accounts of the issuing company or those of the authorized financial intermediary.

INDIVISIBILITY OF SHARES (ARTICLE 9 OF THE ARTICLES OF ASSOCIATION)

The shares are indivisible and the Company only acknowledges a sole owner for each share, except in special cases foreseen by law.

RIGHTS AND OBLIGATIONS AFFERENT TO SHARES (ARTICLE 10 OF THE ARTICLES OF ASSOCIATION)

The rights and obligations afferent to a share pertain to each specific title, regardless of who holds ownership.

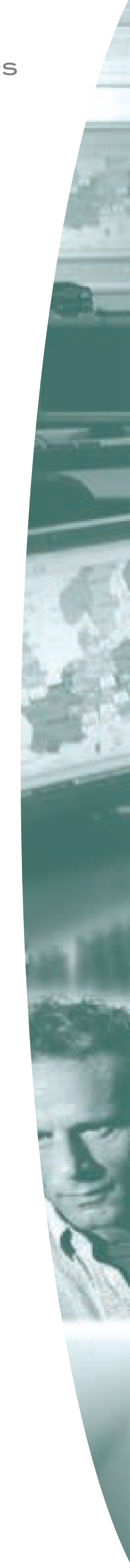
The ownership of a share supposes, without reserve, adherence to the articles of association of the Company and to decisions taken in general meetings.

All of the shares that compose the share capital of the Company will always be assimilated to any tax assessments. Consequently, any levies and taxes, which, regardless of the cause, could, subsequent to the refund of the capital represented by these shares, fall due for certain shares among them only, either during the existence of the Company, or on its liquidation, will be divided among all the shares composing the capital at the moment of those refunds, in such a way that all the shares, current or future, grant to their owners, taking into account the nominal and non-depreciated value of shares and the rights of shares from different categories if appropriate, the same effective advantages and grant them the right to receive the same net sum.

XV/ INCREASES IN CAPITAL

Summary table of authorizations as granted by the General Meeting and still valid:

General Meeting	Term	Nominal amount authorized	Increase realized in 2005	Increase realized in 2006	Residual authorization 04/27/2007
06.07.2005	26 months	€ 50 M	€ 7 445 670	€ 1 650 000	€ 40 904 330



XVI/ EMPLOYEE SHARE OWNERSHIP

To the knowledge of the Company, the fraction of the share capital and voting rights held by employees (not including SAVA & Cie) at December 31, 2006, amounted to approximately 0.38% of the share capital and 0.28% of the voting rights, including the CS mutual fund (Fonds Commun de Placement en Actions CS), which held 7,643 shares of the Company as well as the associated voting rights.
The control of the mutual fund investing in CS shares, the management of which is delegated to BNP Entreprises, is ensured by an independent supervisory board, chaired, in conformity with legal provisions, by an employee participant.

XVII/ A TREASURY SHARES

The Board of Directors reminds you that the Company held 45,288 treasury shares as of December 31, 2006.

→ Treasury shares
26,500 as guarantees for three stock option plans.
These shares were acquired through the following buyback programs:
• Buyback plan, approved by the Board of Directors on May 28, 2004, in accordance with an authorization granted by the Combined General Meeting of May 28, 2004. In accordance with the provisions of Regulation No. 98-02 amended by COB (Commission des Opérations de Bourse, or French securities exchange commission) Regulations No. 2000-06, 2003-02 and 2003-06, this buyback program gave rise to the preparation of an information memorandum, in respect of which the AMF issued visa No. 04-726 on August 13, 2004.
• Share buyback program, decided by the Combined General Meeting on June 7, 2005. This share buyback program was explained in an information memorandum in conformity with the measures in articles 241-1 to 241-8 of the AMF general rulings, in respect of which the AMF issued visa No. 05-418 on May 19, 2005.
• Share buyback program, decided by the Combined General Meeting on June 16, 2006. This share buyback program was explained in an information memorandum in conformity with the measures in article L451-3 of the French Monetary and Financial Code and in articles 241-1 et seq. of the AMF general rulings, in respect of which the memorandum was published on the Web site of the AMF and on the CS Web site.
Your General Meeting will be invited to vote on a new share buyback program in application of the authorization it gave to the Board of Directors to acquire the company's own shares.

→ Management assignment
A liquidity contract was arranged with the company Exane BNP Paribas on September 21, 2004, having been the subject of a contract amendment dated July 11, 2005. The following items figured in the liquidity account at December 31, 2006:
• 18,788 shares of CS Communication & Systèmes,
• € 114,278.55 (in money market funds and cash).

XVIII/ SECURITIES GRANTING RIGHTS RELATIVE TO THE SHARE CAPITAL

→ Share warrants

PUBLIC OFFER TO EXCHANGE SHARES - 2005
On July 12, 2005, the Board of Directors, with the authorization of the General Meeting, decided to open a simplified public share exchange offer, which was described in a prospectus approved by the AMF on July 28, 2005, under visa No. 05-646. Terms were five July 2007 warrants and one CS Communication & Systèmes share, ranking for dividend from January 1, 2005, for four October 2005 warrants.

As a result, the Chairman of the Board of Directors, in a report dated August 30, 2005:
• noted that the period of the public offer to exchange shares opened on August 2, 2005, and closed on August 22, 2005;
• noted acceptances totaling 992,756 October 2005 warrants;
• proceeded therefore with the corresponding issue of 1,240,945 July 2007 warrants. One July 2007 warrant will offer the right to subscribe for one new share of the Company at an exercise price of € 30, between September 2, 2005 and July 31, 2007 inclusive.
• also proceeded with the corresponding issue of 248,189 shares in remuneration of the said offer.

During the 2006 financial year, 124,500 2007 warrants were exercised, resulting in a correlating increase in capital of € 622,500.

→ Free shares

On February 1, 2006, the CS Communication & Systèmes Board of Directors decided, in application of the 30th and 9th resolutions of the Combined General Meeting of June 7, 2005, and on the recommendation of the Compensation Committee, to grant free shares to the Chief Executive Officer.
The number of shares granted at the end of an acquisition period of two years will be based on changes in the relative share price of CS and in the IT CAC index over the last 20 days of trading preceding the date of the grant (February 1, 2006) and the end of the acquisition period (January 31, 2008) and will involve a maximum number of 12,984 shares.

The main characteristics of the plan for granting free shares are the following:

	Grant of free shares
Expiration of the acquisition period	01/31/2008
Expiration of the moratorium on sale of the shares	02/01/2010

→ OBSARs (Obligations à Bons de Souscription d'Actions Remboursables, or bonds with redeemable warrants)

On April 28, 2006, the Board of Directors decided, with the authorization of the General Meeting of June 7, 2005, the issue of a debenture loan, which was described in a prospectus approved by the AMF on May 3, 2006, under visa No. 06-131.
The financial characteristics of this issue are the following: an issue amount of € 14,850,000, divided into 165,000 bonds, with a nominal value of € 90 each, plus one class A redeemable warrant and one class B redeemable warrant.

The main characteristics of the redeemable warrants (BSAR: Bons de Souscription d'Actions Rembousables) are the following:

	BSAR A	BSAR B
Number of warrants issued	165,000	165,000
Exercise price	€ 41.69	€ 45.48
Exercise parity	1/1	1/1
Term	3 years	5 years
Exercise period	The last year	The last 3 years
Number of warrants remaining in circulation on April 20, 2007	165,000	165,000

Early redemption at € 0.01 is possible at the discretion of the Company, starting June 9, 2008, if the proceeds of the share price and the exchange parity exceed 190% of the exercise price. The class A redeemable warrants cannot be traded during the first two years, except in the case of a public offer on the shares of the Company or in the case of a buyback by the Company.
The bonds have been registered for trading as part of the Eurolist of Euronext Paris SA, starting June 9, 2006 (Code ISIN FR 0010324988).
The warrants (BSAR) will be listed for trading as part of the Eurolist of Euronext Paris SA, at the beginning of the third year or earlier in the case of a public offer on the shares of the Company or following a decision by the Company.

Stock option and share warrant plans

The following stock option and/or share warrant plans are current:

- Plan of November 25, 2004: 2,500 warrants can result in the purchase of the same number of shares, at a share price of €26, i.e. a total value of € 65,000. The term of the plan is 10 years, beginning November 25, 2004.
- Plan of September 5, 2003: 4,000 warrants can result in the purchase of the same number of shares, at a share price of €15.25, i.e. a total value of € 61,000. The term of the plan is 10 years, beginning September 5, 2003.
- Plan of January 13, 2003: 20,000 warrants can result in the purchase of the same number of shares, at a share price of €15.25, i.e. a total value of € 305,000. The term of the plan is 10 years, beginning January 13, 2003.
- Plan of December 18, 2001: 305,275 stock options can result in the subscription of the same number of shares, at a share price of € 15.25, i.e. a total value of € 4,655,443. The term of the plan is 10 years, beginning December 18, 2001.
- Plan of January 30, 2000: 23,400 stock options can result in the subscription of the same number of shares, at a share price of € 39.03, i.e. a total value of € 913,302. The term of the plan is 10 years, beginning January 30, 2000.
- Plan of May 29, 1998: 53,500 stock options can result in the subscription of the same number of shares, at a share price of € 62.50, i.e. a total value of € 3,343,750. The term of the plan is 10 years, beginning May 29, 1998.

During the 2006 financial year, 200,210 stock options were exercised as part of the plan of December 18, 2001.
The Company did not grant any stock options and/or share warrants during the 2006 financial year.

XIX/ CORPORATE GOVERNANCE

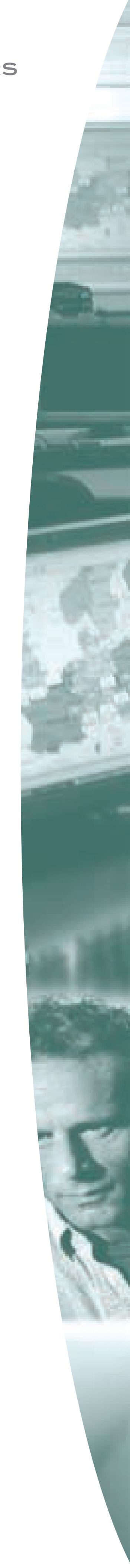
The Board of Directors reminds you that it decided, in its meeting held at December 18, 2001, to exercise the option of dissociating the powers granted by French new economic regulations (NRE) of May 15, 2001, and by the Company's articles of association, and to entrust the general management of the Company to a Chief Executive Officer.

XX/ RULES APPLICABLE TO THE APPOINTMENT AND TO THE REPLACEMENT OF MEMBERS OF THE BOARD OF DIRECTORS, AS WELL AS TO THE MODIFICATION OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

The rules applicable to the appointment and to the replacement of members of the Board of Directors are stipulated by articles 11 and 12 of the articles of association:

Composition of the Board of Directors (article 11 of the articles of association)
The Company is administered by a Board of Directors, composed of at least three members, but not more than eighteen members. Their appointments, or the ratification of their appointments, are by the General Meeting.

Directors (article 12 of the articles of association)
The directors are appointed for a term of three years, except in the case of reappointment and with respect to the following limitations.
The number of directors over the age of 75 cannot exceed a third of the total (rounded up to the next whole number) number of sitting directors.
If this proportion of a third is surpassed, it is the prerogative of the Board of Directors to designate the one or more members slated to resign. If one or more Board seats become vacant due to death or resignation or because of any other cause foreseen by legal or regulatory provisions in force, the Board of Directors can, in the interim between two general meetings, proceed with temporary appointments.



XXI/ POWERS OF THE BOARD OF DIRECTORS RELATIVE TO THE ISSUE AND/OR BUYBACK OF SECURITIES

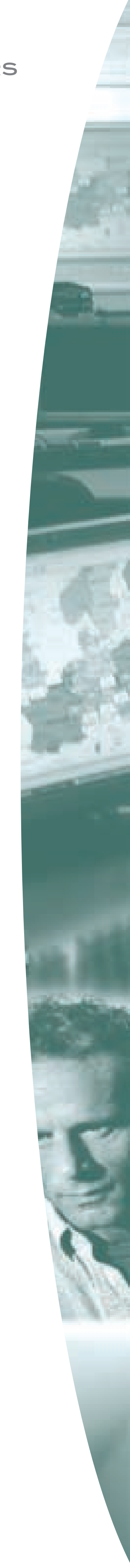
The Board of Directors has the following powers relative to the issue or buyback of shares:

- buy the Company's own shares;
- increase the capital by incorporation of reserves, profits or bonuses;
- increase the share capital and issue securities granting rights relative to the share capital or granting rights to the attribution of bonds, maintaining the right to preferential subscription for shareholders;
- increase the share capital and issue securities granting rights relative to the share capital or granting rights to the attribution of bonds, revoking the right to preferential subscription for shareholders;
- increase an issue amount in the case of excess demand;
- proceed with the issue of shares, titles or diverse securities, freely determining the issue price;
- issue preferred shares, maintaining the right to preferential subscription for shareholders;
- issue preferred shares, revoking the right to preferential subscription for shareholders;
- attribute stock options and share warrants;
- proceed with the attribution of free shares, either existing or to be issued;
- proceed with a capital increase, limited to 10% of the share capital, with a view to providing compensation for an acquisition;
- issue securities or reduce the share capital during a public offer to buy or exchange securities;
- issue warrants in the event of a public offer to buy or exchange securities;
- cancel treasury stock;
- proceed with a capital increase by issuing shares, reserved to participants in a company savings plan within the framework of the provisions of the French Commercial Code and article L.443-5 et seq. of the French Employment Code.

The above-stated authorizations were granted during the General Meetings of June 7, 2005, and June 16, 2006. The renewal of these authorizations, arriving at expiration on the day of the General Meeting of June 15, 2007, will be proposed to that assembly.

XXII/ AGREEMENTS CONCLUDED BY THE COMPANY THAT ARE MODIFIED OR VOIDED IN THE EVENT OF A CHANGE IN CORPORATE CONTROL

Certain contracts, signed by companies within the CS Group, have a clause labeled, "intuitu personae" which stipulates that the contracting parties declare that no one among them is authorized to transfer any or all of the rights and obligations relative to the contract without the prior agreement of the other contracting party or parties.
Nevertheless, it is to be noted that this kind of prior agreement cannot be invoked in the case where one contracting party transfers their rights and obligations to a company that is majority-controlled, directly or indirectly, by the parent company of their group or its owners.
Moreover, certain contracts in the French national defense sector require the approval of the public authority in the case of a change in the control of the Company.
Within the framework of the Company's OBSAR issue, the characteristics of which are described above in this report, there is an early-redemption clause in the case of a change in the control of the Company.



XXIII/ OFFICES AND POSITIONS HELD BY CORPORATE OFFICERS

In accordance with the measures of article L 225-102-1 of the French Commercial Code, the Board of Directors reminds you that the Company's corporate officers have held the following offices and positions during the last financial year.

Yazid SABEG - Chairman of the Board of Directors
- Chairman and Chief Executive Officer of Armatel
- Chairman and Chief Executive Officer of Quadral
- Director of CS Systèmes d'Information
- Statutory Manager of SAVA Sarl, a Luxembourg company, Statutory Manager and General Partner of SAVA & Cie

Eric BLANC-GARIN - Director, CEO
- Chairman of CS Systèmes d'Information
- Director of Armatel
- Director of Quadral
- Censeur of Sofresa
- Corporate auditor of SAVA & Cie, a Luxembourg company

Olivier BARRE - Director
- Director of Novatec

Gérard JOUSSET - Director
- Director of CS Systèmes d'Information
- Statutory Manager of JOUSSET Conseils
- Vice President of FES (Federis Epargne Salariale)
- Director of SAPREM
- Director of FGA (Federis Gestion d'actifs)
- President of the Institut Supérieur de l'Electronique et du Numérique, Brest
- Chairman of URRPIMMEC - Malakoff Group

Bertrand LARRERA de MOREL - Director
- None

Gilles MARCHIAT (permanent representative of SAVA & Cie) - Director
- Permanent representative of SAVA & Cie within the Armatel Board
- Director of Quadral
- Corporate auditor of SAVA & Cie, a Luxembourg company

Patrice MIGNON - Director
- Director of the Aspen Institute, France
- Deputy Chairman of Tolomèi Participations

Jean-Bernard OUVRIEU - Director
- Chairman of the Board of Sofremi
- Director of Sofema
- Director of Fonds de Placement Chine (China Fund)

Michel SCHELLER - Director

- Adviser to the Chairman of INEO Group
- Member of the Supervisory Board of Coris
- Director of AMP-C3C
- Chairman of AAAF
- Member of the Supervisory Board of Rafaut

Jean-Pascal TRANIÉ - Director

- Chairman of the Executive Board of Aloe Private Equity
- Member of the Supervisory Board of Assystem-Brime

Antoine Veil - Director

- Chairman of A.V. Consultants
- Director of Saga
- Chairman of Leumi France
- Member of the Supervisory Board of the bank, Robeco

XXIV/ OFFICER COMPENSATION

In conformity with the measures of article L 225-102 of the French Commercial Code, following the July 26, 2005 Act promoting confidence in and modernization of the economy (Breton Act), the Board of Directors reminds you that the compensation and benefits in kind below were paid during the financial year to company officers or to the companies of which they were directors or statutory managers.

→ Officers' compensation

- Mr. Yazid Sabeg, Chairman of the Board: € 474,078 (total compensation including fixed and variable components, bonuses and all types of benefits).
- Mr. Eric Blanc-Garin, CEO: € 385,981 (total compensation including fixed and variable components, bonuses and all types of benefits).

→ Details of remuneration

- M. Yazid SABEG, Chairman of the Board

Annual remuneration: Fixed gross annual remuneration totals € 465,000, payable in 12 equal monthly installments.

Compensation for departure: This compensation is equal to 150% of gross annual remuneration. Note that this compensation would be due, except in the case of gross misconduct, in the case of dismissal from office followed by a definitive departure from the CS Group, and would constitute final settlement.

Other terms of employment: company car with chauffeur(s), company officer's insurance, and reimbursement of expenses against receipt.

- M. Eric BLANC-GARIN, CEO

Annual remuneration: Annual gross remuneration is fixed at € 465,000, distributed as follows:

> A fixed portion of € 230,000,

> A daily foreign travel bonus of € 1,400, with annual ceiling of € 35,000 for more than 25 days of annual travel,
> A variable portion of € 200,000 (for a fully-achieved overall objective), payable after closing of the annual accounts by the Board.

The five criteria for the variable portion are: Operating margin before non-recurring items, net income, new orders, revenues and working capital requirement. Each of these criteria accounts for 20% of the variable portion, i.e. € 40,000, and varies at + or – 100% (ceiling 200%), depending on real performance in relation to the budgeted objective.

Compensation for departure: This compensation will be equal to 150% of gross annual remuneration (100% of fixed + variable portions). Note that this compensation would be due, except in the case of misuse of company property or a desire to harm, in the case of dismissal from office followed by a definitive departure from the CS Group, and would constitute final settlement (contractual compensation included).

Other terms of employment: company car with chauffeur, company officer's insurance, loss of employment insurance, company credit card, and reimbursement of expenses against receipt.

Free shares: On February 1, 2006, the CS Communication & Systèmes Board of Directors decided to grant a maximum of 12,984 free shares to the CEO. The characteristics of this grant are explained above in this report.

→ Directors' attendance fees

The sum of € 175,000 was set aside for directors' attendance fees by the Combined General Meeting on June 16, 2006, for the period of June 7, 2005 to May 31, 2006.

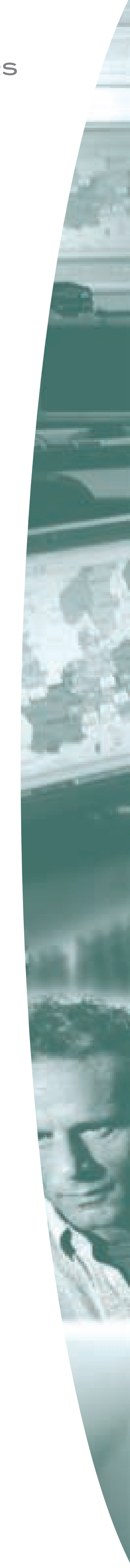
The Board meeting held on June 16, 2006, following the Combined General Meeting, has shared out attendance fees as follows, in accordance with the decision of the Board on April 28, 2006, on the recommendation of the Compensation Committee:

Mr. Olivier Barre: €28,066
Mr. Gérard Jousset: € 11,557
Mr. Bertrand Larrera de Morel: € 21,462
Mr. Gilles Marchiat: € 28,066
Mr. Patrice Mignon: € 36,321
Mr. Jean- Bernard Ouvrieu: € 9,906
Mr. Michel Scheller: € 11,557
Mr. Jean-Pascal Tranie: € 14,858
Mr. Antoine Veil: € 13,208

Billed remuneration (excluding VAT) in 2006 by Directors within the framework of the consultancy and assistance contract linking them with the Company (amounts recorded as expenses):

Mr. Gérard Jousset (Jousset Conseil): € 67,144
Mr. Antoine Veil (AV Consultants): € 34,920
Mr. Jean-Bernard Ouvrieu (JBO Consultant): €12,000
Mr. Michel Scheller: € 22,920

In accordance with the provisions of article 225-102-1 of the French Commercial Code, your Board reminds you that no remuneration or fringe benefits were paid during the year to the officers of CS Communication & Systèmes on behalf of companies controlled by CS Communication & Systèmes or the company that controls this latter entity.



XXV/ TRANSACTIONS BY BOARD MEMBERS / CORPORATE OFFICERS, OR PEOPLE HAVING A CLOSE RELATION WITH THEM, INVOLVING COMPANY SECURITIES

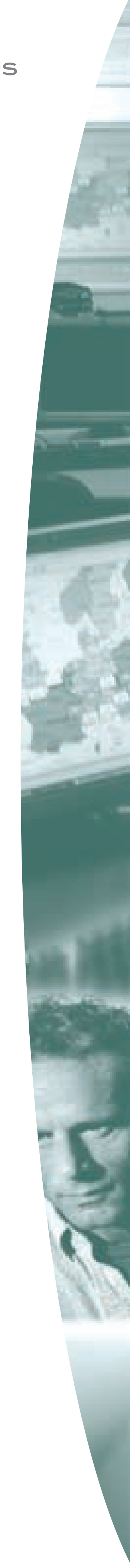
In accordance with the provisions of article L.621-18-2 of the French Monetary and Financial Code, your Board reports to you the transactions by Board members / corporate officers in company securities last year:

Board of members / Corporate officers	Purchases/ Subscriptions Nb. of securities	Purchases price / Subscriptions on price	Total amount	Sales Nb. of securities	Sale price	Total amount
Yazid SABEG	-	-	-	-	-	-
Eric BLANC-GARIN	3,681 BSAR A 3,681 BSAR B	BSAR A: € 0.67 BSAR B: € 1.73	€ 2,466.27 € 6,368.13	250 shares	€ 31.75	€ 7,937.50
Gérard JOUSSET	165,000 options 1,258 bonds	€ 15.25 € 90	€ 2,516,250 € 1,013,220	11,258 bonds	€ 90.78	€ 1,022,001.20

XXVI/ TRANSACTIONS BY DIRECTORS / PERMANENT HIRES, OR PEOPLE HAVING A CLOSE RELATION WITH THEM, INVOLVING COMPANY SECURITIES

In accordance with the provisions of article L.621-18-2 of the French Monetary and Financial Code, your Board reports to you the transactions by directors / permanent hires in company securities last year:

Initiés permanents	Acquisition/ Souscription Nb. de titres	Prix d'acquisition/ de souscription	Valeur de l'opération	Cession Nb. De titres	Prix de cession	Valeur de l'opération
Daniel ABEHSERA	2,454 BSAR A 2,454 BSAR B	BSAR A : € 0.67 BSAR B : € 1.73	€ 1,644.18 € 4,254.42			
Jérôme BOILLOT	7,362 BSAR A 7,362 BSAR B	BSAR A : € 0.67 BSAR B : € 1.73	€ 4,932.54 € 12,736.26			
Julien CHAMPIGNY	1,500 options 1,227 BSAR A 1,277 BSAR B	€15.25 BSAR A : € 0.67 BSAR B : € 1.73	€ 22,875.00 € 822.09 € 2,122.71	1,500 actions	€ 36.10	€ 54,150.00
Patrick DONATH	3,600 options	€ 15.25	€ 54,900	175 actions 400 actions	€ 34.71 € 36.46	€ 6,074.25 € 14,584.00
	3,681 BSAR A 3,681 BSAR B 96 options	BSAR A : € 0.67 BSAR B : € 1.73 € 90	€ 2,466.71 € 6,368.13 € 8,640.00			
Edouard FEAT	1,473 BSAR A 1,473 BSAR B	BSAR A : € 0.67 BSAR B : € 1.73	€ 986.91 € 2,548.29			
Barbara GOARANT	490 BSAR A 490 BSAR B	BSAR A : € 0.67 BSAR B : € 1.73	€ 328.30 € 847.70			
Joseph HURTUT	9,816 BSAR A 9,816 BSAR B	BSAR A : € 0.67 BSAR B : € 1.73	€ 6,576.72 € 16,981.68			



Jean-Pierre NICOLAS				2,000 shares	€ 33.39	€ 66,780.00
	490 BSAR A	BSAR A : € 0.67	€ 328.30			
	490 BSAR B	BSAR B : € 1.73	€ 847.70			
Pierre NICOLAS	736 BSAR A	BSAR A : € 0.67	€ 493.12			
	736 BSAR B	BSAR B : € 1.73	€ 1,273.28			
Alain Roche	982 BSAR A	BSAR A : € 0.67	€ 657.94			
	982 BSAR B	BSAR B : € 1.73	€ 1,698.88			
Hugues ROUGIER	14,724 BSAR A	BSAR A : € 0.67	€ 9,865.08			
	14,724 BSAR B	BSAR B : € 1.73	€ 25,472.52			
				140 shares	€ 39.00	€ 5,460.00
Arnaud SALOMON	2,454 BSAR A	BSAR A : € 0.67	€ 1,644.18			
	2,454 BSAR B	BSAR B : € 1.73	€ 4,245.42			
Hubert WEBER	360 shares	€ 15.25	€ 5,490.00	360 shares	€ 21.70	€ 7,812.00
	2,454 BSAR A	BSAR A : € 0.67	€ 1,644.18			
	2,454 BSAR B	BSAR B : € 1.73	€ 4,245.42			

XXVII/ COMMITTEES CREATED BY THE GOVERNING BODY

The structure of corporate governance of CS Communication & Systèmes is comprised of two committees:
- Audit Committee
- Compensation Committee

The composition of these committees is indicated below:

Audit Committee:
- Mr. Patrice MIGNON
- Mr. Jean-Pascal TRANIÉ
- Mr. Bertrand LARRERA de MOREL

Compensation Committee:
- Mr. Olivier BARRE
- Mr. Patrice MIGNON
- Mr. Gilles MARCHIAT

XXVIII/ APPOINTMENT OF A DIRECTOR

It is proposed to proceed with the following appointment:
Appointment of Mr. Michel Desbard as Director for a period of three years, that is until the General Meeting called to approve the financial statements for 2009.

XXIX/ REAPPOINTMENT OF BOARD MEMBERS

The terms of certain Board members end on the occasion of the next General Meeting. Consequently, it is proposed that you ratify the reappointment of the following persons:

- Yazid SABEG
- Olivier BARRE
- Gérard JOUSSET
- Bertrand LARRERA de MOREL
- SAVA & Cie - Director
- Patrice MIGNON
- Jean-Bernard OUVRIEU
- Michel SCHELLER
- Jean-Pascal TRANIÉ
- Antoine VEIL

for a term of 3 years, which is until the General Meeting called to approve the financial statements for 2009.

XXX/ DIRECTORS' FEES

The Board of Directors recommends that you set the amount of directors' fees to be allocated to the members of the Board of Directors on a pro rata basis of their attendance at the meetings of the Board of Directors and the different Committees, at an amount of € 175,000 for the period between June 16, 2006, and May 31, 2007, the Board of Directors being responsible for allocating these directors' fees among the directors concerned.

We hope that the explanations provided in this report will lead you to approve the recommended resolutions.

The Chairman of the Board

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2006

I/ CONSOLIDATED BALANCE SHEET

ASSETS	Note	At 12/31/2006	At 12/31/2005	At 12/31/2004
(in € thousands)				
Goodwill	5	48 005	48 238	47 336
Intangible fixed assets	5	5 852	3 726	2 705
Property, plant and equipment	6	8 395	8 716	7 233
Financial fixed assets	7	8 418	9 295	9 480
Deferred tax assets	21	18 105	14 257	13 344
Total non-current assets		**88 775**	**84 232**	**80 098**
Inventories and work-in-progress	8	7 996	9 649	10 573
Trade receivables and related accounts	9	125 729	131 766	115 139
Financial instruments (derivatives)	11	315		
Cash and cash equivalents	10	33 886	18 014	29 706
Total current assets		**167 926**	**159 429**	**155 418**
TOTAL ASSETS		**256 701**	**243 661**	**235 516**

EQUITY AND LIABILITIES	Note	At 12/31/2006	At 12/31/2005	At 12/31/2004
(in € thousands)				
Share capital		31 495	29 872	28 093
Additional paid-in capital		46 593	41 878	42 017
Treasury shares		-958	-1 000	-1 672
Consolidated retained earnings		-31 153	-36 712	-33 475
Shareholders equity (CS Group share)	12	45 977	34 038	34 963
Minority interests		346	1 051	1 395
Total equity		**46 323**	**35 089**	**36 358**
Borrowings and non-current financial liabilities	15	17 189	1 384	2 133
Provisions	13	6 888	13 477	13 769
Employee-related liabilities	14	10 746	9 125	8 892
Deferred tax liabilities	15	25	2	2
Other non-current liabilities	15	819	2 221	2 801
Total non-current liabilities		**35 667**	**26 209**	**27 597**
Overdraft facilities	10-15	2 522	11 097	2 970
Other borrowings and current financial liabilities	15	2 187	1 582	4 662
Trade payables and related accounts	16	169 880	169 684	163 929
Financial instruments (derivatives)	11	122		
Total current liabilities		**174 711**	**182 363**	**171 561**
TOTAL EQUITY AND LIABILITIES		**256 701**	**243 661**	**235 516**

II/ CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	FY 2006	FY 2005	FY 2004
Sales		331 181	345 489	319 722
Other revenues		776	610	139
TOTAL REVENUE		**331 957**	**346 099**	**319 861**
Purchases and external expenses		-131 395	-140 088	-115 011
Taxes and similar		-6 399	-7 037	-6 916
Payroll and benefits		-178 856	-186 367	-187 235
Other operating expenses		-713	-1 549	-83
Depreciation and amortization	18	-4 467	-4 421	-6 204
Provisions	18	613	998	1 776
Operating margin		**10 740**	**7 635**	**6 188**
Other income	19	26 448	10 671	25 694
Other expenses	19	-31 836	-21 351	-26 558
Operating income		**5 352**	**-3 045**	**5 324**
Other income and financial expenses		-635	1 759	1 388
Expense on borrowings		-2 768	-2 249	-3 330
Financial income (loss)	**20**	**-3 403**	**-490**	**-1 942**
INCOME (LOSS) BEFORE TAX		**1 949**	**-3 535**	**3 382**
Income tax	21	3 647	1 079	3 513
NET INCOME		**5 596**	**-2 456**	**6 895**
• **Minority interests**		**76**	**844**	**1 276**
• **CS Group share**		**5 520**	**-3 300**	**5 619**
Earnings per share (in euro)	12	0.91	-0.58	1.02
Diluted earnings per share (in euro)	12	0.70	-0.58	0.78

III/ CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)		FY 2006	FY 2005	FY 2004
Consolidated net income		5 596	-2 456	6 895
Profit/loss of associated companies (net of dividends received)				
Revenues and expenses not impacting cash flow:				
• Amortization/depreciation and provisions	(1)	-18 855	2 596	6 508
• Gains or losses on disposals	(1)	17 524	1 726	-8 440
• Income and expense calculated on stock options & free shares		472	50	69
• Unrealized gains and losses on differences in fair value		-9		
• Other revenues and expenses calculated				
Cash flow after net cost of borrowings and taxes	**A**	**4 728**	**1 916**	**5 032**
Financing expense, net	B	3 309	490	1 942
Income tax (including deferred tax)	C	-3 647	-1 079	-3 515
Cash flow before net cost of borrowings and taxes	**D=A+B+C**	**4 390**	**1 327**	**3 459**
Income tax paid	E	-408	409	223
Change in working capital requirements	F	6 259	-7 832	11 417
Cash flow from operations	**G=D+E+F**	**10 241**	**-6 096**	**15 099**
Disbursements on acquisitions of property, plant and equipment and intangible fixed assets		-5 862	-6 915	-208
Proceeds from disposal of property, plant and equipment and intangible fixed assets		2 602	1 329	4 585
Disbursements on acquisitions of fixed financial assets		-605	-3 534	-4 930
Proceeds from disposal of fixed financial assets		854	895	10 635
Effects of change in scope		0	0	-276
Cash flow from investment activities	**H**	**-3 011**	**-8 225**	**9 806**
Proceeds from new borrowings		15 424	192	305
Reimbursement of borrowings, including financial leases		-1 937	-4 664	-2 935
Increase in share capital		6 788	1 640	624
Share purchases (treasury stock)		-1 443	-1 292	-1 592
Share re-sales (treasury stock)		1 485	1 964	22
Dividends paid out to shareholders in the parent company		-	-	-
Dividends paid out to minority interests in consolidated companies		-379	-1 579	-108
Net interest paid on borrowings		-3 309	-490	-1 942
Other flows linked to financing operations		-76	63	10
Cash flow from financing activities	**I**	**16 553**	**-4 166**	**-5 616**
Effect of foreign exchange differences	J	664	-1 332	332
Net variation in cash	**K=G+H+I+J**	**24 447**	**-19 819**	**19 621**
Cash – opening balance	L	6 917	26 736	7 115
Cash – closing balance (note 10)	**M=K+L**	**31 364**	**6 917**	**26 736**

(1) € 17.526M concerning the write-off of CS Telecom shares and the recovery of the correlating depreciation.

IV/ VARIATION IN SHAREHOLDERS EQUITY

(in € thousands)	Share capital	Premiums	Consolidated reserves	Conversion reserves	Treasury stock	Sub total reserves	Total CS Group share	Minority interests	Consolidated shareholders equity
→ Situation at January 1, 2005	**28 093**	**42 017**	**-33 486**	**11**	**-1 672**	**-35 147**	**34 963**	**1 395**	**36 358**
Variation in conversion differences				-61		-61	-61	2	-59
Hedging on cash flow						0	0		0
Profit (loss) for the year			-3 300			-3 300	-3 300	844	-2 456
Financial assets available for sale						0	0		0
Impact of changes in actuarial assumptions						0	0		0
Variations in income recorded directly as shareholders equity in the consolidated CS Group	**0**	**0**	**-3 300**	**-61**	**0**	**-3 361**	**-3 361**	**846**	**-2 515**
Increase in parent company capital	1 779	-139				0	1 640		1 640
Variation in treasury shares					672	672	672		672
Distribution of dividends						0	0	-1 219	-1 219
Variation in scope						0	0	29	29
Various (fees on exchange, gains on treasury shares, etc.)			124			124	124		124
→ Balance at December 31, 2005	**29 872**	**41 878**	**-36 662**	**-50**	**-1 000**	**-37 712**	**34 038**	**1 051**	**35 089**
→ Balance at January 1, 2006	**29 872**	**41 878**	**-36 662**	**-50**	**-1 000**	**-37 712**	**34 038**	**1 051**	**35 089**
Variation in conversion differences				-123		-123	-123		-123
Hedging on cash flow						0	0		0
Profit (loss) for the year			5 520			5 520	5 520	76	5 596
Financial assets available for sale			184			184	184		184
Impact of changes in actuarial assumptions			-1 230			-1 230	-1 230		-1 230
Variations in income recorded directly as shareholders equity in the consolidated CS Group	**0**	**0**	**4 474**	**-123**	**0**	**4 351**	**4 351**	**76**	**4 427**
Increase in parent company capital	1 624	4 715	450			450	6 789		6 789
Variation in treasury shares					42	42	42		42
Distribution of dividends						0	0	-739	-739
Variation in scope						0	0	-44	-44
Free shares			450			450	450		450
Various (portion of shareholders equity in the OBSAR issue, stock options, gains on treasury shares, etc.)			307			307	307	2	309
→ Balance at December 31, 2006	**31 496**	**46 593**	**-30 981**	**-173**	**-958**	**-32 112**	**45 977**	**346**	**46 323**

V/ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2006

PREAMBLE

The CS Communication & Systèmes Group (CS) is project manager for the design, integration and operation of mission critical systems. The Company operates along the entire value chain of its customers.

CS Communication & Systèmes, the CS Group's parent company, is a limited liability company regulated by French law, with head offices located in Paris at 54-56 Avenue Hoche. CS is listed in the Eurolist on the Euronext exchange – compartment C (code: ISIN FR0010221481).

The 2006 consolidated financial statements, including the appended notes, were settled by the CS Board of Directors on March 16, 2007.

NOTE 1 / SIGNIFICANT ACCOUNTING PRINCIPLES

1.1 Basis for the preparation of the financial statements

The CS Group consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

IFRS benchmarks incorporate IFRS standards, International Accounting Standards (IAS), and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

The standards and interpretations used to draw up the 2006 accounts and the comparative 2005 and 2004 accounts are those published in the Official Journal of the European Union (OJEU) on 12/31/2006, the application of which is obligatory from this date.

The new standards and interpretations adopted by the European Union and which will be obligatory in 2007 were not applied in anticipation of this change. The CS Group is reviewing all of these new standards and interpretations in order to measure their potential impact on its consolidated balance sheet, income statement and cash flow statement as well as on information already provided. At this time, the CS Group does not foresee any significant impacts.

1.2 Consolidation

CS Communication & Systèmes and the companies over which it exercises direct or indirect power to determine financial and operational policies are fully consolidated.

Companies over which CS Communication & Systèmes exerts significant influence (20% to 50% of the capital) are consolidated by the equity method.

Companies or groupings under joint control are accounted for by proportionate consolidation.

The CS Group does not exercise ad-hoc control over any entities.

All significant transactions between consolidated entities, as well as intra-CS Group profits, are eliminated.

On acquisition of companies, goodwill represents the difference between the acquisition price, adding in incidental expenses, of the shares of companies, and the group share in the fair value of their net assets at the date of taking up the share interest. The intangible fixed assets linked to the acquisition of an activity are recorded separately from the acquisition difference if their fair value can be known in a sufficiently reliable fashion.

At the date of acquisition, the cost of integrating companies is allocated by accounting for the assets, liabilities and identifiable potential liabilities of each company acquired at their fair value at this date. Exceptionally, the non-current assets held with a view to their disposal are recorded at their fair value, minus the costs of their sale.

1.3 Conversion of financial statements

The consolidated financial statements presented in this report are drawn up in euro, the operational currency of CS.
CS Group subsidiaries operate in their local currencies. Their balance sheets are translated at the closing exchange rate, their income statements at the average exchange rate (unless the use of such an average is not representative of the cumulative effect of the prevailing rates at the dates of transactions, in which case, proceeds and charges will then be converted at the rates prevailing at the dates of the transactions). Resulting translation differences are registered under the exchange difference item, integrated in shareholders equity.

1.4 Operations in foreign currencies

Accounting for and evaluation of foreign currency transactions are defined by IAS 21 standard (Effects of Changes in Foreign Currency Exchange Rates). Transactions denominated in foreign currencies are translated by the entity into its operating currency on the day of the transaction.
Monetary elements in the balance sheet are converted at the closing exchange rate.
Exchange profits and losses resulting from these conversions are accounted for in the income statement except when they are allotted directly to shareholders equity as hedging either on cash flow, or as a net investment in a foreign activity.

1.5 Use of estimates

The drawing up of financial statements within the conceptual framework of IFRS calls for estimates and the formulation of hypotheses that affect the amounts that figure in these financial statements. These estimates and hypotheses can be revised in the case of a change in the circumstances on which they were based, or following fresh news or increased experience.
They primarily concern the assessment of sales figures, the assessment of differed taxes as assets, impairment tests on assets and provisions.
Taking into account the inherent, uncertain character of these modes of determining value, the final amounts may be different from those initially estimated. In order to limit this element of uncertainty, these estimations and hypotheses are periodically reviewed and the accounts are then updated.

1.6 Revenue recognition for ordinary operations

Revenues are presented net of discounts, price reductions or rebates.
The CS Group distinguishes three main types of contract:
a) For set-price service contracts, whether for the provision of intellectual services or of integrated systems, overall sales and income are recognized using the percentage of completion method without incorporation of net interest charges.
In the case of major contracts calling for substantial R&D and with a significant amount of equipment, the CS Group uses only the status of labor costs since it considers that this is more representative of actual progress and risk monitoring.
Work is billed to the customer at predefined stages; this leads to accounting for invoices not yet raised or for prepayments when this billing is not in phase with project advancement.
Contract amendments involve updating the margin at termination and consequently also the margin released and predicted sales.
Furthermore, when it is foreseeable that the provisional production cost of a contract is higher than the contractual sales, a provision for loss at termination is recorded for the difference. In estimating such losses, account is taken of accrued revenues based on specific provisions in the contract, legal decisions or operations currently in progress.
b) In the case of third-party outsourcing contracts, income is recorded over the contract period according to services rendered. Part of the costs incurred on the initial phases of these contracts can be recognized as work in progress and charged over the contract period.
c) Sales and income on cost-plus contracts are recorded as and when they are completed.

1.7 Intangible fixed assets

1.7.1 / Goodwill

In accordance with IFRS 3 (Business Combinations), goodwill is not amortized but is subject to an impairment test on the appearance of signs of value loss and at least once a year. The total value loss is booked under "other operating expenses."

The impairment test consists in evaluating the recoverable value of each legal entity generating its own cash flow. Two methods are used:

- the useful value based, according to a forecasting approach, on future cash flows (DCF, discounted cash flow method);
- the fair value based on stock market comparison.

Discounted cash flow analysis

Future cash flows from cash-generating units (legal entities), resulting from budget forecasts, are discounted at a rate (before tax) corresponding to the weighted average cost of capital.

The terminal value is estimated from the free cash flow, capitalized to infinity by using a perpetual annual growth rate.

Future cash flows are based on projected data (sales, margins, etc.), which by nature cannot be confirmed, and which are based on the most probable assumptions at the date when they are drawn up. It is unlikely that such assumptions will remain valid throughout the period of estimation and forecasting under consideration. Thus, to make sure that the results presented are conservative, the company has chosen scenarios where the growth in sales and earnings is consistent with trends observed in recent years.

Stock market comparisons

The results obtained from the discounted cash flow approach are compared with the stock market valuations of a sample of peer companies. Enterprise Value (EV) is calculated in relation to sales (EV/S) and in relation to Earnings Before Interest and Taxes (EV/EBIT). A control premium is added to the value of retained shareholders equity.

Lastly, in order to confirm the results obtained, sensitivity analyses are carried out.

There are no intangible fixed assets whose ownership is subject to restrictions. No assets have been pledged to guarantee debt.

1.7.2 / Research and development expenses

Research spending is booked as expenses for the year in which it is incurred. In accordance with IAS 38 (Intangible Fixed Assets), development costs are booked under intangible fixed assets, when the company can show that all of the following conditions are satisfied:

- there is the technical feasibility necessary for the realization of the fixed asset as well as the availability of the appropriate technical and financial resources,
- there is the probability of benefiting from future economic advantages,
- there is the intention of completion regarding the fixed asset, and of using it or selling it,
- there is the capacity to reliably evaluate the costs inherent in the investment.

Software development costs are those incurred during the programming, coding and testing phases. The costs of prior phases are carried as expenses.

These development costs are amortized on a straight-line basis over a useful life period (consumption of future economic advantages) estimated at three years.

Specific development costs (incurred as part of contracts signed with customers) are incorporated in project costs under the method described in the paragraph "Revenue recognition for ordinary operations."

1.7.3 / Other intangible fixed assets

They are recognized on an historical cost basis, and mainly include the following:

- Patents and licenses, amortized over their period of legal protection or over their actual useful life,
- Application software, amortized over a useful life of between 3 and 7 years.
- Acquired businesses, which are not amortized systematically, but only when appropriate (see impairment tests described in note 1.7.1).

1.8 Property, plant and equipment

Gross value

In accordance with IAS 16 (Property, Plant and Equipment), the gross value of property, plant and equipment corresponds to the cost of acquisition or to its production costs. Borrowing costs are excluded from asset costs.
Assets financed via lease financing contracts are presented under assets in accordance with IAS 17 (Financial Leases). Corresponding debt is booked to financial liabilities.
The components method is only applied for buildings owned by the CS Group.

Depreciation

The depreciation period is based on the estimated useful life of the various categories of assets.

The following table indicates the main depreciation periods:

Assets	Period
Buildings and related fixtures and fittings	10 to 25 years
Heavy plant and office furniture	3 to 10 years
Company and transportation equipment	4 to 5 years
IT, office equipment	3 to 6 years

The straight-line method is used; it factors in residual value when significant.

1.9 Financial assets

The distribution of financial assets between current and non-current depends on their term: less than or more than one year.

a) Financial assets are defined in IAS 39 and include securities held for sale, loans and receivables, and assets recognized using the fair value option in counterpart in the income statement.

Securities held for sale

Non-consolidated investment shares, considered as securities held for sale, figure in the balance sheet at their fair value, which corresponds, for listed shares, to their average stock market price for the last month of the financial year, and for unlisted shares, to the adjusted net asset value, which depends on profitability and the outlook for the future. If the fair value cannot be reliably determined, the shares are carried at cost.
Unrealized gains or losses on non-consolidated shares are registered under a separate heading in shareholders equity. Only realized losses are registered in the income statement. When the determination of fair value has been previously recorded and the shares subsequently have to be depreciated, the charge is offset by either a total or partial reversal of the amount carried in shareholders equity.
Financial assets at their fair value in counterpart in the income statement
These assets are financial instruments (derivatives) held for transaction. These assets figure in current assets.

Loans and receivables

Receivables are valued initially at their fair value and then, at their amortized cost. A provision for impairment is recognized for receivables when inventory value, based on an estimated probability of recovery, is lower than carrying amount. Factoring (with BDPME) of these receivables within the framework of the French Dailly Act is restated in the consolidated financial statements and thus figures under trade receivables.

Subsidized construction loans are recognized at their fair value.
The value of these non interest-bearing loans, with an initial term of 20 years, is calculated on the basis of yields on OATs (French treasury bonds) with the same redemption date.

b) Cash and cash equivalents are made up of cash in hand, bank balances and short-term investments in money market instruments. These investments, for a period of less than three months, are easily convertible into a known cash sum and are exposed to little risk of change in value. Bank credit balances are recorded under current financial liabilities.

1.10 Financial liabilities

Borrowings and other financial liabilities are valued at their amortized cost, calculated on the basis of the effective interest rate. Liabilities falling due within the next 12 months, following the closing of the financial year, are classified as current; the others are non-current.
Debenture loans are considered as hybrid instruments, comprised on the one hand of debt and, on the other hand, of shareholder-equity instruments. The fair value of the debt component is equal to the value of future cash flows, discounted at the market rate at the issue date. The component of shareholder equity is the difference between the proceeds from the issue and the debt component. The cost of the issue is divided on a pro rata basis between the two components.

1.11 Evaluation and recognition of derivative instruments

Derivative instruments are initially recognized in the balance sheet at their fair value; they are then reevaluated at their fair value. The method of recognition of correlating gains or losses at the date of conclusion of the contract depends on the designation of the derivative as a hedging element and, if that is the case, of the nature of the element hedged.
Derivative instruments can be designated as hedging instruments, either in relation to the fair value, or in a hedging relation with future cash flows:
• hedging of fair value permits to cover the risk of variation in the value of any element in assets or liabilities, due to changes in exchange or interest rates;
• hedging future cash flows permits to cover the variations in value of these future cash flows with regards to existing or future assets or liabilities.
The consequences of recognizing hedging applications in the accounts are the following:
• for existing assets or liabilities hedged at their fair value, the portion hedged is recorded on the balance sheet at its fair value and its variation is booked in the income statement where it is offset by the symmetrical change in the fair value of the hedged instrument, within the limit of its effectiveness;
• for hedged cash flows:
> the variation in the fair value of the effective portion of the hedging instrument is booked directly in shareholders equity;
> the variation in the fair value of the non-effective portion of the hedging instrument is booked in the income statement.
The amounts registered in shareholders equity are reversed in the income statement, symmetrically with the recognition of the hedged element.
Certain instruments do not satisfy these criteria for recognition of hedging; the variation in their fair value is therefore entered into the income statement.

1.12 Inventories and work-in-progress

In accordance with IAS 2 (Inventories), inventories and work-in-progress are booked at the lowest, either cost or net realizable value. Costs incorporated into work-in-progress include those directly associated and a share of indirect production costs excluding interest charges. The cost is calculated using the weighted average cost of capital (WACC) method. The net realization value represents the estimated sale price in the normal course of business, less estimated completion costs and costs estimated necessary for completion of sale (essentially marketing costs).

1.13 Deferred taxes

In accordance with IAS 12 (Income Tax), deferred taxes are measured on all the time lags between the carrying amount of assets and liabilities and their tax values.

Deferred tax assets are only recognized at such time as it is probable that income will be generated in the future to consume this asset. In practice, a deferred tax asset is booked to fiscal deficits that are expected to be used over the next five years (period of business plan). Deferred tax assets and liabilities, calculated at the same tax rate, are offset against each other at the level of each tax entity. In the case of tax pooling, deferred tax is analyzed and calculated at tax pool level. These deferred tax assets and liabilities are not discounted.

1.14 Provisions

In accordance with IAS 37 (Provisions), contingent liabilities and contingent assets, a provision is posted when, at the year-end, there is a legal or implicit obligation with regard to a third party, resulting from a past event, where there is a probability that this will cause an outflow of resources to the benefit of such third party.
The recorded amount is the best estimation of the disbursement required to satisfy the obligation, either discounted or not.
The following are included:

- Provisions for restructuring costs, at the time when such measures have been decided and announced before the year-end, mainly cover the costs of staff downsizing compensation, the cost of un-worked notice, early retirement, and shutdown of site operations;
- Provisions for operations that include provisions for losses at termination of contracts, penalties on contracts and provisions for guarantees given to customers where these are not included in the contract's planned expenses;
- Provisions for litigation (labor-relations tribunal cases and other).

CS Group entities are subject to periodic tax audits, both in France and in countries in which they operate. The amount of tax adjustments notified (or in the process of notification) by the authorities is not the subject of a provision where the company believes that the points raised are not justified and where there is a sufficient likelihood of proving its position to be well-founded in the current proceedings.

1.15 Retirement commitments and other benefits granted to employees

In addition to pension allocations in accordance with various legislation, employees receive supplementary retirement payments and severance pay.

Defined-contribution schemes

These schemes exist in the majority of countries in which the company operates. These schemes call for payments to organizations designated to manage such pension funds. These payments are booked to "Payroll." Since the CS Group's commitment does not go beyond these payments, no provision for this expense is necessary.

Defined-benefit schemes

End-of-career compensation, owed to employees of French companies, accounts for most of the commitment.
However, a German subsidiary has also committed to payment of retirement compensation.
Obligations associated with a small number of former employees are not covered by assets and are therefore recorded as provisions for pensions. For all employees currently working, the subsidiary contributes to a supplemental pension scheme with defined contributions.
In accordance with IAS 19 (Employee-related Liabilities), in the framework of defined benefit regimes, commitments to all personnel, across all age groups, are subject to an annual appraisal following the accrued benefit valuation method in accordance with bargaining or agreements in force in each company. This method takes into account, on the basis of actuarial hypotheses, the probability of future service from employees, the level of future remuneration, life expectancy, the turnover rate for personnel, and financial discounting. These commitments are not covered by assets.
The Company has opted for charging all gains or losses resulting from changes in actuarial hypotheses to shareholders equity.
There is also an optional health insurance plan, reserved to senior, former employees, who retired before January 1, 1999. The number of beneficiaries of this plan is approximately 300 people.

1.16 Stock option plans

In accordance with IFRS 2 (Share-based payments), stock options granted are valued on the distribution date as per the Black & Scholes model. In accordance with the possibility offered by the new standard (IFRS 1), only option plans attributed after November 7, 2002, with an exercise date later than January 1, 2005, have been taken into account.

Changes in value after the distribution date have no effect on this initial valuation.
The value of the options, considered as a cost of services rendered by the personnel in exchange for options received, is booked as a wage cost in the straight-line method over the period of acquisition of rights with shareholders equity as offset.

1.17 Treasury shares

In accordance with the standard IAS 32, all treasury shares are recognized at their purchase price in reduction of shareholders equity. The revenues from a possible disposal of these shares are allocated as an addition to shareholders equity so that possible capital gains or losses do not affect the year's net income.
At each closing, the CS Group reexamines the number of stock options that remain to be exercised and, if appropriate, books into income the impact of this adjustment.

1.18 Operating margin

The operating margin, a key performance indicator for the CS Group, represents the difference between revenue and operating expenses. The latter are equal to the total costs of services rendered (outlays necessary to the undertaking of projects), the cost of sales and general administrative costs.

1.19 Other non-operating revenues and expenses

Non-operating revenues and expenses are made up of significant elements, not directly related to ordinary operations, which the CS Group therefore presents separately in order to ease understanding of current operational performance. The CS Group thus classifies under this heading:

- restructuring and redundancy costs,
- costs and related external expenses associated with business removals,
- litigation over particularly significant amounts,
- gains on real-estate asset disposals,
- exceptional write-downs that could result from impairment tests,
- expenses related to stock options and free shares.

1.20 Earnings per share

The information presented is calculated according to the following approach:

- earnings per share (net attributable income is related to the number of outstanding shares during the year, less treasury shares held at the closing);
- diluted earnings per share (net attributable income or loss is related to the number of outstanding shares during the year less treasury shares held at closing and increased by the number of potential diluting shares from stock options or warrants; this calculation does not take into account the savings in financial expenses that would be realized in the event of exercising such instruments).

1.21 Segments

In accordance with IAS 14 (Segment Reporting), the primary segment selected is that of business activity. The company is managed in two segments of business activity:

- Outsourcing ("Run");
- Consultancy and mission critical systems integration ("Build").

The secondary reporting segment corresponds to geographic area.

Given joint marketing organizations, overall service offerings, shared production teams and know-how, and cross-fertilization of activities... sales performance and returns on each product line are closely linked. As a result, an allocation of goodwill, cash flow, intangible assets and related financing sources to the primary segments is not economically appropriate and would only be arbitrary. Therefore this information on segmented assets and liabilities has not been presented.
In the profession, operating assets and liabilities are often managed globally and they cannot be allocated to segments. When they can be reconstituted, they would lack sufficient reliability in the absence of operational use. However, the CS Group has information by segment on inventories and work-in-progress, and on trade receivables.

Fixed assets are allotted from the time that depreciation charges are allocated to the segments concerned.

1.22 Financial leases

Financial leases, where the leasor retains an important portion of the risks and advantages inherent to the property, are classified as simple lease contracts. When significant, the expense is restated in order to obtain a straight-line correction over the entire term of the contract.

Note 2/ CS Group structure

List of consolidated companies:

Name	Registered office	Siren code / Country	% of interest 2006	% of interest 2005	% of interest 2004	Method of consolidation
CS Communication & Systèmes	Paris	692000946	Parent company	Parent company	Parent company	Parent company
Subsidiaries:						
Information systems						
• CS Systèmes d'Information (CSSI)	Le Plessis Robinson	393135298	100.00	100.00	100.00	Full
• Intrans group Inc	Dover	USA	100.00	100.00	100.00	Full
• Intrans Del Caribe	Dover	USA	100.00	100.00	100.00	Full
• RTI System Ltd	London	United Kingdom	99.99	99.99	99.99	Full
• CS Chile	Santiago de Chile	Chile	100.00	100.00	100.00	Full
• CAM	Munich	Germany	97.37	97.37	95.22	Full
• USB	Munich	Germany	50.96	49.66	48.56	Full
• CS Canada	Montreal	Canada	100.00	100.00	100.00	Full
• Expians	Issy-Les- Moulineaux	441885282	100.00	100.00	100.00	Full
• Diginext	Aix-En- Provence	408225845	100.00	100.00	100.00	Full
• SNC Galilée Plessis	Le Plessis Robinson	479483455	80.00	80.00	80.00	Full
• Ecsat Croatia	Split	Croatie	90.00	90.00	90.00	Full
• AEIC Roumania	Craiova	Roumanie	100.00	76.00	76.00	Full
Other business activities:						
• Newton One	Le Plessis Robinson	444573265	100.00	100.00	100.00	Full
• CS Technologies informatiques	Le Plessis Robinson	400518304	100.00	100.00	100.00	Full

Changes in scope of consolidation in 2006:

Acquisitions: None

Disposals: None

Changes in scope of consolidation in 2005:

Acquisitions: None

Disposals:

• SCI Toulon-Lagarde and Pontault-Combault transferred all their assets to CS Communication & Systèmes on March 31 and July 31 respectively.

• SCOT transferred all its a

ssets to CS Systèmes d'Information on September 30.

Note 3/ Restatements and reclassifications in the 2004 and 2005 balance sheets and income statements

As indicated in note 14, the CS Group has retrospectively corrected an error regarding the health expenses of retired employees. Moreover, the resulting internal capitalizations have been re-classified as reductions in expenses and are no longer stated as other operating revenues.

Below are presented tables of corrections for the statements that have been modified:

2004 INCOME STATEMENT	Published	Re classifications: revenue capitalization and transfert of expenses	Health expenses of retired employees	Corrected	
Sales	319 722			319 722	Sales
Other revenues	1 548	-1 409		139	Other revenues
Purchases and external expenses	-115 011			-115 011	Purchases and external expenses
Taxes and similar	-6 916			-6 916	Taxes and similar
Payroll and benefits	-188 010	775		-187 235	Payroll and benefits
Other operating expenses	-717	634		-83	Other operating expenses
Depreciation and amortization	-6 204			-6 204	Depreciation and amortization
Net provisions	1 837		-60	1 777	Net provisions
Operating margin	**6 249**	**0**	**-60**	**6 189**	**Operating margin**
Other operating revenues and expenses	-909	44		-865	Other operating revenues and expenses
Net operating income	**5 340**	**44**	**-60**	**5 324**	**Net operating income**
Financial income (loss)	-1 942			-1 942	Financial income (loss)
Income (loss) before tax	**3 398**	**44**	**-60**	**3 382**	**Income (loss) before tax**
Income tax	3 513			3 513	Income tax
Goodwill recoveries	44	-44		0	
Net income	**6 955**	**0**	**-60**	**6 895**	**Net income**
Minority interests	1 276			1 276	Minority interests
CS Group share	5 679	0	-60	5 619	CS Group share

2005 INCOME STATEMENT	Published	Re classifications: revenue capitalization and transfert of expenses	Health expenses of retired employees	Corrected	
Sales	345 489			345 489	Sales
Other revenues	2 587	-1 977		610	Other revenues
Purchases and external expenses	-140 630	542		-140 088	Purchases and external expenses
Taxes and similar	-7 037			-7 037	Taxes and similar
Payroll and benefits	-187 728	1 361		-186 367	Payroll and benefits
Other operating expenses	-1 623	74		-1 549	Other operating expenses
Depreciation and amortization	-4 421			-4 421	Depreciation and amortization
Net provisions	888		110	998	Net provisions
Operating margin	**7 525**	**0**	**110**	**7 635**	**Operating margin**
Other operating revenues and expenses	-10 680			-10 680	Other operating revenues and expenses
Net operating income	**-3 155**	**0**	**110**	**-3 045**	**Net operating income**
Financial income (loss)	-490			-490	Financial income (loss)
Income (loss) before tax	**-3 645**	**0**	**110**	**-3 535**	**Income (loss) before tax**
Income tax	1 079			1 079	Income tax
Net income	**-2 566**	**0**	**110**	**-2 456**	**Net income**
Minority interests	844			844	Minority interests
CS Group share	-3 410	0	110	-3 300	CS Group share

2004 BALANCE SHEET (ASSETS)	Published	Re-classifications: businessess	Re-classifications	Corrected	
Goodwill	47 117	219		47 336	Goodwill
Intangible fixed assets	2 924	-219		2 705	Intangible fixed assets
Property, plant and equipment	7 233			7 233	Property, plant and equipment
Non-current financial assets	5 705		3 775	9 480	Financial fixed assets
Deferred tax assets	13 344			13 344	Deferred tax assets
Other non-current assets	3 775		-3 775		
Total non-current assets	**80 098**	**0**	**0**	**80 098**	**Total non-current assets**
Inventories and work in progress	10 573			10 573	Inventories and work in progress
Trade receivables and other	91 058		24 081	115 139	Trade receivables and related
Other receivables and accruals	24 081		-24 081		
Marketable securities	21 781		7 924	29 706	Cash and cash equivalents
Cash and bank reserves	7 924		-7 924		
Total current assets	**155 418**	**0**	**0**	**155 418**	**Total current assets**
TOTAL ASSETS	**235 516**	**0**	**0**	**235 516**	**TOTAL ASSETS**

2005 BALANCE SHEET (ASSETS)	Published	Re-classifications: businessess	Re-classifications	Corrected	
Goodwill	48 048	190		48 238	Goodwill
Intangible fixed assets	3 916	-190		3 726	Intangible fixed assets
Property, plant and equipment	8 716			8 716	Property, plant and equipment
Non-current financial assets	5 261		4 034	9 295	Non-current financial fixed assets
Deferred tax assets	14 256		1	14 257	Deferred tax assets
Other non-current assets	4 035		-4 035		
Total non-current assets	**84 232**	**0**	**0**	**84 232**	**Total non-current assets**
Inventories and work in progress	9 649			9 649	Inventories and work in progress
Trade receivables and other	115 543		16 223	131 766	Trade receivables and related
Other receivables and accruals	16 223		-16 223		
Marketable securities	13 725		4 289	18 014	Cash and cash equivalents
Cash and bank reserves	4 289		-4 289		
Total current assets	**159 429**	**0**	**0**	**159 429**	**Total current assets**
TOTAL ASSETS	**243 661**	**0**	**0**	**243 661**	**TOTAL ASSETS**

2004 BALANCE SHEET (LIABILITIES)	Published	Re classifications	Health expenses of retired employees	Corrected	
CS Group shareholders equity	36 800		-1 837	34 963	CS Group shareholders equity
Minority interests	1 395			1 395	Minority interests
Shareholders equity	**38 195**	**0**	**-1 837**	**36 358**	**Shareholders equity**
Borrowings – part with maturity of over one year	2 133			2 133	Borrowings – part with maturity of over one year
Provisions	20 822	-7 053		13 769	Provisions
Employee-related liabilities		7 055	1 837	8 892	Employee-related liabilities
Deferred tax liabilities	3	-1		2	Deferred tax liabilities
Other non-current liabilities	2 802	-1		2 801	Other non-current liabilities
Total non-current liabilities	**25 760**	**0**	**1 837**	**27 597**	**Total non-current liabilities**
Borrowings – part with maturities of less than one year	7 632			7 632	Borrowings – part with maturities of less than one year
Trade payables and other	50 285	113 644		163 929	Trade payables and other
Other debt and accruals	113 644	-113 644			
Total current liabilities	**171 561**	**0**	**0**	**171 561**	**Total current liabilities**
TOTAL LIABILITIES	**235 516**	**0**	**0**	**235 516**	**TOTAL LIABILITIES**

2005 BALANCE SHEET (LIABILITIES)	Published	Re classifications	Health expenses of retired employees	Corrected	
CS Group shareholders equity	35 765		-1 727	34 038	CS Group shareholders equity
Minority interests	1 051			1 051	Minority interests
Shareholders equity	**36 816**	**0**	**-1 727**	**35 089**	**Shareholders equity**
Borrowings – part with maturity of over one year	1 384			1 384	Borrowings – part with maturity of over one year
Provisions	20 874	-7 397		13 477	Provisions
Employee-related liabilities		7 398	1 727	9 125	Employee-related liabilities
Deferred tax liabilities	2			2	Deferred tax liabilities
Other non-current liabilities	2 221			2 221	Other non-current liabilities
Total non-current liabilities	**24 481**	**1**	**1 727**	**26 209**	**Total non-current liabilities**
Borrowings – part with maturities of less than one year	12 679			12 679	Borrowings – part with maturities of less than one year
Trade payables and other	54 358	115 326		169 684	Trade payables and other
Other debt and accruals	115 327	-115 327			
Total current liabilities	**182 364**	**-1**	**0**	**182 363**	**Total current liabilities**
TOTAL LIABILITIES	**243 661**	**0**	**0**	**243 661**	**TOTAL LIABILITIES**

Note 4/ Segment information

By business activity:

At December 31, 2006 in € thousands	Consultancy and mission critical systems integration	Outsourcing	Eliminations and and not assigned[1]	Total
Income statement				
Sales	250 839	91 606	-11 264	331 181
External sales	249 030	82 410	-259	331 181
Operating margin before amortization	16 246	-887	-150	15 209
Amortization of tangible and intangible fixed assets	-1 980	-2 211	-276	-4 467
Operating margin	14 266	-3 098	-426	10 741
Balance sheet				
Inventories and work-in-progress	7 458	538		7 996
Trade receivables	88 478	21 150		109 628
Other information				
Tangible and intangible fixed assets	8 893	3 689	1 665	14 247
Capital expenditures for the financial year [2]	4 723	1 089	40	5 862
Average workforce	1 879	1 140	170	3 189

At December 31, 2005 in € thousands	Consultancy and mission critical systems integration	Outsourcing	Eliminations and and not assigned[1]	Total
Income statement				
Sales	256 578	96 536	-7 625	345 489
External sales	255 622	89 332	535	345 489
Operating margin before amortization	15 479	-2 117	- 1416	11 946
Amortization of tangible and intangible fixed assets	1 387	2 594	440	4 421
Operating margin	14 092	- 4711	-1 856	7 525
Balance sheet				
Inventories and work-in-progress	9 427	222		9 649
Trade receivables and related	95 804	19 740		115 544
Other information				
Tangible and intangible fixed assets	6 706	4 765	1 160	12 631
Capital expenditures for the financial year [2]	4 435	2 430	528	7 393
Average workforce	1 789	1 219	199	3 207

At December 31, 2004 in € thousands	Consultancy and mission critical systems integration	Outsourcing	Eliminations and and not assigned[1]	Total
Income statement				
Sales	219 740	105 570	-5 588	319 722
External sales	218 563	100 859	300	319 722
Operating margin before amortization	12 100	1 021	-668	12 453
Amortization of tangible and intangible fixed assets	2 470	3 071	663	6 204
Operating margin	9 630	-2 050	-1 331	6 249
Balance sheet				
Inventories and work-in-progress	10 573			10 573
Trade receivables and related	72 878	18 180		91 058
Other information				
Tangible and intangible fixed assets	4 375	4 350	1 434	10 159
Capital expenditures for the financial year [2]	1 776	1 857	166	3 799
Average workforce	1 740	1 301	202	3 243

[1]The CS Group assigns sales figures to segments. "Eliminations and not assigned" is confined to the elimination of intra-CS Group sales, outsourcing services for internal use and re-billings of certain costs.
[2]Excluding investments without any impact on cash flow (financial leases).

By geographic area:

In € thousands	12/31/2006			12/31/2005			12/31/2004		
	France	International	Total	France	International	Total	France	International	Total
Sales	299 132	32 049	331 181	318 711	26 778	345 489	284 929	34 793	319 722
Tangible and intangible fixed assets (excluding goodwill)	12 149	2 098	14 247	10 926	1 706	12 632	9 191	966	10 157
Capital expenditures for the financial year	4 542	1 320	5 862	6 465	928	7 393	3 254	545	3 799

Note 5/ Goodwill and intangible fixed assets

Impairment tests hypothesized the following:

- at a rate of 10% (before tax) corresponding to the weighted average cost of capital,
- growth rate of the terminal value: 2.5% per annum.

Depreciation was the following:

In € thousands	2006	2005	2004
Goodwill	195	560	0

CHANGE IN 2006 In € thousands	at 01/01/2006	Increases	Decreases	Variations in scope of consolidation	Other movements	at 12/31/2006
Gross values						
Goodwill	68 927	4	-4		1 864	70 791
Development costs	1 472	2 377	-36			3 813
Concessions, patents, licenses	13 302	1 309	-420		-143	14 048
Businesses	1 869				-1 869	0
Intangibles under financial lease[1]	2 146	400	-2 005			541
Other	1 087				-1	1 086
Total gross value (a)	**88 803**	**4 090**	**-2 465**		**-149**	**90 279**
Depreciation and impairment						
Goodwill	20 879	199	-4		1 711	22 785
Development costs	210	336	-35			511
Concessions, patents, licenses	11 054	886	-80		-52	11 808
Businesses	1 679	65	-27		-1 717	
Intangibles under financial lease	1 932	305	-2 006		1	232
Other	1 087				-1	1 086
Total depreciation / impairment (b)	**36 841**	**1 791**	**-2 152**		**-58**	**36 422**
NET TOTAL (a)-(b)	**51 962**	**2 299**	**-313**		**-91**	**53 857**

[1] *essentially software*

CHANGE IN 2005 **In € thousands**	**at 01/01/2005**	**Increases**	**Decreases**	**Variations in scope of consolidation**	**Other movements**	**at 12/31/2005**
Gross values						
Goodwill	67 436	1 491				68 927
Development costs	1 567	1 088			-1 183	1 472
Concessions, patents, licenses	11 608	1 369			325	13 302
Businesses	1 869					1 869
Intangibles under financial lease	2 146					2 146
Other	1 427		-127		-213	1 087
Total gross value (a)	**86 054**	**3 948**	**-127**		**-1 071**	**88 803**
Depreciation and impairment						
Goodwill	20 319	560				20 879
Development costs	1 192	201			-1 183	210
Concessions, patents, licenses	10 409	491	-7		161	11 054
Businesses	1 650	62	-33			1 679
Intangibles under financial lease	1 133	807	-8			1 932
Other	1 310		-127		-96	1 087
Total depreciation / impairment (b)	**36 013**	**2 121**	**-175**		**-1 118**	**36 841**
NET TOTAL (a)-(b)	**50 041**	**1 827**	**48**		**47**	**51 962**

CHANGE IN 2004 **In € thousands**	**at 01/01/2004**	**Increases**	**Decreases**	**Variations in scope of consolidation**	**Other movements**	**at 12/31/2004**
Gross values						
Goodwill	65 075	2 787		-426		67 436
Development costs	1 219	348				1 567
Concessions, patents, licenses	15 485	579	-3 294	-121	-1 041	11 608
Businesses	3 470		-1 601			1 869
Intangibles under financial lease		101			2 046	2 147
Other	2 411	5	16		-1 005	1 427
Total gross value (a)	**87 660**	**3 820**	**-4 895**	**-531**	**0**	**86 054**
Depreciation and impairment						
Goodwill	20 396				-77	20 319
Development costs	909	267			16	1 192
Concessions, patents, licenses	13 392	1 521	-3 290	-81	-1 133	10 409
Businesses	3 222	62	-1 634			1 650
Intangibles under financial lease					1 133	1 133
Other	1 261	51		-2		1 310
Total depreciation / impairment (b)	**39 180**	**1 901**	**-4 924**	**-83**	**-61**	**36 013**
NET TOTAL (a)-(b)	**48 480**	**1 919**	**29**	**-448**	**61**	**50 041**

In 2006, intangible fixed assets, generated in-house, concerned both development expenditures and certain software, together valued at € 2.3M (€ 2.4M in 2005). R&D expenditures, in the sense of regulations concerning tax credits for research, came to € 12.6M (€ 12.5M in 2005).

Note 6/ Property, plant and equipment

There is no property, plant or equipment whose ownership is subject to restrictions. No assets have been pledged to guarantee debt.

CHANGE IN 2006 In € thousands	At 01/01/2006	Acquisitions	Disposals	Variations in scope of consolidation	Other movements	at 12/31/2006
Gross values						
Land	108		-23			85
Construction	884		-94			790
Industrial equipment and tooling	5 126	249	-765		-252	4 358
Office furniture and computer equipment	11 836	1 917	-2 604		-198	10 951
Office and computer equipment under financial lease	5 014	2 755	-2 022			5 747
Total gross value (a)	**22 968**	**4 921**	**-5 508**		**-450**	**21 931**
Depreciation and impairment						
Land	0					
Construction	631	54	-58			627
Industrial equipment and tooling	4 341	333	-737		-254	3 683
Office furniture and computer equipment	5 625	999	-426		-122	6 076
Office and computer equipment under financial lease	3 655	1 516	-2 022			3 149
Total depreciation and impairment (b)	**14 252**	**2 902**	**-3 243**		**-376**	**13 535**
NET TOTAL (a)-(b)	**8 716**	**2 019**	**-2 264**		**-74**	**8 396**

CHANGE IN 2005 In € thousands	At 01/01/2005	Acquisitions	Disposals	Variations in scope of consolidation	Other movements	at 12/31/2005
Gross values						
Land	423		-268		-47	108
Construction	1 774		-653		-237	884
Industrial equipment and tooling	4 316	478	-1		333	5 126
Office furniture and computer equipment	14 601	3 969	-7 010		276	11 836
Office and computer equipment under financial lease	4 593	489	-68			5 014
Total gross value (a)	**25 707**	**4 936**	**-8 000**		**325**	**22 968**
Depreciation and impairment						
Land	11	2	-13			0
Construction	867	65	-297		-4	631
Industrial equipment and tooling	3 734	275	-1		333	4 341
Office furniture and computer equipment	11 379	1 414	-7 347		179	5 625
Office and computer equipment under financial lease	2 483	1 172	0			3 655
Total depreciation and impairment (b)	**18 474**	**2 928**	**-7 658**		**508**	**14 252**
NET TOTAL (a)-(b)	**7 233**	**2 008**	**-342**		**-183**	**8 716**

CHANGE IN 2004 In € thousands	At 01/01/2004	Acquisitions	Disposals	Variations in scope of consolidation	Other movements	at 12/31/2004
Gross values						
Land	299	2	-214	336		423
Construction	1 933	2	-1 198	1 037		1 774
Industrial equipment and tooling	4 030	401	-109	162	-168	4 316
Office furniture and computer equipment	15 536	1 397	-2 106	-114	-112	14 601
Office and computer equipment under financial lease	3 629	964				4 593
Total gross value (a)	**25 427**	**2 766**	**-3 627**	**1 421**	**-280**	**25 707**
Depreciation and impairment						
Land	36	4	-39	10		11
Construction	1 499	85	-937	220		867
Industrial equipment and tooling	2 828	1 054	-96	133	-185	3 734
Office furniture and computer equipment	9 318	3 990	-1 747	-102	-80	11 379
Office and computer equipment under financial lease	606	1 877				2 483
Total depreciation and impairment (b)	**14 287**	**7 010**	**-2 819**	**261**	**-265**	**18 474**
NET TOTAL (a)-(b)	**11 140**	**-4 244**	**-808**	**1 160**	**-15**	**7 233**

Note 7/ Financial fixed assets

In € thousands	At 12/31/2006	At 12/31/2005	At 12/31/2004
Non-consolidated corporate securities	1 149	1 134	1 167
Loans	2 986	3 501	3 972
Deposits and other	661	626	566
Prepayments	38	203	13
Other receivables	3 584	3 831	3 762
Total	**8 418**	**9 295**	**9 480**

Main non-consolidated securities In € thousands	% interest at 12/31/2006	Value at 12/31/2006	Value at 12/31/2005	Value at 12/31/2004
CEP Périgueux	16,90	686	686	686
Sofema	0,30	368	368	368
ICP Allemagne	20,00	17	0	0
Other		78	86	113
Total		**1 149**	**1 134**	**1 167**

Note 8/ Inventories and work-in-progress

In € thousands	Gross value	Depreciation	Value
At 01/01/2004	**13 633**	**-4 281**	**9 352**
Variation in exchange differences	764	238	1 022
Change during the period	-1 520	371	219
At 12/31/2004	**14 245**	**3 672**	**10 573**
Variation in exchange differences	313	8	305
Change during the period	-2 222	-993	-1 229
At 12/31/2005	**12 336**	**2 687**	**9 649**
Variation in exchange differences	-3	-2	-1
Change during the period	-1 998	-346	-1 652
At 12/31/2006	**10 335**	**2 339**	**7 996**

Inventories and work-in-progress are mainly comprised of materials linked to activities in the «Road» and «Network Services» sectors. The cost of inventory in the initial phase of outsourcing contracts is not significant. No collateral has been pledged to guarantee borrowings.

Note 9/ Trade receivables and related accounts

At 12/31/2006 (in € thousands)	Gross value	Depreciation	Fair value
Trade receivables	111 251	1 623	109 628
Advanced paid	441		441
Other trade receivables	12 981	863	12 118
Other receivables and accruals	3 542		3 542
Total	**128 215**	**2 486**	**125 729**

At 12/31/2005 (in € thousands)	Gross value	Depreciation	Fair value
Trade receivables	116 749	1 206	115 543
Advanced paid	171		171
Other trade receivables	13 231	863	12 368
Other receivables and accruals	3 684		3 684
Total	**133 835**	**2 069**	**131 766**

At 12/31/2004 (in € thousands)	Gross value	Depreciation	Fair value
Trade receivables	92 729	1 671	91 058
Advanced paid	1 155	93	1 062
Other trade receivables	19 944	150	19 794
Other receivables and accruals	4 096	871	3 225
Total	**117 924**	**2 785**	**115 139**

At end-2006, current receivables with more than one-year maturity came to € 1.0M (€ 1.1M end 2005). Tax credits payable are negligible.

Note 10/ Cash and cash equivalents

The unrealized gain on marketable securities is not significant.
Cash mentioned in the consolidated cash flow statement is comprised of:

	2006	2005	2004
Bank overdraft facilities	-2 522	-11 097	-2 970
Bank and investment securities	+ 33 886	+ 18 014	+29 706
Cash (closing balance)	**+ 31 364**	**+ 6 917**	**+26 736**

Note 11/ Financial instruments (derivatives)

Interest-rate hedging

The indexation of OBSAR bonds, described in note 15, to a variable rate (three-month Euribor rate) generates a financial risk in the event of a rate increase. This risk was hedged by a three-month Euribor receiver swap and a payer swap at a fixed interest rate of 3.68%.

Exchange-rate hedging

Exposure to foreign exchange risk is relatively insignificant given that most CS Group facilities are located in the euro zone.
The CS Group's foreign exchange position derives essentially from commercial operations, and management aims at hedging foreign exchange risk. Hedging instruments used are both put and call options and futures contracts on foreign currencies. Most foreign exchange risk is due to purchases of networking software in the U.S., with short due dates for payment.
At December 31, 2006, exchange-rate hedging amounted to a total of € 12M in the form of exchange-rate swaps, and covered operations falling due in 2007:

- USD 9.2M for the equivalent of € 7.1M covering receivables;
- USD 2.5M for the equivalent of € 1.9M covering an intra-CS Group current account;
- GBP 2.0M for the equivalent of € 3.0M covering trade receivables (raised or to be raised).

Hedging on indexed pricing

Certain major contracts foresee invoicing for some lots, indexed on the indicator from the French economic statistics agency, INSEE, for the price of copper and aluminum. This potential risk has been hedged until 2008 by negotiating on the LME put options on futures contracts for underlying assets totaling € 4.46M (copper: € 2.98M; aluminum: € 1.48M).

Fair value of derivative instruments (in € thousands)	2006		
	Assets	Liabilities	Of which fair value booked to shareholders equity
Interest-rate hedging	142		140
Exchange-rate hedging		77	
Hedging of price indexing	173	45	44
Total	**315**	**122**	**184**

Note 12/ Shareholders equity

Number of shares at € 5.00 per share making up the share capital	2006	2005	2004
At the beginning of the financial year	5 974 388	5 618 670	5 576 248
New shares	-	248 189	-
Share warrants exercised	124 500	92 494	41 702
Stock options exercised	200 210	15 035	720
At the close of the financial year	**6 299 098**	**5 974 388**	**5 618 670**

Shares registered in the name of the same shareholder for over two years receive a double vote

Treasury shares	Number	Gross value in € thousands
At 01/01/2004	**7 338**	**103**
Acquisitions	77 511	1 592
Sales	-793	-23
At 12/31/2004	**84 056**	**1 672**
Acquisitions	44 370	1 292
Sales	-86 439	-1 964
At 12/31/2005	**41 987**	**1 000**
Acquisitions	50 632	1 443
Sales	-47 331	-1 485
At 12/31/2006	**45 288**	**958**

Share warrants and redeemable warrants:

→ On July 19, 2005, CS Communication & Systèmes initiated a simplified exchange offer on warrants redeemable in October 2005. The Company agreed to exchange four warrants redeemable in October 2005 against five new warrants and one new share. Each new warrant gives the right to acquire one new share at a price of € 30, and is valid until July 2007.

In all, 992,756 warrants redeemable in October 2005, or 93.67% of the total, were presented for exchange, leading to the creation of 248,189 new shares at a par value of € 5.

→ On June 9, 2006, CS issued bonds with redeemable warrants (OBSAR), the main characteristics of which are described in note 15.

	October 2005 warrants	July 2007 warrants	Class A redeemable warrants (BSAR A)	Class B redeemable warrants (BSAR B)
Number of warrants outstanding at 1/1/2005	**1 085 451**			
Warrants converted under the exchange offer	-992 756	1 240 945		
Warrants exercised during the year	-92 469	-25		
Warrants expired	-226	0		
Number of warrants outstanding at 1/1/2006	**0**	**1 240 920**		
Created	-	-	165 000	165 000
Warrants exercised during the year	-	124 500		
Warrants expired	-	-		
Number of warrants outstanding at 12/31/2006	**0**	**1 116 420**	**165 000**	**165 000**
Exchange parity	**1/1**	**1/1**	**1/1**	**1/1**
Exercise price	**€ 15.25**	**€ 30.00**	**€ 41.69**	**€ 45.48**

Stock option plans	1998 stock option plan	2000 stock option plan	2001 stock option plan	2003-1 stock option plan	2003-2 stock option plan	2004 stock option plan
Date of Board Meeting	05/29/1998	01/31/2000	12/18/200	01/13/2003	09/05/2004	11/25/2004
Restrictions on the acquisition of rights	Starting after the third year, according to the date of attribution	On a pro rata basis, 1/5th of the portion after each year of seniority in the CS Group	On a pro rata basis, 1/12th of the portion after each quarter of seniority in the CS Group	On a pro rata basis, 1/12th of the portion after each quarter of seniority, following the attribution of options	On a pro rata basis, 1/12th of the portion after each quarter of seniority, following the attribution of options	On a pro rata basis, 1/12th of the portion after each quarter of seniority, following the attribution of options
Maximum number of options offered initially	440 000	343 000	527 840	20 000	19 000	2 500
Options held by senior managers	0	0	405 700	0	0	0
Maximum term for exercising options	29-05-2008	31-01-2010	18-12-2011	13-01-2013	05-09-2013	25-11-2014
Subscription or purchase price	62,50	39,03	15,25	15,25	15,25	26,00
Options outstanding at 12/31/2004	53 500	23 400	521 520	20 000	19 000	2 500
Options outstanding at 12/31/2005	53 500	23 400	506 485	20 000	4 000	2 500
Change in the number of options during the 2006 financial year	0	0	-200 210	0	0	0
Options outstanding at 12/31/2006	53 500	23 400	306 275	20 000	4 000	2 500

Earnings per share	2006	2005	2004
Figures in € thousands			
Net income, CS Group share (a)	5 520	-3 300	5 618
Figures in number of shares			
Total shares (b)	6 299 098	5 974 388	5 618 670
Total treasury shares (c)	45 288	41 987	84 056
Total non-treasury shares (d) = (b) - (c)	6 253 810	5 932 401	5 534 614
Average number of non-treasury shares (e)	6 093 106	5 733 508	5 551 762
Potentially dilutive ordinary shares (f)	1 842 579	0	1 683 871
Average number of shares after dilution (g) = (e) + (f)	7 935 685	5 733 508	7 235 633
Earnings in euro per share (h) = (a*1000) / (e)	0.91	-0.58	1.02
Diluted earnings in euro per share (i) = (a*1000) / (g)	0.70	-0.58	0.78

→ Attribution of free shares to managers:

Date of Board Meeting	02/01/2006
Number of shares attributed	12,984
Beginning of the attribution period	02/01/2008
Expiration of the attribution period	02/01/2010
Fair value of a share at the date of attribution	€ 34.65

Note 13/ Provisions

Change in 2006 (in € thousands)	at 12/31/05	Allocations	Recoveries (provisions used)	Recoveries (provisions not used)	Re-classified	Change in scope of conso-lidation and misc.	at 12/31/06
Restructurating	5 930	77	-4 524	-972			511
Business (penalties, risks, guarantees, etc.)	3 182	819	-1 339	-66		-14	2 582
Losses at termination	568	365	-19			-5	909
Litigation and other risks	3 220	1 114	-1 376	-564		2	2 396
Taxes	577	19	-96			-10	490
Total	**13 477**	**2 394**	**-7 354**	**-1 602**		**-27**	**6 888**

Change in 2004/2005 (in € thousands)	at 01/01/04	at 12/31/04	Allocations	Recoveries (provisions used)	Recoveries (provisions not used)	Re-classified	Change in scope of conso-lidation and misc.	at 12/31/05
Restructurating	3 212	4 371	5 199	-3 640				5 930
Business (penalties, risks, guarantees, etc.)	3 587	4 298	1 199	-689	-2 118	460	32	3 182
Losses at termination	1 043	957	517	-641		-260		568
Litigation and other risks	4 550	3 590	833	-1 012		-191		3 220
Taxes and misc.	875	557	53	-46		-9	22	577
Total	**13 267**	**13 768**	**7 801**	**-6 028**	**-2 118**	**0**	**54**	**13 477**

At end-2006, the highest single amount for which a provision was booked for litigation was € 0.484M (€ 0.39M at end-2005).
The highest single business risk for which a provision was booked was € 0.499M at end-2006 (€ 0.49M end-2005).
In 2005, a job-security plan was implemented in a group company. The costs of this plan were virtually entirely paid in 2006.
Given the relative uncertainty concerning the due dates foreseen for payment, provisions are not distributed between current and non-current.

Note 14/ Employee-related liabilities

In € thousands	at 12/31/04	at 12/31/05	at 12/31/06	Chance during the period	Impact of changes in acturial assumptions[1]
Health expenses of retired employees	1 838	1 728	1 718	-9	
Severance pay on retirement and post-employment benefits	7 054	7 397	9 028	401	1 230
Total	**8 892**	**9 125**	**10 746**	**392**	**1 230**

[1] *The impact of changes in actuarial assumptions is recorded as a decrease in shareholders equity.*

Concerning severance pay on retirement, in 2006, the amount paid was € 91,000 and the amount foreseen for 2007 is € 14,000.

The principal assumptions governing the measurement of retirement commitments are:

	2006	2005	2004
Discount rate	4.25	4.50	4.50
Mean personnel turnover	8.10	8.30	n.a.
Annual rate of wage increases	2.00	1.50	1.50

The French Financial Code and social security law for 2007 prohibits, starting in 2010, forced retirement before 65 years of age. For companies covered by a collective bargaining agreement, concluded within the framework of recent French retirement law (known as the "Loi Fillon"), it remains an option, between 2010 and 2014, to negotiate retirements before 65. The impact of this law (enacted in December 2006) is difficult to evaluate, given the changes in assumptions to be validated, future possible renegotiations of collective bargaining agreements and trends in employee behavior.
At the end of 1998, CS concluded an optional agreement with a view to assuming financial responsibility for a portion of the health expenses of former employees. This plan concerns employees who took retirement before January 1, 1999. The commitment was not identified at the time of switching to IFRS and therefore has been stated as an error correction, foreseen by IAS 8 (Retrospective Corrections).

Impacts on prior financial years:

In € thousand	2004	2005
Shareholders equity	-1 777	-1 838
Opening balance	1 777	1 838
Current change	61	-110
Closing balance	1 838	1 728

In 2006, the amount paid into defined-contribution retirement schemes was, approximately, € 12 million (€ 10.4M in 2005).

Note 15/ Current and non-current liabilities to banks and financial institutions

In € thousand	12/31/2006		12/31/2005		12/31/2004	
	Non-current	Current	Non-current	Current	Non-current	Current
Debenture loan	14 026	38	-	-	-	-
Bank loans and other	968	805	822	98	776	1 688
Indebtedness: financial lease contracts	2 195	1 344	562	1 484	1 357	2 973
Overdraft facilities:						
• Banks' creditor balances	-	2 522	-	1 930	-	2 970
• Restatement of sales of receivables	-	-	-	9 167	-	0
Total borrowings / financial debt	**17 189**	**4 709**	**1 384**	**12 679**	**2 133**	**7 631**

	2006	2005	2004
Borrowings and debt	-21 898	-14 063	-9 764
Bank and investment securities	+33 886	+18 014	+29 706
Cash (+) / indebtedness (-) consolidated total	**+11 988**	**+3 951**	**+19 942**

Repayment schedule of non-current financial debt

In € thousand	12/31/2006			12/31/2005			12/31/2004		
	Carrying amount	1 to 5 years	Over 5 years	Carrying amount	1 to 5 years	Over 5 years	Carrying amount	1 to 5 years	Over 5 years
Debenture loan	14 026	14 026	-	-	-	-	-	-	-
Bank loans and other	968	968	-	822	822	-	776	585	191
Indebtedness linked to restatement of financial lease contracts	2 195	2 195	-	562	562	-	1 357	1 357	-
Total	**17 189**	**17 189**	**-**	**1 384**	**1 384**	**-**	**2 133**	**1 942**	**191**

Borrowings by currency

	12/31/2006	12/31/2005	12/31/2004
Euro	18 232	2 500	6 498
US Dollar	827	0	0
Other currencies	316	466	296
Total	**19 375**	**2 966**	**6 794**

Debenture loan

On June 9, 2006, CS issued bonds with redeemable warrants (Obligations à Bons de Souscription d'Actions Remboursables, also known as OBSAR).

The main characteristics of this debenture loan are the following:

Issue amount	Redemption date	Coupon value	Hedged interest rate	Blended interest rate	Original debt financed	Cost of debt financing	Original shareholder equity
€ 14,85 M	9 june 2009	3 month Euribor + 0.734 %	4.414%	6.80%	13.84 M€	€ 0.64 M	€ 0.37 M

The main characteristics of the associated redeemable warrants (Bons de Souscription d'Actions Remboursables, also known as BSAR) are the following:

	BSAR A	BSAR B
Number of BSARs issued	165,000	165,000
Exercise price	€ 41.69	€ 45.48
Exchange parity	1/1	1/1
Term	3 years	5 years
Exercise period	The last year	The last 3 years
Number of BSARs remaining in circulation	165,000	165,000

Early redemption at € 0.01 is possible at the discretion of the Company, starting June 9, 2008, if the proceeds of the share price and the exchange parity exceed 190% of the exercise price. The class A redeemable warrants cannot be traded during the first two years, except in the case of a public offer on the shares of the Company or in the case of a buyback by the Company.

The main financing tools are as follows:

In € thousands	12/31/2006		12/31/2005		12/31/2004	
	Authorized	Used	Authorized	Used	Authorized	Used
Bank overdraft facilities	5 012	2 522	6 018	1 930	8 370	2 970
Sales of Dailly Act receivables (BDPME)	25 000	0	36 046	13 533	36 662	36 252
Factoring (amount of financing)	57 000	22 743	22 583	22 583	15 000	11 742
Medium- and long-term loans	5 498	5 311	2 966	2 966	6 794	6 794

On June 26, 2006, an agreement on the sale of trade receivables was signed with Commerzbank AG. At December 31, 2006, total proceeds from that sale were € 9.43M.

At the end of 2005, CSSI had signed a factoring contract with Eurofactor. This agreement specified that when the debtor's payment default is linked to insolvency, the risk is borne by the factoring company within the limits of a guaranteed amount. During 2006, two subsidiaries concluded similar factoring contracts.

Total factoring:

(in € millions)	12/31/2006	12/31/2005	12/31/2004
Receivables sold to Eurofactor	36.58	22.03	14.70
of which not guaranteed	0.64	0.25	1.50
Receivables sold to Commerzbank	9.44	-	-

Since the main risk (risk of non-payment for insolvency) was transferred, these receivables were removed from the consolidation. Interest on these lines is at a variable rate indexed either to the Eonia or 3-month Euribor rate.

In the consolidated financial statements, financing under the Dailly Act and non-guaranteed factoring are restated as follows:

Assets	2006	2005	2004
Trade receivables	13 066	36 296	37 691
Other receivables	-12	- 1 250	-
Cash and equivalents	- 13 054	-25 879	-37 691
Total	0	9 167	0

Liabilities	2006	2005	2004
Debt financed	0	9 167	0
Total	0	9 167	0

The only financing obtained by the CS Group that is subject to a covenant concerning financial ratios is the contract signed with Commerzbank. This agreement foresees the possibility of cancelling the contract if the ratio of consolidated net debt to current operating income before amortization and current provisions becomes greater than 2.5 for longer than a half year.

Note 16/ Other current and non-current liabilities

In € thousands	at 12/31/2006	at 12/31/2005	at 12/31/2004
Non-current liabilities			
Deferred taxes	25	2	2
Other	819	2 221	2 801
Total	**844**	**2 224**	**2 803**
Current liabilities			
Advances and prepayments	4 623	5 289	9 711
Suppliers	54 063	54 358	50 285
Various operating debt[1]	78 967	72 797	69 303
Payables on fixed assets	1 056	1 065	2 571
Miscellaneous debt	3 607	2 289	8 277
Prepaid income	27 564	33 886	23 782
Total	**169 880**	**169 684**	**163 929**

[1]This essentially includes VAT on trade receivables not collected, VAT on trade receivables not yet billed, VAT due for the last month of the financial year, and labor-related commitments (personnel, paid vacations, payroll taxes, etc.). Income tax due was negligible.

Note 17/ Workforce

CS Group average workforce	2006	2005	2004
France	2 862	2 927	2 980
Abroad	327	280	263
Total	**3 189**	**3 207**	**3 243**

The expense corresponding to the fair value of stock option plans was € 22,000 in 2006 and € 50,700 in 2005.

Note 18/ Operating depreciation / amortization and provisions

In € thousands	2006	2005	2004
Appropriations to depreciation	-4 467	-4 421	-6 204
Accruals / reversals (+) for impairment	-73	1 087	743
Accruals / reversals (+) for provisions	686	-199	1 094
Total	**-3 854**	**-3 533**	**-4 367**

Note 19/ Other operating income and expenses

In € thousands	Revenues	Expenses	Net 2006	2005	2004
Removals and unoccupied premises	814	-1 014	-200	-1 137	-3 911
Restructuring - personnel	5 370	-7 367	-1 997	-9 138	-6 887
Net income on asset sales	20 034	-20 034	0	424	9 889
Amortization of goodwill (impairment)	16	-199	-183	-560	-
Significant Litigation on business (1)		-2 548	-2 548		-
Other	214	-674	-460	-269	-
Total	**26 448**	**-31 836**	**-5 388**	**-10 680**	**-909**

[1] *Final payment on litigation concerning a contract, terminated in 2006.*

Note 20/ – Financial income and expenses

In € thousands	2006	2005	2004
Financial expenses	-2 768	-2 249	-3 330
Financial income	228	501	1 758
Net change in provisions	-196	-128	315
Result of foreign exchange differences	-734	1 287	-685
Capital gains / losses on financial assets			
and marketable securities	67	99	-
Financial income / expense	**-3 403**	**-490**	**-1 942**

Note 21/ Corporate income tax

In € thousands	2006
Consolidated income before tax	1 949
Theoretical tax rate	33.33%
Theoretical tax expense	-650
Real tax expense	3 647
Difference	4 297
A deferred tax liability was registered correlating to the rise in the recoverable amount	
expected over the next 5 financial years	4 589
A deferred tax asset for a foreign subsidiary was voided given the uncertainty of recovery	-250
Other	-42
Total	**4 297**

The method used for determining deferred tax assets, tied to the CS Group's loss carry-forwards, is described in note 1.13. The amount of tax in the income statement (resulting essentially from the variation in deferred tax assets) is mainly linked to changes in the business plans from one year to another.

Tax expense on fully consolidated companies:

In € thousands	2006	2005	2004
Tax expense	-178	-290	-581
Deferred taxes	3 825	659	3 290
R&D tax credits and other	-	710	804
Total	**3 647**	**1 079**	**3 513**

Taxes payable are essentially for subsidiaries abroad.
The tax credit for Research & Development is henceforth booked as a decrease in R&D expenses

Change in deferred tax assets	2006	2005	2004
At January 1	14 257	13 344	10 167
Additions	4 573	1 271	3 176
Cancelations	-724	-358	-
Impact on the income statement	3 848	913	3 176
At December 31	18 105	14 257	13 344

The CS Group's tax situation is as follows:

In € thousands	2006	2005	2004
At the normal rate (indefinite loss carry-forwards)	181.4	179.2	170.4
Corresponding potential tax savings	59.8	59.6	57.8

Deductible but not used time lags, which have not been recognized as deferred tax assets, came to approximately € 6.8M on 12/31/2006 (€ 11.7M end-2005). In all, the CS Group has potential tax savings of € 59.8M, which gave rise to recognition of a deferred tax asset of € 18.1M.
The parent company, CS Communication & Systèmes, has formed a tax pooling group with certain subsidiaries. Each company calculates and records its tax expense as if there were no such group pooling arrangement. Any tax savings, which may result from application of the pooling arrangement, accrues to the parent company. In 2006, tax savings were € 0.4M, as opposed to € 3.0M in 2005.

Note 22/ Financial risk management

Risks other than those described in note 11.

→ Interest rate risk

In order to reduce the financial cost of medium- and long-term borrowings, CS Group policy is to manage its exposure to interest-rate risk (rate increases) on variable-rate borrowings and to benefit from any decline in interest rates in the case of fixed-rate borrowings. The financial instruments used are mainly interest-rate swaps. Medium- and long-term debt (excluding OBSAR bonds) is essentially fixed-rate (lease contracts, financial leases, etc.) which consequently do not create any exposure to interest-rate risks.
Short-term debt is entirely constituted by the factoring of trade receivables and the use of authorized bank overdrafts. Since change in the volume of their use is extremely short-term and fluctuates with daily cash flows, no hedging has been set up.

→ Counterparty risk

The CS Group limits its choice of counterparties to first-rank financial institutions.

→ Credit risk

Most of the CS Group's customer base consists of major accounts. The risk of customer insolvency or disappearance is therefore very low. More than 30% of sales are to government agencies and nationalized companies, mainly in France.

Note 23/ Off-balance-sheet commitments

In € thousands	see	12/31/2006	12/31/2005	12/31/2004
Commitments given:				
Guarantees and deposits outside the CS Group and commitments associated with performance of contracts (excluding advances received and already recorded)		55 499	29 564	28 451
Actual pledges, mortgages and sureties:	A	2 077	3 329	28 608
Guarantees and deposits	B	62 466	36 960	45 862
Other guarantees given		119	119	1 572
Commitments received:				
Guarantees and deposits		4 004	3 600	3 492

The CS Group restates significant financial and operating lease contracts. Concerning hedging instruments, see note 11.

a: Allocation of collateral pledged

	31/12/2006	31/12/2005	31/12/2004	
Bank overdrafts and sureties	0	1 508	1 515	Pledge of 1% employer contribution to low-cost housing
Bank overdrafts and sureties	1 239	1 239	-	Collateral in securities
Sureties	710	454	2 025	Pledge of the factoring guarantee account
Liens	128	128	128	Tax disputed
Bank loans and other	-	-	21 648	"Road" goodwill collateral
Bank loans and other	-	-	3 292	Pledge of 1% employer contribution to low-cost housing
Total	**2 077**	**3 329**	**28 608**	

The Company was released from various sureties (on goodwill, the 1% housing assessment) during 2006 and 2005B)

b: Guarantees and deposits

These are essentially:
- payment guarantees given to owners of buildings leased by the CS Group: € 36.140 million;
- representations and warranties for € 1.3 million;
- guarantees on credit lines: € 25 million

Note 24/ Ordinary real estate rentals

Rent commitments are valued at:

In € thousands	2006	2005
At less than 1 year	5 020	5 315
From 2 to 5 years	21 408	19 709
At more than 5 years	8 157	15 496
Total	**34 585**	**40 520**
Including non-cancelable	28 444	31 267

In 2006, the CS Group recognized rental expenses of approximately € 6.6M (€ 6.0M in 2005)

Note 25/ Audit and consultancy fees recorded in the income statement

In € thousands	Constantin et Associés						Deloitte et Associés					
	Amount ex-VAT			%			Amount ex-VAT			%		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Audit:												
Auditing and certification of parent company and consolidated financial statements												
Issuer	63	47	47				57	47	47			
Fully consolidated subsidiaries	174	192	155				138	174	158			
Other assignments directly related to the work of the statutory auditors												
Issuer	10						10					
Fully consolidated subsidiaries												
Sub-total	247	239	202	98,4	99,2	100	205	221	205	100	100	100
Other assignments carried out by the networks:												
Legal, tax, social	4	2						9		-	-	
Other												
Sub-total	4	2		1,6	0,8							
TOTAL	**251**	**241**	**202**	**100**	**100**	**100**	**205**	**230**	**205**	**100**	**100**	**100**

Total fees for audits amounted to € 486,000 in 2006 compared with € 474,000 in 2005 and € 407,000 in 2004.

Note 26/ Possible liabilities

→ Individual training rights

In accordance with the provisions of Act 2004-391 of May 4, 2004, concerning professional training, the French companies in the CS Group ensure employees the right to 20 hours per calendar year of individual training, which can be accumulated for a maximum period of six years. If all rights are not used once this period expires, the ceiling for total rights remains at 120 hours. Given the opinion handed down in October 2004 by the Emergency Committee of the French National Council of Certified Accountants and the situation of CS Group companies in this instance, no provision has been deemed necessary relative to this new employee right.

→ Tax audits

Both the parent company, CS, as well as CSSI were under tax audit. The resulting tax assessments did not lead to any additional liabilities or expenses.

Note 27/ Transactions with related parties

→ Associated companies

There are no companies in which the CS Group has joint control or a significant influence in the sense of IAS 24.

→ Associated companies with significant influence on the CS Group

There are no significant operations with shareholders holding more than a 5% interest in CS Communication & Systèmes.

Overall figures for compensation of management (members of the Board and the Chief Executive Officer) are provided below, divided into the categories defined in IAS 24 (Related-party Disclosures).

In € thousands	2006	2005	2004
Compensation of Board members	315	516	196
Compensation of senior management:			
• Salaries	860	1 156	1 198
• Share-based payments	450	0	0

The CS Group has not granted any advance or credit to CS directors or managers, nor contracted undertakings on their behalf (retirement pensions or other). Stock options on CS Communication & Systèmes held by management are indicated in note 12.

At its meeting of July 12, 2005, the Board of Directors granted members of management severance pay in case of dismissal at the level of 150% of gross annual compensation.

Note 28/ Events subsequent to the closing of the accounts

As of the date that the financial statements were approved by the Board of Directors of the CS Communication & Systèmes Group, there was no other litigation, arbitration or exceptional fact that could have a significant effect on the CS Group's business activities, financial situation or assets.

STATUTORY AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2006

In accordance with the assignment entrusted to us by the shareholders in the General Meeting, we have audited the consolidated financial statements of CS Communication & Systèmes for the financial year ended December 31, 2006, which are attached to this report. The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

I. Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of persons and entities in accordance with the IFRS as adopted by the European Union.

II. Justification of our assessments

In accordance with the provisions of Article L. 823-9 of the French Commercial Code concerning the justification of our assessments, we draw your attention to the following matters:

The company records results on flat fee contracts using the methods described in note 1.6 to the consolidated financial statements. These results depend on estimates on completion carried out by representatives appointed by management.

On the basis of information received, our work consisted of appreciation of data and hypotheses on which these evaluations of results on completion of contracts were based, and examining the procedures adopted by management for approving these estimates.

Each year, the company carries out impairment tests on goodwill and on assets that are amortized over an indefinite period of time and also evaluated, if a loss-of-value index for these long-term assets exists, using the methods described in note 1.7.1 to the consolidated financial statements. We have examined the implementation of these impairment tests, in addition to cash flow projections and assumptions used, and have verified that these notes offer appropriate information.

These assessments form part of our audit of the annual consolidated financial statements as a whole and therefore contributed to the audit opinion expressed in the first section of this report.

III. Specific verifications

We have also audited the information relative to the CS Group given in the Management Report in accordance with professional standards applicable in France. We have no comments to make as to the fair presentation and consistency of this information with the consolidated financial statements.

Paris and Neuilly-sur-Seine, April 30, 2007

The Statutory Auditors

CONSTANTIN ASSOCIES
Jean-Paul SEGURET

DELOITTE & ASSOCIES
Christophe SAUBIEZ

CS REGISTERED OFFICES: 54-56, AVENUE HOCHE, 75008 PARIS, FRANCE
CS HEAD OFFICES: 22, AVENUE GALILÉE, 92350 LE PLESSIS-ROBINSON, FRANCE
TEL: +33 (0)1 41 28 40 00 – FAX: +33 (0)1 41 28 40 40

www.c-s.fr

CS
COMMUNICATION & SYSTEMES