Critical applications, e-Solutions, Network services, Facilities management, Critical applications, e-Solutions,

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2000 Financial Statements

Critical applications, e-Solutions, Network services, Facilities management, Critical applications, e-Solutions,

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Dear Shareholders,

We have called you to a Combined Shareholders Meeting pursuant to the law and our bylaws to report to you on the activity of CS Communication & Systèmes and its subsidiaries during financial year 2000 and to submit for your approval the balance sheet, income statement and notes for the year ended December 31, 2000.

Comments on the consolidated financial statements

During the financial year 2000, the group recorded only marginal changes in its scope of consolidation, essentially concerning the acquisition of SAF and CESIR (since become Trustycom). The merger of CS Communication & Systèmes by CISI Holding, approved by the General Meeting of December 29, 2000, was a purely internal legal operation that has not affected the group's consolidated financial statements. However, the financial statements have been significantly affected by events subsequent to December 31, 2000. These were the disposal of CS Systèmes de Sécurité and the bankruptcy filing of CS Telecom and CS Electronics, which gave rise to specific provisions for loss on assets and contingencies linked to bankruptcy filing.

Group sales totaled FRF 3.336 billion in 2000, 6% below the 1999 figure. This retreat was mainly due to a 22% decline in the sales of the Telecom Division, compared to drops of 1% for the Information Systems Division and 2% for the Security Division.

Research and development

Research and development expenditures decreased from FRF 204 million in 1999 to FRF 179 in 2000 (5.4% of sales). Almost 78% of this sum concerned CS Telecom developments, notably the new range of voice-data access-control products and optical networks. The group also pursued the development of a data security offering by creating a subsidiary (Trustycom) dedicated to providing software products in this area. In the Security Division, developments mostly concerned a new entryway and alarm control centers.

Consolidated results

During the financial year 2000, the group's consolidated results deteriorated considerably, due to a combination of unfavorable factors. These were mainly the continuing excessive cost of structures and of R&D, the beginning slowdown in the telecoms market and a decline in profits due to higher component costs and stiffer competition. However, this situation varied according to the various divisions. Half of the FRF 432 million of consolidated operating losses were attributable to the Telecom Division, which represented only 16% of consolidated sales.

The financial result reached FRF 79 million, thanks to a gain of FRF 102 million on the disposal of Verilog/Telelogic shares. Extraordinary loss was FRF 397 million, largely arising from provisions linked to the bankruptcy filing of CS Telecom and CS Electronics (FRF 293 million) and to restructuring provisions and expenses (FRF 106 million). The Extraordinary result takes into account the balance of proceeds from the sale of the subsidiary Verilog/Telelogic, for FRF 84 million.

The group share of net loss, before amortization of goodwill, stood at FRF 655 million. After amortization of goodwill, the group share was FRF -702 million.

The group share of consolidated shareholders' equity totaled FRF 380 million, as of December 31, 2000, and the cash position, net of debt, was negative for the group at FRF -119 million. Cash flow was FRF -338 million in 2000, versus FRF -230 million in 1999.

Comments on the corporate financial statements of CS Communication & Systèmes (ex CISI Holding)

Sales for the financial year reached FRF 91 million. An operating loss of almost FRF 5 million was recorded for 2000, although operating-income was balanced the year before. FRF 102 million of the positive financial result (FRF 144 million) came from the sale of Telelogic shares at the start of the year. Extraordinary loss for the period was FRF 480 million, the net capital gain arising from the exchange of Verilog (FRF 389 million) being neutralized by debt forgiveness to subsidiaries of FRF 176 million and by provisions concerning subsidiaries of FRF 661 million. These provisions take into account depreciation of the CS Telecom current account as of December 31, 2000 and depreciation of assets and contingencies linked to the CS Telecom and CS Electronics bankruptcy filings. The corporate loss was FRF 341 million, against a FRF 114 million loss in the previous year.

Businesses of the divisions and other consolidated subsidiaries

INFORMATION SYSTEMS DIVISION

In 2000, the Information Systems Division achieved sales of FRF 2.302 billion, or 69% of group consolidated sales. The division's sales saw a slight drop, of 1%, due to a slackening of business for subsidiaries abroad. In France, sales grew by 5%. The activity's results were affected by factors that touched the entire business: the sudden reversal of the "Year 2000" effect and the consequences of the 35-hour workweek in France. Furthermore, the Information Systems Division continued to invest, during the year, in new offerings expected by the market, making major efforts in the development of offerings in security, communication systems integration and e-solutions. The division is now strongly positioned in these areas. This is reflected in its contracts, which include Decopremier (the leading vertical 3-D portal dedicated to upscale decoration), the development of an intranet to link all the French defense establishment's intranets, and a videoconferencing project for France Télécom's companies division.

The Information Systems Division also gained ground in its traditional segments, such as aeronautics and space, air traffic control, highways, and facilities management.

- **Facilities management**

In 2000, the facilities management business continued to grow. Sales increased by 11% over 1999, and orders went up 20%. The business's end-to-end systems management positioning, especially well tailored to customer needs, incorporates application operations, from workstations to servers, including networking. An industrial concern whose production combines methods, processes and the provision of skills, CS offers solutions that blend local services at the customer site and remote operation. Moreover, to ensure customer satisfaction, CS strives to instill service spirit throughout its workforce. The facilities management business has thus won new market share. It has signed major contracts this year, such as facilities management for Aerospatiale's distributed systems, end-to-end systems administration for Nestlé, and facilities management of production for Société Générale. Moreover, major existing customers such as EDF, CEA, and Houillères des Bassins Centre Midi have renewed their contracts.

- **Systems integration**

The systems integration business achieved 18% growth in sales in 2000, compared with last year.

The aerospace business unit reinforced its market leadership in the areas of aeronautics and space and started to go global, notably by opening a subsidiary in Canada.

The air traffic control business unit continued to grow and prepared for its diversification into project management of major systems (the Météor project).

The highway management business unit won major contracts in Chile and Brazil and is now France's sole supplier of inter-company contactless toll-collection badges.

The e-Solutions activities – Web business, CRM and workflow management – whose contribution to operating income was negative, have been rationalized.

- **Network Services**

This year, the network and communications systems integration activity saw a drop in sales (-15% compared with 1999) and made a significantly negative contribution to operating income. At the beginning of 2001, CS embarked on an energetic plan to remedy this situation. As France's leading systems integrator, CS is handling projects for some very large customers, including IP migration for the French postal service's Muse network, and the ATM network and the traveler information system for the Rouen subway system. The network services business also continued developing high value-added offerings integrating advanced communication services. Specializing in voice-data-image and fixed-mobile convergence, CS is paving the way for new services, such as videoconferencing, unified messaging and telephony/IT coupling. In this area, CS is making its mark with several prestigious contracts and exploiting innovative partnerships, such as that with Net-Centrex.

● Engineering

The engineering business achieved an 18% increase in sales, with strong growth in the finance sector. The agreement with France's Carte Bancaire (banking card) economic interest grouping was extended for the implementation of the Banking Services Network (RSB).

A breeding ground for group know-how, the engineering activity has acquired a powerful internal skills base and constantly evolving expertise in numerous business sectors, such as banking, insurance, pensions, public services, and others.

Job training programs, skills-updating and training in emerging technologies are the province of the CS Institute, an approved ad hoc organization of the engineering business unit. The unit has also bolstered its offshore structure, ECSAT, through which it responds to needs by supplying qualified labor at a very competitive cost.

● Subsidiaries

The subsidiaries of the Information Systems Division (mainly those located outside France) suffered a drop in sales of around 20%. This was due, particularly, to restructuring in late 1999 aimed at restoring certain of the subsidiaries to profitability.

SECURITY DIVISION

During 2000, the Security Division showed that its program of measures to turn the business around was well conceived. It ended the year with a fuller billable order book for the year to come than had been the case at December 31, 1999. Sales reached FRF 332 million and operating income was FRF -12 million.

The reorganization of the sales teams began to bear fruit in late 2000. The aim was to maintain a high level of activity with the major French national bank networks and accelerate penetration of the insurance and regional banking sector.

In the second half of 2000, the division geared up to tackle the indirect sales market for the access control activity, targeting electrical installers.

New products developed by the three business units were well received by customers and well aligned with the French Ministry of the Interior's new decrees covering the protection of individual privacy.

Provision of services (maintenance) increased by 20%, to reach 13% of sales. Organization into business units also proved fruitful. Gross profits for the three activities grew and operating losses were divided by three, leading to the expectation of a very positive result in 2001.

Finally, the division received ISO 9001 accreditation (to year 2000 standards) on December 31, 2000.

The process of disposal of this division reached a conclusion on April 27, 2001, with the sale of CS Systèmes de Sécurité to the Swedish group, Gunnebo, the world market leader in physical security.

TELECOM DIVISION

Sales for the Telecom Division dropped 22% in 2000, to reach FRF 526 million. This disappointing showing was partly the result of production difficulties due to the worldwide shortage of components and partly that of export contract postponements (with China, for example). Furthermore, marketing of the new product range for multimedia networks and local loop had only just started, and had no significant impact on sales.

Profits also suffered heavily, both from unfavorable market conditions (component shortages leading to higher manufacturing costs, and stiffer competition) and a growing trend towards high-volume/low-margin sales (in digital network terminations). The considerable operating loss reached FRF 215 million.

The division maintained a major R&D thrust aimed at developing its new product ranges. In particular, the SafeCom 9000 platform for passive optical networks (PON FSAN) was successfully tested at France's National Center for the Study of Telecommunications.

During the year, a process of seeking strategic alliances was initiated, to allow the Telecom Division to achieve the international scope and critical mass essential to growth and long-term development. This process was unfortunately affected by a reversal in telecoms market conditions, which amplified after its onset in the summer of 2000. CS Telecom was therefore obliged to

request the opening of a bankruptcy filing procedure, in late April 2001.
At December 31, 2000, the telecommunications activity had a 408-strong workforce, compared with 494 in the previous year.

INDUSTRY DIVISION

The year 2000 was marked by the development of a sales cell and technical partnerships with the Engineering and Design Department, aimed at expanding the customer base.

In 2000, sales for Secré Alpine Electronics (SAE) reached FRF 293 million, down 26% over 1999. SAE received ISO 9002-TQE2-QS 9000 accreditation. At December 31, 2000, its corporate workforce consisted of 196 people.
CS Electronics worked mainly for CS Telecom in 2000 and was also obliged to request the opening of a bankruptcy filing procedure in late April 2001. Year 2000 saw the transfer of the CS Telecom production activities carried out by Philips in Louviers, and the optimization of the SAP information system. Sales for CS Electronics were FRF 246 million, up 63% over the 1999 figure. CS Electronics also received ISO 9002 accreditation. At December 31, 2000, it had a corporate workforce of 184 people.

Human Resources

The group employed 4,881 people at December 31, 2000, against 4,754 at the same date in 1999. The Information Systems Division signed a 35-hour workweek agreement, to run from August 1, 2000, to June 31, 2001, at which date it came up for renewal. As regards hiring, the division recruited almost 1,000 employees, for a net workforce growth of 250 over the period.

Year 2001 outlook

During the first months of 2000, the group pursued active negotiations over the disposal of its Telecom and Security divisions. As a result, the Security Division was sold to the Swedish group, Gunnebo, the world market leader in physical security. The group explored every industrial avenue to ensure the survival of the Telecom Division, but the sudden downtrend in the telecoms market meant that a sale could not be achieved. CS Telecom and CS Electronics, its manufacturing and logistics platform, were thus compelled to request the opening of an official bankruptcy filing procedure, in late April 2001.

The group is now exclusively centered on IT services and is becoming an IT services and engineering company in its own right. With the convergence of communication and information systems, the CS group delivers secure, intercommunicating IT solutions, drawing on its three activities: IT systems and application integration, network and communication systems integration, and facilities management. The group is a preferred supplier to major industrial and service sectors, such as aeronautics, space, defense, telecoms operation, transportation, energy, finance and administration. It is present in France (in every region), Europe as a whole (Germany, the UK, Italy and eastern Europe) as well as in North America. The group's aim is to restore a positive operating-income balance in the 2001 financial year.

The euro

The group is preparing for the changeover to the single European currency, and has notably implemented a "euro" version of its SAP information system.

Legal restructuring

The Board recalls the merger of CS Communication & Systèmes with CISI Holding and the full dissolution of CS Communication & Systèmes, as decided by the general meetings held on December 29, 2000 by the two companies. In connection with this merger, all assets of CS Communication & Systèmes were conveyed to CISI Holdings, which substituted for CS Communication & Systèmes in connection with all of its commitments. CISI Holding was also renamed CS Communication & Systèmes.

Share capital – Shareholders

Prior to the aforementioned merger, the general meeting of CISI Holding, held on November 15, 2000, decided to group the company's shares with 40 former shares with a par value of FRF 2.50 each forming one new share with a par value of FRF 100 each, this grouping becoming effective on December 8, 2000. Shareholders holding fractional shares may until December 7, 2002, acquire or sell former shares with a par value of FRF 2.50 each to the extent required to obtain one new share.

Warrants

During the period preceding the merger, the Company issued:

- 13,020,666 new CISI Holding shares resulting from the exercise by CS Communication & Systèmes of 13,020,666 CISI Holding warrants,
- 6 new CISI Holding shares resulting from the exercise by an individual shareholder of 6 CISI Holding warrants.

These issues correspond to a share capital increase of FRF 32,551,680.

Share subscription options

CISI holding, which was renamed CS Communication & Systèmes, assumed in connection with the merger, the share subscription options vis-à-vis holders of pre-existing options for the subscription of shares of CS Communication & Systèmes (the pre-existing entity), in respect of which recall the option exercises that took place during the last financial year:

- Issuance of 22,000 new shares resulting from the exercise of options on June 21, 2000 (Plan dated June 22, 1995).

Ownership of the share capital

In accordance with Article 233-13 of the Code of Commerce, the shareholders who have represented that they hold more than 5% of the capital of the company are as follows:

Quadral: 44.86% of the capital and 60.33% of the voting rights.

Information on acquisitions

The Board informs you of the stakes acquired in 2000 in companies with their registered offices in the French Republic:

CISI Holding, now CS Communication & Systèmes

– SAF	100%
– Voxity	100%

CS Communication & Systèmes (pre-existing entity)

– Decopremier	20%

Appropriation of earnings

The net result for the year consists of a loss of FRF 341,003,564.01, which is proposed to the Meeting to be applied in full against retained earnings.

As required by law, the Board of Directors reminds the Meeting that CS Communication & Systèmes (ex CISI Holding) distributed no dividends for the financial years 1997, 1998 and 1999.

Ratification of the change of head offices

We propose that you ratify the change of head offices from 29 rue Galilée, 75016 Paris to 86 rue du Dôme, 92100 Boulogne, as from April 30, 2001, as decided by the Board of Directors in its meeting of March 26, 2001.

Compensation of directors and members of the Supervisory Board

We propose that the annual amount of the fees allocated to members of the Board of Directors and, subject to the adoption of the 6th Resolution, members of the Supervisory Board, in proportion to their presence at meetings, be set at a symbolic sum of FRF 20,000. The distribution of the fees will be decided by the Supervisory Board, subject to the adoption of the 6th Resolution, in accordance with the bylaws.

Consolidated balance sheet as of December 31, 2000

Assets

(in thousands of FRF)

	Reference to notes	2000 Gross amount	2000 Deprec., amortiz. & provisions	2000 Net amount	1999 Net amount
Intangible fixed assets	(note 3)	**245,272**	**153,925**	**91,347**	**93,425**
Goodwill	(note 4)	**505,765**	**95,720**	**410,045**	**433,915**
Tangible fixed assets	(note 5)	**467,544**	**290,582**	**176,962**	**153,822**
Land and buildings		49,443	32,177	17,266	19,236
Plant and equipment		159,972	100,903	59,069	37,516
Other tangible assets		258,129	157,502	100,627	97,070
Financial fixed assets	(note 6)	**135,122**	**60,438**	**74,684**	**80,974**
Investments in non-consolidated companies		74,691	52,596	22,095	25,501
Other financial fixed assets		50,610	7,842	42,768	45,771
Securities accounted for under the equity method		9,821		9,821	9,702
TOTAL FIXED ASSETS		**1,353,703**	**600,665**	**753,038**	**762,136**
Inventories and work in-progress	(note 7)	565,126	92,192	472,934	426,866
Advances and partial payments on orders		25,809		25,809	33,332
Accounts receivable and related accounts	(note 8)	1,040,873	38,232	1,002,641	1,088,552
Other receivables	(note 9)	255,109	25,676	229,433	229,278
Marketable securities	(note 10)	3,466		3,466	390,955
Cash and cash equivalents		135,515		135,515	152,474
Accruals	(note 11)	24,360		24,360	25,950
GRAND TOTAL		**3,403,961**	**756,765**	**2,647,196**	**3,109,543**

Liabilities and shareholders’ equity

(in thousands of FRF)

	Reference to notes	2000	1999
Group shareholders’ equity	(note 12)	**380,492**	**1,110,220**
Share capital		450,864	462,797
Share premiums		560,256	359,579
Consolidated retained earnings		71,391	270,847
Net income/(loss) Group share		(702,019)	16,997
Minority shareholding interests	(note 12)	**(3,466)**	**19,575**
Retained earnings		17,369	17,844
Net income/(loss) minority shareholding interests’ share		(20,835)	1,730
Contingency and loss provisions	(note 13)	**615,525**	**247,019**
Financial debt	(note 14)	**257,615**	**180,673**
Bank loans and borrowings		241,017	160,260
Sundry loans and financial debt		16,598	20,413
Operating liabilities		**1,272,006**	**1,320,837**
Advances and partial payments received on orders		61,883	119,910
Accounts payable		650,472	652,577
Tax and social liabilities		559,651	548,350
Sundry liabilities		**26,129**	**121,638**
Amounts due on fixed assets		8,666	14,482
Other		17,463	107,156
Accruals	(note 11)	**98,895**	**109,581**
GRAND TOTAL		**2,647,196**	**3,109,543**

Consolidated income statement

(in thousands of FRF)

	Reference to notes	2000	1999
Sales	(note 15)	3,336,247	3,590,953
Finished goods & in-progress inventory		(8,409)	71,861
In-house production		38,979	50,396
Reversals of provisions, amortization & depreciation and expense transfers		136,775	163,602
Other income		13,311	18,318
OPERATING INCOME		**3,516,903**	**3,895,130**
Purchases and external charges		1,834,846	1,970,681
Tax, duties and similar payments		91,433	103,171
Personnel expenses		1,785,539	1,763,845
Depreciation expense		88,875	78,526
Provisions		136,664	121,796
Other expenses		11,822	17,764
OPERATING EXPENSES		**3,949,178**	**4,055,783**
OPERATING INCOME/(LOSS)	(note 16)	**(432,275)**	**(160,653)**
Investment income from shareholdings		702	516
Other interest and related income		111,248	37,452
Reversals of provisions and expense transfers		2,214	2,284
Foreign exchange gains		27,862	16,353
FINANCIAL INCOME		**142,025**	**56,605**
Depreciation and financial provisions		4,547	4,641
Interest and finance charges		23,823	16,766
Foreign exchange losses		33,979	13,402
FINANCIAL EXPENSES		**62,349**	**34,809**
FINANCIAL INCOME/(LOSS)		**79,676**	**21,796**
CURRENT INCOME/(LOSS) BEFORE TAXES		**(352,599)**	**(138,857)**
EXTRAORDINARY INCOME/(LOSS)	(note 18)	**(396,870)**	**218,756**
Corporate income tax	(note 19)	73,500	(20,362)
Share of income from companies accounted for under the equity method		138	(293)
CONSOLIDATED NET INCOME EXCLUDING GOODWILL [1]		**(675,831)**	**59,244**
Allocations to goodwill/(reversal of goodwill)	(note 4)	47,023	40,516
CONSOLIDATED NET INCOME AFTER GOODWILL [2]		**(722,854)**	**18,728**
Earnings per share		(156.08)	3.81
[1] of which minority interests' share		(20,835)	1,731
of which Group share		**(654,996)**	**57,513**
[2] of which minority interests' share		(20,835)	1,731
of which Group share		**(702,019)**	**16,997**

Consolidated cash flow statement

(in thousands of FRF)

		2000	1999
Cash flow resulting from operating activities			
Consolidated net income/(loss)		(722,854)	18,728
Loss/(profit) generated by companies accounted for under the equity methd (net of dividends received)		(61)	370
Income and expenses which have not resulted in cash flow:			
Depreciation, amortization and provisions		499,887	93,739
Capital gains/(losses) on disposals of fixed assets		(115,811)	(343,207)
Self financing capacity	(A)	**(338,839)**	**(230,370)**
Change in working capital requirements	(B)	(109,625)	157,565
Cash flow from operating activities	(A) + (B) = (C)	**(448,464)**	**(72,805)**
Acquisitions net of tangible and intangible fixed assets		(113,123)	(128,010)
Net financial investments (note 21)		66,365	282,539
Cash flow from investing activities	(D)	**(46,758)**	**154,529**
Repayment of borrowings, new borrowings and credits		(23,312)	8,999
Increase/(reduction) in capital		42,993	6,587
Treasury stock and price adjustment measures		–	(25,755)
Dividends paid		(35,643)	(30,286)
Cash flow from financing activities	(E)	**(15,962)**	**(40,455)**
Net effect of translation and miscellaneous transactions on cash flow	(F)	(4,716)	(5,337)
Net change in cash flow	(C) + (D) + (E) + (F) = (G)	**(515,900)**	**35,932**
Opening cash balance	(H)	419,063	383,131
CLOSING CASH BALANCE	(H) + (G) = (I)	**(96,837)**	**419,063**

In December 2000, in order to clarify and streamline the Group's structures, CISI Holding took over its parent company CS Communication & Systèmes and adopted its name.

Given that the restructuring was strictly internal, the comparative consolidated financial statements for the 1999 fiscal year are those of the CS Group since, if the merger had been carried out as of January 1, 1999, the 1999 pro-forma consolidated financial statements for CISI Holding would have been identical to those published last year.

Note 1
Principles, standards and methods

1.1. General principle

The consolidated financial statements of the Group are drawn up in accordance with the provisions of French accounting law of January 3, 1985 and its implementing decree dated February 17, 1986. The new provisions of CRC (French National Accounting Board) Regulation 99-02 were implemented as of the fiscal year 2000. They did not have a significant impact on the income and the financial situation of the Group.

1.2. Methods of drawing up the financial statements

a) Scope of Consolidation

Companies over which CS Communication & Systèmes has, directly or indirectly, exclusive control (a greater than 50% stake) are fully consolidated. However, the company may be deemed to be exclusively controlled with an interest of less than 50% if the Group effectively controls the management of the company.

Companies over which CS Communication & Systèmes has significant and durable influence (between 20% and 50% of the capital) are accounted for using the equity method.

Companies or groupings which are jointly controlled are consolidated using the proportional consolidation method.

The following are not consolidated:

– companies whose activities are not significant,
– companies which are only under temporary control,
– companies, which are not significant and which are to be sold.

b) Closing date

The consolidated financial statements are drawn up on the basis of the corporate accounts closed on December 31, 2000 or on the basis of interim financial statements where the subsidiary's accounting period does not correspond to the calendar year.

c) Purchase price discrepancy

The difference between the acquisition cost and the Group's share of the net assets of the subsidiary or investment at the acquisition date represents purchase price discrepancy. This difference is allocated to assets and liabilities acquired for which a fair value can be determined. The remaining unallocated amount is booked either in "goodwill" or in "contingency and loss provisions".

A final allocation of goodwill to identifiable asset and liability entries is made before the end of the accounting period following the acquisition.

Goodwill is amortized on a straight-line basis over varying useful lives (depending on the nature of the business activity), not exceeding 30 years. Extraordinary amortization takes place when justified by circumstances: planned disposal, inadequate profitability.

Negative goodwill is systematically added back to income. Recoveries are made in accordance with an amortization plan that reflects the objectives and prospects at the time of acquisition.

d) Translation of the financial statements of foreign subsidiaries

The income statements and balance sheets of foreign subsidiaries are translated into French francs according to the year-end rate method for balance sheet and to the annual average rate method for the income statement.

Unrealized foreign exchange gains and losses are booked in the consolidated retained earnings.

e) Deferred taxes

Deferred taxes deemed to be material and calculated according to the liability method are recorded in the balance sheet and income statement when they result from:

– timing differences between taxable income and accounting income,
– reclassifications used in drawing up the consolidated financial statements,

– the elimination of the impact of transactions booked solely in order to apply tax legislation.

Deferred tax debits and credits, which are calculated at the same tax rate, are offset against each other at the individual company level. A provision is set aside for the balance corresponding to a liability following deduction of any loss carryovers.

Net balances of tax credits are taken into account if their recovery is likely in a short-term.

f) Date of effect of acquisitions or sales

With regard to the income of companies which are newly-consolidated during the fiscal period, only the fraction corresponding to the fraction of the period subsequent to the effective date of the acquisition is allocated to the Group. Similarly, income pertaining to holdings sold during the fiscal period is consolidated only in the amount of the fraction generated prior to the date upon which the sale takes effect.

1.3. Methods

a) Capital gains from intra group sales are eliminated from income insofar as they are significant.

b) Intangible fixed assets

Intangible fixed assets are valued at their acquisition cost. These assets principally include:

– patents and licenses, amortized over their period of legal protection or their actual useful life,
– software, amortized over 3 à 6 years.
– intangible business assets acquired, which are not systematically amortized, but are amortized when appropriate.

Research and development costs are not capitalized.

c) Tangible fixed assets

Tangible fixed assets are recorded in the balance sheet at their historical acquisition cost or at their production cost.

The impact of the restatement of assets required by the French Law of 1976 has not been adjusted as such impact is immaterial.

Depreciation is calculated according to the straight-line method over the estimated useful life of the various categories of fixed assets.

The useful lives for depreciation and amortization generally used are as follows:

Fixed assets	Useful life
● Buildings and related improvements	10 to 25 years
● Plant equipment and administrative furniture	3 to 10 years
● Company equipment and vehicles	4 to 5 years
● Computer and office equipment	3 to 5 years

Only assets which are owned by the Group are capitalized. Assets financed by financial lease are not reclassified. When an asset is the subject of lease-back agreement, the capital gain generated, if significant, is entered in prepaid income and reversed in the income statement over the duration of the agreement.

d) Financial fixed assets

Long-term investments which are not consolidated are entered in the balance sheet at their acquisition cost. They are depreciated when their net asset value, which is calculated on the basis of the restated net book value, profitability and future prospects of the investments, proves to be lower than the acquisition cost. However, this principle may be ignored if such loss in value does not appear to be of a long-lasting nature, in view of projected economic or financial data.

Loans granted within the scope of employers' social construction tax are written down in order to reduce their amount to their present value.

e) Inventories

Profit margin on inventories resulting from intercompany transactions is eliminated when the amounts involved are significant.

Materials and supplies are valued at cost in accordance with the weighted average cost method.

Costs included in work-in progress include costs which may be directly attributed and a portion of production costs. Where applicable, such inventories and work-in-progress are written down in order to reduce them to their estimated net realizable value.

Revenues and income resulting from contracts that are spread out over several fiscal years are recorded according to the percentage-of-completion method.

Provisions are booked as soon as losses on ongoing contracts are anticipated. In estimating these losses, accrued income based on specific contractual provisions, court decisions or awards and the combination of operations in progress are taken into account.

f) Receivables and payables

Receivables and payables are valued at par value. A provision for bad debts is booked where the balance sheet value is less than the book value.

g) Contingency and loss provisions

This caption includes, in particular:
- provisions for restructuring costs, provided that the measures involved have been decided on, in principle, before the accounts closing. These provisions essentially cover lay-off costs, early retirement plans, plant closure costs, costs of writing off fixed assets, inventories and other assets,
- provisions for contract losses, penalities and contingencies,
- provisions for guarantees granted to customers.

There is no provision booked for the amount of tax reassessment notices served (or in progress) by the tax authorities where the company feels that the issues raised are not substantiated and where there is sufficient likelihood that its position will prove to be well-founded in the dispute in progress.

h) Short-term investment securities

Short-term investment securities are recorded in the balance sheet at their acquisition cost. Where the balance sheet value of securities (calculated on the basis of the average price in the last month of the fiscal year for listed securities and on the basis of the estimated realizable value for other securities) is lower than the acquisition price, an allowance for loss in value is booked.

i) Extraordinary income and expenses

Extraordinary expenses and income consist of material items which, due to their unusual and non-recurring nature, may not be deemed to be inherent to the Group's operations, such as capital gains or losses and incidental expenses, restructurating costs, contract penalities, extraordinary write-offs of fixed assets or inventories, cancellations of debt.

j) Retirement commitments

Retirement gratuities are expensed in the year of actual payment.
The vested rights of the personnel as a whole, including all age categories, are estimated, in light of agreements or contracts in force in each company, by taking into account the future increase in salaries and a financial discounting at a rate of 5%.
Vested rights are included in the off-balance sheet commitments.
A pension plan provision is recorded in as much as such pensions constitute direct liabilities.

k) Financial futures

It is not the Group's policy to engage in speculative transactions. Thus various financial instruments, negociated with major financial institutions, are used to reduce exposure to interest-rate and foreign exchange risks.

Hedging of interest-rate risks

The parent company has taken out a swaption hedged by the Group's overall debt (short-term, medium-term, financial leases) in order to reduce the financial cost of its borrowings.

Hedging of foreign exchange risks

The group payments in foreign currency are made by well-identified operating units. The hedging instruments used are foreign currency futures contracts and foreign currency options. These operations hedge commercial and financial transactions.
Sales in foreign currencies are, whenever possible, hedged with Coface (Compagnie Française d'Assurance pour le Commerce Extérieur) as soon as a commercial offer is made. Variations in payment periods or amounts connected with the development of contracts are subsequently managed on a case-by-case basis. As a result, the company rarely experiences exchange position exposure and, when it does, such exposure is always linked to a specific transaction.
Within this context, the Group does not have to permanently manage a significant amount of foreign currency or experience exchange position exposure for unallocated currency.

l) Translation of foreign currency

At year-end, receivables and payables denominated in foreign currencies are translated at the closing rate or, where applicable, at the established currency hedging rates. Unrealized exchange gains and losses are henceforth booked in the income statement.

m) Significant events, events subsequent to closing

Where it was deemed necessary, provisions were booked to cover the estimated risks. Furthermore, the Group considers that, as of the date hereof, there are no extraordinary events or disputes likely to have a significant impact on its business, financial position or business assets.

1/ On December 31, 1997, the subsidiary CS Défense was sold. At that time, CS Communication & Systèmes provided the purchaser with various guarantees, some of which may result in the implementation of a discount on the sale price. As the auditors of each party differed greatly on the amounts to be adjusted, a neutral expert was appointed. His findings were still unknown at accounts closing.

2/ At the end of April 2001, CS Telecom and CS Electronics (subsidiaries) were declared in suspension of payment. The Impact of these decisions were recorded in the 2000 year financial statements (see notes 13 and 18).

3/ Sale of Verilog

On December 21, 1999, CS Communication & Systèmes entered into an agreement with Telelogic AB, a Swedish company listed on the Stockholm stock market, providing for the sale of the Verilog SA subsidiary, in exchange for the delivery of 800,000 new shares and 161,174 Telelogic warrants, at the latest on January 31,2000.

The capital gain related to this transaction, coupled with the conditions precedent independent of the will of the parties, has been included in the consolidated financial statements for the 1999 financial year. The 2000 year financial statements are recording an additional surplus related to the increase in the stock exchange price of Telelogic shares:

- financial: FRF 102 million
- extraordinary: FRF 84 million

4/ Sale of CS Systèmes de Sécurité

In April 2001, the Group sold its shares of CS Systèmes de Sécurité. In the 2000 year financial statements, a provision was made against the consequences of this sale.

Note 2

Consolidation and changes in consolidation scope

a) List of consolidated subsidiaries

(See note 21)

b) Changes in consolidation scope

Changes in the scope of consolidation made in 2000 are as follows:

Entries - Acquisitions:

- SAF, fully consolidated from January 1, 2000;
- Voxity, fully consolidated from January 1, 2000;
- Trustycom, fully consolidated from October 1, 2000.

Removals - Sales: None

Note 3

Intangible fixed assets

(in thousands of FRF)

	Gross value	Amortization	Net value
Value as at Dec. 31, 1999	**222,423**	**(128,998)**	**93,425**
Increase	28,436	(29,941)	(1,505)
Decrease	(9,108)	8,840	(268)
Changes in scope of consolidation	3,144	(2,720)	424
Other transactions	377	(1,106)	(729)
Value as of Dec. 31, 2000	**245,272**	**(153,925)**	**91,347**

In 2000, the increases include the creation of a voice gateway (routing management) for FRF 11 million (VOXITY).

Note 4

Goodwill

(in thousands of FRF)

	Gross value	Amortization	Net value
Value as at Dec. 31, 1999	**515,521**	**(81,607)**	**433,914**
Increase	23,653	(47,022)	(23,369)
Other and reclassification	–	–	–
Decrease	(33,409)	32,909	(500)
Value as of Dec. 31, 2000	**505,765**	**(95,720)**	**410,045**

An extraordinary amortization of the residual goodwill (FRF 22.6 million) on CS Télécom was recorded.

Net values (in millions of FRF) are as follows:

	2000	1999
- CISI Holding / CS SI sub-group	398.1	403.9
- CS Télécom	–	22.7
- Ecsat	8.3	7.3
- Trustycom	3.0	–
- Voxity	0.6	–
TOTAL	**410.0**	**433.9**

Note 5

Tangible fixed assets

Gross value of tangible assets

(in thousands of FRF)

	Land and buildings	Plant and equipment	Other tangible assets	Total
Value as at Dec. 31, 1999	**47,753**	**125,218**	**217,667**	**390,638**
Increase	865	42,104	41,718	84,687
Decrease	(2,017)	(8,109)	(7,672)	(17,798)
Changes in scope of consolidation	–	–	5,627	5,627
Other and reclassification	2,842	759	789	4,390
Value as of Dec. 31, 2000	**49,443**	**159,972**	**258,129**	**467,544**

Depreciation of tangible fixed assets

(in thousands of FRF)

	Land and building	Plant and equipment	Other tangible fixed assets	Total
Value as at Dec. 31, 1999	**28,517**	**87,702**	**120,597**	**236,816**
Increase	3,216	20,118	37,453	60,787
Decrease	(591)	(7,791)	(5,614)	(13,996)
Changes in scope of consolidation	–	–	3,726	3,726
Other and reclassification	1,035	874	1,340	3,249
Value as of Dec. 31, 2000	**32,177**	**100,903**	**157,502**	**290,582**

Note 6

Financial fixed assets

Financial fixed assets primarily consist of loans for construction and investments in companies both in France and abroad which, given that their impact is not material to the group, are not included in the scope of consolidation.

Main investments in non-consolidated companies:

(in thousands of FRF)

	% stake as of Dec. 31, 2000	Net value as of Dec. 31, 2000	Net equity as of Dec. 31, 2000
Signoval	99.96%	10,996	9,527
Mécatronic	100%	–	(658)
SC 2000 (formerly Secré Composants)	100%	–	73
CEP	25.00%	3,967	NA
SCI Schwobsheim	100%	5,000	2,200
Decopremier	19.80%	852	NA
Divers	–	1,280	–
TOTAL	**–**	**22,095**	**–**

Other financial fixed assets

(in thousands of FRF)

	Gross value as of Dec. 31, 2000	Provisions	Net value as of Dec. 31, 2000
Loans	39,073	(7,707)	31,366
Deposits and other	11,537	(135)	11,402
TOTAL	**50,610**	**(7,842)**	**42,768**

Loans granted within the context of employers' social construction tax are written down in order to reduce their amount to their present value.

Note 7

Inventories and work in progress

(in thousands of FRF)

	Gross value as of	Provisions	Net value as of
Value as of Dec. 31, 1999	**499,358**	**(72,492)**	**426,866**
Changes in scope of consolidation	5,917	(398)	5,519
Other changes	59,851	(19,302)	40,549
Value as of Dec. 31, 2000	**565,126**	**(92,192)**	**472,934**

Note 8

Accounts receivable and related accounts

(in thousands of FRF)

	Gross value as of Dec. 31, 2000	Provisions	Net value as of Dec. 31, 2000	Net value as of Dec. 31, 2000
Less than 1 year	1,001,760	–	1,001,760	1,083,721
More than 1 year	39,113	(38,232)	881	4,831
TOTAL	**1,040,873**	**(38,232)**	**1,002,641**	**1,088,552**

Changes linked to changes in consolidation scope: FRF 1 948 thousand

Note 9

Other receivables

(in thousands of FRF)

	Gross value as of Dec. 31, 2000	Provisions	Net value as of Dec. 31, 2000	incl. Changes in consolidation scope	Net value as of Dec. 31, 2000
Operating receivables	194,921	(20,236)	174,685	48	148,892
Deferred tax credits	–	–	–	–	16,918
Sundry debtors and other receivables	60,188	(5,440)	54,748	64	63,468
TOTAL	**255,109**	**(25,676)**	**229,433**	**112**	**229,278**

The portion of other receivables that have been outstanding for over one year amounts to FRF 85 954 thousand.

Note 10

Short-term investment securities

The unrealized gain on short-term investment securities is not material.

Note 11

Accruals

Assets

(in thousands of FRF)

	2000	Other changes	Changes in consolidation scope	1999
Prepaid expenses	19,773	(254)	–	20,027
Expenses to be amortized over several periods	4,587	(1,336)	–	5,923
Accruals	**24 360**	**(1,590)**	**–**	**25 950**

Liabilities

(in thousands of FRF)

	2000	Other changes	Changes in consolidation scope	1999
Prepaid income	98,895	(11,132)	446	109,581
Accruals	**98 895**	**(11,132)**	**446**	**109 581**

Prepaid income primarily concerns CSSI.

Note 12

Shareholders' equity

As of December 31, 2000, the share capital was composed of 4 508 639 shares each worth FRF 100 et 12 shares each worth FRF 2.50.

Group shareholders' equity

(in thousands of FRF)

As of December 31, 1999	1,110,220
Increase in share capital and additional paid-in capital	42,993
Cancellation of treasury stock	(40,521)
Dividends paid	(33,486)
Income for the fiscal year (Group share)	(702,019)
Miscellaneous (unrealized foreign exchange gains and losses, expenses, etc.)	(3,305)
As of December 31, 2000	**380,492**

As of December 31, 2000, CS Communication & Systèmes does not hold any more treasury stock.

Shareholders' equity, minority shareholding interests' share

(in thousands of FRF)

As of December 31, 1999	19,575
Income for the fiscal year (minority shareholding interests' share)	(20,835)
Changes in unrealized foreign exchange gains and losses and miscellaneous	(2,206)
As of December 31, 2000	**(3,466)**

Note 13

Contingency and loss provisions

(in thousands of FRF)

	As of Dec. 31, 2000	Other changes	Changes in consolidated scope	As of Dec. 31, 1999
Restructuring costs	93,987	63,856	6,157	23,974
Warranties granted to customers / contract penalities	40,869	7,450	387	33,032
Long-term losses and charges on contracts	118,814	13,947	1,037	103,830
Pensions	24,478	691	–	23,787
Disputes and sundry risks	35,687	(13,182)	1,620	47,249
Taxes	8,590	(6,945)	388	15,147
Provision for Suspension of Payment Declaration risk CS Telecom et CS Electronics	293,100	293,100	–	–
TOTAL	**615 525**	**358,917**	**9,589**	**247,019**

Provisions for warranties correspond either to coverage of legal guarantees or coverage of clauses for warranties specific to certains contracts.
Provisions for disputes and sundry risks essentially relate to customer complaints.
Provisions for pension plans relating to certain (mainly German) foreign subsidiaries are booked as they constitute direct liabilities.
Provision for Suspension of Payment Declaration risk CS Télécom et CS Electronics includes FRF 81.8 million related to additional advances in current account from January 1 to April 30, 2001.

Note 14

Borrowings and financial debt

All of the Group's medium- and financial borrowings and debt bear a fixed interest rate with the exception of some variable rate loans with a total value of FRF 230,000.
As of December 31, 2000, the average weighted interest rate on medium- and long-term borrowings, in FRF, amounted to 2.26% (2.61% in 1999).

(in thousands of FRF)	2000	1999
Loans with a maturity date of over 5 years	137	3,000
Loans with a maturity date of 1-5 years	10,034	15,273
Total	**10,171**	**18,273**
Borrowings and financial debt due within one year	247,444	162,400
TOTAL	**257,615**	**180,673**

Borrowings and financial debt in foreign currency, at the end of 2000, amounted to the equivalent of FRF 86,323,000.

Note 15

Sales

(in millions of FRF)

Sales by branch of activity and geographiccal area	French companies	Foreign companies	2000 total	1999
Information systems	1,998	304	2,302	2,386
Telecommunications	483	43	526	676
Security services	320	12	332	340
Other activities and eliminations	176	0	176	189
TOTAL	**2,977**	**359**	**3,336**	**3,591**

Note 16

Operating income

(in millions of FRF)

Operating income by branch of activity	2000	1999
Information systems	(158)	(32)
Telecommunications	(215)	(75)
Security services	(12)	(35)
Others	(47)	(18)
TOTAL	**(432)**	**(160)**

Note 17

Average workforce

	France	Other countries	2000	1999
Engineers and executives	2,770	282	3,052	2,961
Staff	1,295	103	1,398	1,396
Workers	348	-	348	399
TOTAL	**4,413**	**385**	**4,798**	**4,756**

Note 18

Net extraordinary income

(in thousands of FRF)

	2000	1999
Extraordinary income/expenses in operations	(104,669)	(212,923)
Reversals/allocations to provisions	(382,769)	96,142
SUB-TOTAL	**(487,438)**	**(116,781)**
Extraordinary capital gains/losses	90,568	335,537
TOTAL	**(396,870)**	**218,756**

Capital transactions include FRF 84 million in gains related to the sale of Verilog/Telelogic. The 1999 fiscal year included FRF 298 million in gains related to this sale.

Extraordinary expenses in operations include, in particular:

- FRF 106 million of restructuring costs,
- FRF 293 million relating to Suspension of Paiement Declaration of CS Télécom and CS Electronics,
- FRF 31 million of extraordinary expenses related to inventories
- FRF 27 million of incollectables and cancellations of debt.

Note 19

Corporate income tax

(in thousands of FRF)

	2000	1999
Taxes	(60,390)	69,820
Deferred taxes	13,552	(17,560)
Tax credits	(26,662)	(31,898)
TOTAL	**(73,500)**	**20,362**

Tax loss carryovers

(in thousands of FRF)

	2000	1999
At normal rates		
– Temporary loss carry-overs	1,431	873
– Déficits reportables indéfiniment	235	119
At reduced rates	49	248
TOTAL	**1,715**	**1,240**
Corresponding potential tax saving:		
– at normal rates	588	374
– at reduced rates	10	52

See paragraph 1.2.e, relating to methods of booking tax credits.

Note 20

Off-balance sheet commitments

(in thousands of FRF)

	2000	1999
Commitments given		
Retirement gratuities	42,996	49,270
Personal property financial leases (outstanding lease payment)	23,725	36,754
Capital leases (outstanding lease payments)	82,788	91,317
Non-Group endorsements and guarantees and other contractual commitments (excluding advances received that have already been booked)	626,767	593,312
Other guarantees	–	39
Discounted notes not yet matured	12,725	18,075
Foreign currency futures positions	134,499	204,640
Commitments received		
Endorsements, securities and guarantees	831	6,242

As of December 31, 2000, the Group's hedging (turning interest rates that were initially fixed into variable rates) related to FRF 58 million of long- and short-term debt. For the most part, the instruments used are swaps. Such hedging, the amount of which is degressive, ends in January 2007. Moreover, it is covered by a zero premium tunnel of between 2.75% and 4.00% as of April 10, 2001 maturity.

Receivables sold within the scope of the Dailly Law amounted to FRF 248 million.

Financial lease information

(in thousands of FRF)

	Original value	Lease payment Year	Accrued	Theoretical depreciation Year	Accrued
Personal property financial leases	83,018	9,011	34,499	5,704	16,990
Capital leases	119,591	19,300	119,869	16,526	102,278
TOTAL	**202,609**	**28,311**	**154,368**	**22,230**	**119,268**

Outstanding lease payments

(in thousands of FRF)

	< 1 year	1-5 years	> 5 years	Total	Acquisition price
Personal property financial leases	8,755	33,402	40,631	82,788	–
Capital leases	12,893	10,832	–	23,725	14,251
TOTAL	**21,648**	**44,234**	**40,631**	**106,513**	**14,251**

Note 21

Net financial investments

Net financial investments may be broken down as follows:

(in thousands of FRF)

	2000	1999
Acquisitions of equity interests (1)	(71,368)	(130,808)
Sales of equity interests (2)	128,714	395,607
SUB-TOTAL	**57,346**	**264,799**
Net flow on other financial fixed assets	9,019	17,740
TOTAL	**66,365**	**282,539**

(1) Net of FRF 0.6 million in cash acquired (FRF -0.9 million in 1999).
(2) In 1999, net of FRF 6.4 million in cash from companies which left the scope of consolidation (0 in 2000).

Note 22

List of consolidated companies

Name	Head-quarters	Company computer ID no./ Country	% interest	% control	Consolidation method
CS COMMUNICATION & SYSTÈMES	Paris	692000946	Parent company	Parent company	Parent company
• INFORMATION SYSTEMS					
CS Route	Paris	381733294	100.00	100.00	Full
Tdc Inc	Dover	Delaware – USA	100.00	100.00	Full
Tdc del Caribe	Dover	Delaware – USA	100.00	100.00	Full
Rti System Ltd	London	United Kingdom	99.99	99.99	Full
CS Systèmes d'Information (CS-SI)	Clamart	393135298	100.00	100.00	Full
Rand UK	Oxford	United Kingdom	98.75	98.75	Full
Cam Holding	Munich	Germany	60.00	60.00	Full
Cam Munich	Munich	Germany	60.00	61.65	Full
Cam Berlin	Berlin	Germany	36.00	60.00	Full
Usb	Munich	Germany	30.60	51.00	Full
CS Communication & Systems Italia Spa	Milan	Italy	99.90	99.90	Full
CS Communication & Systems Austria	Vienna	Austria	100.00	100.00	Full
CS Communication & Systems Germany GmbH	Frankfurt	Germany	100.00	100.00	Full
CS Communication & Systems Belgium	Brussels	Belgium	100.00	100.00	Full
Ecsat	Evry	379508070	100.00	100.00	Full
Srilog	Vélizy Villacoublay	379737067	98.00	98.00	Full
Scot	Ramonville Saint-Agne	342102019	49.00	49.00	Equity
Saf	Clamart	542088869	100.00	100.00	Full
• TÉLECOMMUNICATIONS					
CS Télécom S.A.S.	Fontenay-aux-Roses	393295308	100.00	100.00	Full
CS Télécom do Brasil	Sao Paulo	Brazil	100.00	100.00	Full
CS Télécom Italia	Milan	Italy	100.00	100.00	Full
CS Télécom España	Madrid	Spain	100.00	100.00	Full
CS Datacom Thailand	Bangkok	Thailand	100.00	100.00	Full
CS Télécom Asia Pacific	Singapore	Singapore	100.00	100.00	Full
• SECURITY SERVICES					
CS Systèmes de Sécurité	Paris	916120058	100.00	100.00	Full
Ritzenthaler GmbH	Stahndorf	Germany	100.00	100.00	Full
Ritzenthaler Portugal	Mafra	Portugal	90.00	90.00	Full
Ritzenthaler UK	Elland	United Kingdom	45.00	45.00	Equity
• OTHER INDUSTRIAL ACTIVITIES					
Sécré Alpine Electronics	Soissons	316842418	50.99	50.99	Full
CS Electronics	Paris	413928615	100.00	100.00	Full
CS Institut	Paris	418072070	100.00	100.00	Full
CS Technologies Informatiques	Bron	400518304	100.00	100.00	Full
Voxity	Paris	397457961	100.00	100.00	Full
Trustycom	Paris	388925356	100.00	100.00	Full

Statutory auditors' report
on the consolidated financial statements for the fiscal year ended december 31, 2000

To the Shareholders of
CS Communication & Systèmes,

In accordance with the assignment entrusted to us by your General Meetings, we have audited the consolidated financial statements of CS Communication & Systèmes for the fiscal year ended December 31, 2000, which were drawn up in French francs and 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.

We conducted our audit in accordance with generally accepted professional standards in France. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit consists in examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also consists in assessing the accounting principles used and significant estimates agreed upon for the financial statements as well as evaluating their overall presentation. We consider that our audit provides a reasonable basis for our opinion expressed hereafter.

We certify that the consolidated financial statements give a true and fair view of the assets and liabilities, financial position and income of all the companies included within the consolidation scope.

Moreover, we also verified the information on the group given in the management report. We have no comment to make as to its fair presentation and its consistency with the consolidated financial statements.

Paris-La Défense and Neuilly-sur-Seine, May 29, 2001

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Notes

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