Designer, integrator & operator

of mission critical systems

CS Communication & Systèmes Group

Consolidated financial statements at December 31, 2008

I. – Consolidated balance sheet

At December 31 **ASSETS** (in € thousands)	Notes	2008	2007
Goodwill	5	36,112	36,112
Intangible assets	5	7,075	6,931
Property, plant and equipment	6	5,073	6,024
Investments in associates	8	167	
Non-current financial assets	7-8	4,741	7,684
Deferred tax assets	9-21	21,042	20,715
Non-current assets		**74,210**	**77,466**
Inventories and work-in-progress	10	6,173	5,701
Trade and other receivables	11	143,618	140,040
Derivative financial instruments	12	3,203	1,439
Cash and cash equivalents	13	49,498	58,335
Assets classified as held for sale		-	-
Current assets		**202,492**	**205,515**
TOTAL ASSETS		**276,702**	**282,981**

At December 31 **EQUITY AND LIABILITIES** (in € thousands)	Notes	2008	2007
Share capital		31,533	31,533
Share premium		46,671	46,670
Treasury shares		(3,593)	(3,237)
Consolidated retained earnings		8,408	17,612
Shareholders' equity (CS Group share)	14	**83,019**	**92,578**
Minority interests		469	376
Total equity		**83,488**	**92,954**
Non-current provisions	15	7,405	8,934
Retirement benefit obligation	16	6,949	7,182
Non-current borrowings and other financial liabilities	17	1,008	16,150
Deferred tax liabilities	18	12	21
Other non current liabilities	18	13	-
Non-current liabilities		**15,387**	**32,287**
Current provisions	21	2,857	2,664
Overdraft facilities	17	2,672	1,329
Current borrowings and other financial	17	16,141	1,604
Trade and other payables	18	155,767	152,118
Derivative financial instruments	13	390	25
Liabilities associated with assets held for sale		-	-
Current liabilities		**177,827**	**157,740**
TOTAL EQUITY AND LIABILITIES		**276,702**	**282,981**

II. – Consolidated income statement

Year ended December 31 (in € thousands)	Note	**2008**	**2007**
Revenue		221,664	225,355
Other operating income		668	561
Revenue from ordinary activities		**222,332**	**225,916**
Purchases and external charges		(95,078)	(103,858)
Taxes (other than income tax)		(4,361)	(4,117)
Employee benefit expense	19	(117,901)	(101,255)
Other operating expenses		(749)	(2,448)
Depreciation and amortization	20	(3,612)	(3,122)
Provisions	20	(5,153)	2,530
Profit (loss) on ordinary operating activities		**(4,522)**	**13,646**
Other operating income and expense	21	(1,377)	(520)
Operating profit (loss)		**(5,899)**	**13,126**
Finance costs	22	**(1,927)**	**(3,323)**
PROFIT BEFORE TAX		**(7,826)**	**9,803**
Income tax credit (expense)		(39)	2,416
Share of net income from associates	7	98	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		***(7,767)***	**12,219**
Profit for the year from discontinued operations	4	322	37,765
PROFIT FOR THE YEAR		**(7,445)**	**49,984**
- Minority interests		**137**	**87**
- CS Group share		**(7,582)**	**49,897**
Basic earnings per share (in €)	14	(1.24)	8.10
Diluted earnings per share (in €)	14	(1.12)	7.25
Basic earnings per share from continuing operations (in €)	14	(1.26)	1.94
Diluted earnings per share from continuing operations (in €)	14	(1.14)	1.76

III. – Consolidated cash flow statement

Year ended December 31 (in € thousands)		**2008**	**2007[(1)]**
Profit (loss) for the year		(7,445)	49,984
Profit for the year from discontinued operations		*(322)*	*(37,766)*
Profit from continuing operations		(7,767)	12,218
Adjustment for non-cash items:			
- Amortization, depreciation and provisions		2,835	1,158
- Gains and losses on disposals of non-current assets		22	74
- Income and expenses in respect of share-based payments		110	14
- Unrealized gains and losses on fair value adjustments		(471)	(1,197)
- Other			
- Share of net income from associates		(98)	-
Net finance costs (Note 22)		57	4,567
Income tax		39	(2,416)
Operating cash flow before net finance costs and taxes	**A**	**(5,273)**	**14,418**
Income taxes paid	**B**	(416)	(399)
- Change in working capital requirements		2,598	(26,628)
- Of which effect on WC of discontinued operations		322	27,813
Change in WC related to continuing operations	**C**	2,920	1,185
Cash flow from (used in) operating activities	**D=A+B+C**	**(2,769)**	**15,204**
Purchases of property, plant and equipment and intangible assets		(4,092)	(5,107)
Sales of property, plant and equipment and intangible assets		1,263	30)
Proceeds from operations sold		-	25,690
Purchases of financial assets		(908)	(1,906)
Disposals of financial assets		461	673
Cash flow from (used in) investment activities	**E**	**(3,276)**	**19,380**
New borrowings		735	750
Repayment of borrowings, including finance leases		(1,321)	(1,639)
Proceeds on issue of shares		28	115
Purchases of treasury shares		(1,889)	(3,370)
Disposals of treasury shares		898	1,136
Dividends paid to shareholders of the parent company		(2,149)	-
Dividends paid out to minority interests in consolidated companies		(59)	(169)
Net interest paid on borrowings		(57)	(4,567)
Other flows related to financing activities		-	-
Effect of operations classified as held for sale		-	45
Cash flow from (used in) financing activities	**F**	**(3,814)**	**(7,699**
Effect of foreign exchange rate changes	**G**	(320)	(358)
Impact of reclassification as operations held for sale	**H**	(239)	(886)
Net change in cash and cash equivalents	**I=D+E+F+G+H**	**(10,179)**	**25,641**
Cash and cash equivalent at start of year	**K**	**57,005**	**31,364**
Cash and cash equivalent at end of year (Note 13)	**L=I+K**	**46,826**	**57,005**

(1) *Cash flow from operations sold shown in italics*

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IV. – Consolidated statement of changes in equity

	Share capital	Share premium	Consolidated reserve (a)	Translation reserve (b)	Treasury shares (c)	Total reserves (a+b+c)	Group share	Minority interests	Total capital and reserves
Balance at January 1, 2007	**31.496**	**46,593**	**(30,981)**	**(173)**	**(958)**	**(32,112)**	**45,977**	**346**	**46,323**
Exchange differences arising on translation of foreign operations				(142)		(142)	(142)		(142)
Profit for the year			49,897			49,897	49,897	87	4,984
Change in value of available-for-sale financial assets									
Impact of changes in actuarial assumptions			(1,072)			(1,072)	(1,072)		(1,072)
Net income recognized directly to equity			**48,825**	**(142)**		**48,683**	**48,683**	**87**	**48,770**
Issue of share capital	37	77					114		114
Change in treasury shares					(2,279)	(2,279)	(2,279)		(2,279)
Dividends								(169)	(169)
Changes in scope of consolidation								112	112
Bonus shares									
Other (including equity component of bonds with redeemable subscription warrants, stock options, gains on treasury shares, etc.)			83			83	83		83
Balance at December 31, 2007	**31.533**	**46,670**	**17,927**	**(315)**	**(3,237)**	**14,375**	**92,578**	**376**	**92954**
Exchange differences arising on translation of foreign operations				(636)		(636)	(636)	1	(635)
Profit for the year			(7,582)			(7,582)	(7,582)	137	(7,445)
Change in value of available-for-sale financial assets									
Impact of changes in actuarial assumptions			761			761	761		761
Net income recognized directly to equity			**(6,821)**	**(636)**		**(7,457)**	**(7,457)**	**138**	**(7,319)**
Issue of share capital		1				1	1		1
Change in treasury shares					(356)	(356)	(356)		(356)
Dividends			(2,149)			(2,149)	(2,149)	(59)	(2,208)
Changes in scope of consolidation								14	14
Bonus shares			110			110	110		110
Other (including equity component of bonds with redeemable subscription warrants, stock options, gains on treasury shares, etc.)			292			292	292		292
Balance at December 31, 2008	**31,533**	**46,671**	**9,359**	**(951)**	**(3,593)**	**4,816**	**83,019**	**469**	**83,488**

V – Note to the consolidated financial statements for the year ended December 31, 2008

General information

The CS Communication & Systèmes Group (CS) is a prime contractor for the design, integration and operation of mission critical systems. The company operates along its customers' entire value chain.

CS Communication & Systèmes, the parent company of the Group, is a limited liability company (*Société Anonyme – SA*) incorporated under French law, whose registered office is at 54-56 avenue Hoche in Paris (France). CS is traded on the Eurolist market operated in Paris by Euronext (ISIN code: FR0010221481).

The consolidated financial statements were approved by the Board of Directors on March 6, 2009.

Significant events:

- In connection with the negotiation of large export contracts, the Group incurred significant cost in 2007 and 2008 to develop the demonstrator needed to obtain these contracts. As the first of these possible contracts is still being negotiated, these costs have been recognized as work-in-progress and written off in full. Had the contract been signed, these costs would have been capitalized as project costs, which would have added € 5 million to both revenue (recognized using the percentage of completion method) and the operating profit on ordinary activities.
- The results of the US subsidiary INTRANS fell sharply due to major difficulties experienced in executing a contract in California.

Note 1 – Accounting policies

1.1 Basis of preparation

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

The term International Financial Reporting Standards refers to the new numbered series of International Financial Reporting Standards (IFRS) that the IASB is issuing, International Accounting Standards (IAS) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretation Committee (SIC).

At December 31, 2008, there were only two new pronouncements for which application was compulsory within the European Union, namely the amendments to IAS 39, *"Financial Instruments: Recognition and Measurement"*, and IFRS 7, *"Financial Instruments: Disclosures"*, enabling the reclassification of financial instruments in limited circumstances.

The Group did avail itself of the possibility offered by these new pronouncements

The following pronouncements have been published by the IASB, for which application was optional at December 31, 2008:

- IFRS 8, *"Operating Segments"*, requiring segment information to be disclosed based on the indicators monitored regularly by management to assess the Group's performances. This effects of applying this pronouncement are being analyzed but it is unlikely that its application will result in the recognition of significant goodwill impairment losses;
- Revised IAS 1, "*Presentation of Financial Statements*";
- 2008 annual improvements to IFRSs, consisting of 35 amendments to 20 standards that are not expected to have a significant impact on the Group's consolidated financial statements.

The Group did not elect for the early application of the above pronouncements.

New interpretations published in 2008, namely IFRIC 11, 12, 13, 14 and 15, have no impact on the Group's operations.

The amendment to IAS 23, "*Borrowing Costs*", could not be applied as its requirements are incompatible with the pronouncements such as approved by the European Union.

1.2 Consolidation

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

Companies over which CS Communication & Systèmes exerts significant influence are consolidated by the equity method.

Companies or groupings under joint control are consolidated under the pro rata method or under the equity method consolidation after analyzing the conditions under which control is exercised.

The Group does not control any special purpose entities.

All material transactions between consolidated companies are eliminated on consolidation, as are intragroup profits.

On the acquisition of a company, goodwill is measured as the difference between the acquisition price, including related costs, of the shares and the net fair value of the assets acquired and liabilities and contingent liabilities assumed on the acquisition date. Intangible assets linked to the acquisition of a business are recognized separately if their fair value cannot be measured in a sufficiently reliable matter.

1.3 Translation of financial statements

The consolidated financial statements are expressed in euro, which is the functional currency of CS.

The functional currency of group entities is their local currency. Their balance sheet is translated using exchange rates prevailing on the balance sheet date and their income statement at the average exchange rates for the period (unless exchange rates fluctuated significantly during that period, such the average rate is not representative of the cumulative effect of rates on transaction dates, in which case the exchange rates at the dates of the transactions are used). Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

1.4 Foreign currency transactions

IAS 21, *"The Effects of Changes in Foreign Exchange Rates"*, deals with the recognition and subsequent measurement of foreign currency transactions. In accordance with this standard, transactions in currencies other than an entity's functional currency are recorded at the rates of exchange on the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are reconverted at the rates prevailing on the balance sheet date.

Exchange differences arising on the conversion of foreign currency transactions are included in profit or loss for the period except when recognized directly to equity in the case of transactions that fall to be accounted for as cash flow hedges or as hedges of a net investment in foreign operations.

1.5 Key sources of estimation uncertainty

In the process of preparing consolidated financial statements in accordance with International Financial Reporting Standards, management relied upon estimates and made assumptions that affect the amounts reported in these financial statements. The estimates and assumptions may be revised if there were changes in the circumstances upon which they are based, if new information becomes available, and/or if further experience was gained.

This concerns primarily the recognition of revenue, the recognition of deferred tax assets, asset impairment testing, and provisions.

Given the inherently uncertain nature of these valuation methods, definitive amounts may be different to the amounts estimated initially. To limited these uncertainties, estimates and assumptions are reviewed periodically and the accounts updated as and when necessary.

1.6 Recognition of revenue from ordinary operating activities

Revenue is reported net of rebates, discounts and allowances.

For set-price service contracts, whether for the provision of intellectual services or of integrated systems, revenue and profits for each contract are recognized using the percentage of completion method without the incorporation of finance costs.

In the case of major contracts requiring substantial research and development, profit is recognized using the percentage of completion as measured exclusively by the proportion of labor costs to estimated total labor costs, management's view being that that is more representative of the actual stage of completion and risk exposure.

Work is billed to the customer at predefined stages, resulting in the recognition of accrued income for invoices to be raised and of deferred income when billing does not correspond to the stage of completion.

The estimated profit on completion and therefore the revenue and profits recognized applying the percentage of completion method are adjusted to reflect any amendments to the initial contract.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized by way of a provision for loss on completion. In estimating this loss, revenue which is expected to be received pursuant to specific contractual clauses, legal proceedings or ongoing operations is taken into account.

Revenue and profits on cost-plus contracts are recognized as and when these contracts are completed.

Revenue from the sale of hardware and software is recognized on delivery.

Subsequent to the sale of the Mission Critical Infrastructure business in 2007, the Group no longer has contracts for the provision of outsourcing services. In previous years, revenue from outsourcing contracts was recognized over the contract period according to the level of the services rendered. Part of the initial contract costs was transferred to work-in-progress and released to the income statement over the contract period.

1.7 Non-current assets

Whenever there are any events or circumstances indicating the carrying amount of a property, plant or equipment or intangible asset may have been impairment, tests are performed to determine the extent of any impairment loss. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least once a year. The method used is described low.

1.7.1 Goodwill

In accordance with the requirements of IFRS 3, *"Business Combinations"*, goodwill is not amortized. It is tested for impairment annually or more frequently if there are indications that goodwill might be impaired. Any impairment loss is taken profit and loss and reported under "Other operating charges."

Impairments tests are conducted by measuring the recoverable amount of each cash generating unit, being the smallest identifiable entity that generates cash inflows from continuing use. Two methods are used:

- the value in use determined by reference to the discounted present value of estimated future cash flows (i.e. using the discounted cash flow method);
- the value determined by reference to stock market comparisons.

Any goodwill on investments in associates is included within the carrying amount of the investment as reported on the balance sheet.

Discounted cash flow method

The estimated future cash flows of cash flow generating units are obtained from budgets covering a five-year period and are discounted to their present value using a pre-tax discount rate equal to the weighted average cost of capital.

The terminal value is estimated by taking the free cash flow in the last year and applying an annual growth rate to infinity.

Future cash flows are based on forecasts (revenue, margins, etc.) that because of their nature cannot be confirmed and are produced from assumptions considered most probable of the date the cash flows were estimated. These assumptions are subject to change over the period covered by the estimates and forecasts. To compensate for this uncertainty, the revenue and profit growth forecast in the detailed business plans drawn up by the operations staff has been revised more conservatively.

Comparative method: market multiples

The valuations obtained using the discounted cash flow method are compared with the results obtained by observing peer group comparisons of market capitalizations. Enterprise value is measured against revenue (EV/revenue multiples) and against earnings before interest and tax (EV/EBIT multiple). A premium for control is factored into the value of the shareholders' equity obtained applying these multiples.

1.7.2 Research and development costs

Research costs are recognized as an expense in the period when they are incurred. In accordance with the requirements of IAS 38, *"Intangible Assets"*, development costs are capitalized if, and only if, all of the following can be demonstrated:

- the technical feasibility of completing the asset so that will be available for use or sale, including the availability of adequate technical and financial resources to complete the development or sell the asset;
- the probability that future economic benefits will flow on bringing into use or selling the asset;
- the intention to complete the asset and use or sell it; and
- the ability to measure attributable costs during the asset's development reliably.

Software development costs are those incurred during the programming, coding and testing phases. The costs of prior phases are recognized as an expense in the period when they are incurred.

Development costs are amortized on a straight-line basis over their estimated useful lives, generally three years, which corresponds to the period over which it is estimated the future economic benefits will be consumed.

Specific development costs incurred as part of contracts signed with customers are treated as contract costs in accordance with the method described above in Section 1.6 "Recognition of revenue from ordinary operating activities."

1.7.3 Other intangible assets

Other intangible assets are recognized at cost. They include mainly:

- patents and licenses, amortized over the period during which legally protected or over their estimated useful lives; and
- software applications, amortized over their estimated useful lives, i.e. three to seven years.

There are no intangible assets whose ownership is subject to restrictions. By the same token, the CS Group has not pledged any of these assets as loan collateral.

1.7.4 Property, plant and equipment

Cost

In accordance with IAS 16, *"Property, Plant and Equipment"*, property, plant and equipment is recognized at their cost of acquisition or their cost of production, including all costs necessary to bring the assets to working conditions for their intended use. Borrowing costs are not added to the costs of these assets.

The components method is used only for the buildings owned by the Group.

Depreciation

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives as indicated below for the main asset categories:

Asset category	Useful lives
Buildings and related fixtures and fittings	10 to 25 years
Heavy machinery and office furniture	3 to 10 years
Equipment and motor vehicles	4 to 5 years
Computer and office equipment	3 to 6 years

Assets are depreciated using the straight-line method, taking into account their estimated residual value when material.

Assets are tested for impairment if there are indications their value might be impaired, individually or as part of their cash generating units if no independent cash flow is generated by asset itself.

1.8 Financial assets

The distinction between current financial assets and non-current financial assets is based on whether the asset is expected to be realized within 12 months of the balance sheet date or not.

a) The Group uses the following categories of financial assets defined by IAS 39:

Financial assets available for sale

This category includes investments in non-consolidated companies. These investments are reported on the balance sheet at fair value, which for listed securities corresponds to the average share price in the month preceding the balance sheet date and for unlisted securities to the Group's share of net assets adjusted to reflect profitable and future prospects. When fair value cannot be determined reliably, available-for-sale assets continue to be measured at cost.

Unrealized gains and losses on non-consolidated investments are recognized directly as a distinct component of equity. Only definitive losses are recognized in the income statement. When an increase in fair value has been recognized and this fair value is revised downwards subsequently, all or parts of the gains recognized directly to equity are reversed and offset against the negative fair value adjustment.

Financial assets at fair value through profit or loss

This category comprises financial assets and derivatives, not designated as hedging instruments, held for trading or designated on initial recognition as to be measured a fair value with fair value changes through profit or loss.

Loans and receivables

Receivables are recognized initially at fair value and are measured subsequently at amortized cost. Impairment losses are recognized when the carrying amount, taking into account the probability of recovering the receivable, is less than the book value. Trade receivables sold to a financial institution (OSEO BDPME) under a simplified receivable financing procedure (so-called Loi Dailly procedure) are reincorporated back into the consolidated financial statements on the line "Trade and other receivables."

Subsidized loans granted to staff pursuant to the employer's obligation to finance the construction of new housing are recognized at fair value. These loans, which do no bear interest, are granted for a 20-year term. Their value is calculated using the rate for French government bonds (*Obligations Assimilables du Trésor – OAT*) with the same term.

b) **Cash and cash equivalents** include cash on hand, cash in bank and short-term investments in euro-denominated money market instruments. These investments, which mature in less than three months, are highly liquid and readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are reported under current financial liabilities.

1.9 Financial liabilities other than derivative instruments

Borrowings and other financial liabilities are measured at amortized cost using the effective interest rate method. A liability is classified as current when it is expected to be settled with 12 months. Otherwise it is classified as a non-current liability.

Convertible bonds are treated as compound financial instruments comprising two components: a financial liability on the one hand, and an equity instrument on the other hand. The fair value of the financial liability is equal to future cash flows discounted to their present value using the market rate on the date of issue. The amount recognized in respect of the equity instrument corresponds to the proceeds of the issue less the fair value of the financial liability.

1.10 Recognition and measurement of derivative instruments

Derivative instruments are recognized initially at fair value. The method for recording gains and losses arising on initial recognition depend first on whether the derivative instrument has been designated as a hedge and, if so, on the nature of the hedged item.

Derivative instruments may be designated as hedging instruments, either as fair value hedges or cash flow hedges:

- A fair value hedge is a hedge of the exposure to changes in the value of a recognized asset or liability as a result of changes in currency or exchange rates;
- A cash flow hedge is a hedge of the exposure to the variability in cash flows relating to recognized or to future assets and liabilities.

The application of hedge accounting has the following implications:

- For fair value hedges relating to recognized assets and liabilities, the hedged item is measured at fair value and changes in fair value are recognized to profit or loss, where they are offset against the changes in the fair value of the hedging instrument to the extent of the effectiveness of the hedging relationship;
- For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly to equity, while the portion of the gain or loss on the hedging instrument determined not to be an effective hedge is taken to profit or loss. Amounts recognized directly to equity are recycled to the income statement when the hedged transaction affects profit or loss.

Changes in the fair value of derivative instruments not meeting criteria for hedge accounting are recognized to profit or loss.

1.11 Inventories and work-in-progress

In accordance with the requirements of IAS 2, *"Inventories"*, inventories and work in progress are stated at the lower of cost and net realizable value. For work-in-progress, cost comprises directly attributable costs as well as a share of indirect production costs other than finance costs. Cost is calculated using the weighted average cost method. Net realizable value represent the estimated selling

price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale (mainly marketing costs).

1.12 Deferred tax

In accordance with the requirements of IAS 12, *"Income Tax"*, deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases.

Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profits will be available for these assets to be recovered.

In practice, a deferred tax asset is recognized in respect of tax losses carried forward when it is estimated these losses will be relieved in the next five years, being the horizon covered by the business plan.

Deferred tax assets and liabilities calculated at the same tax rate are netted off at the level of each tax entity. When tax is assessed on a group basis, deferred tax is analyzed and calculated at the level of each group. Deferred tax assets and liabilities are not discounted to their present value.

1.13 Provisions

In accordance with the requirements of IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"*, a provision is recognized when there is a present obligation (legal or constructive) as a result of a past event and it is probable that this will result in an outflow of resources embodying economic benefits.

The amount recognized as a provision represents the best estimate of the expenditure required to settle the obligation, eventually discounted to its present value.

Provisions include notably:

- Provisions for restructuring that, for measures decided and announced before the balance sheet date, cover mainly redundancy payments, early retirement indemnities, and the cost of notices and site closures;
- Provisions against contracts, which cover losses on completion, contract penalties and warranty costs when these have not been included the estimated contract costs;
- Provision for staff and other disputes.

Group companies are subject to periodic tax audits in France and in those countries where they operate. Provisions in respect of additional tax assessments are recognized unless the company is of the opinion that the matters notified are not justified and when there is sufficient probability its arguments will prevail if the decision of the tax authorities is challenged.

1.14 Obligations in respect of retirement and other employee benefits

In addition to payments under state pension plans, group employees are entitled to complementary pension payments and to retirement indemnities.

Defined contribution plans

Defined contribution plans exist in most countries where the Group operates. Under these plans, payments are made to a separate entity authorized to manage such pension plans. These payments are charged as an expense. As the Group has no legal or constructive obligation to pay further contribution, no provision is required in respect of these plans.

Defined benefit plans

Substantially all of the obligations arising from defined benefit plans are in the form of retirement indemnities paid to the employees of French companies.

In accordance with the requirements of IAS 19, *"Employee benefits"*, obligations toward all employees, across all age groups, arising from defined benefit plans are determined annually using the projected unit credit method by reference to the terms of the collective bargaining agreement or other accord negotiated at the level of each entity. This method is based on actuarial assumptions that include the expected rate of salary increases, life expectancy, staff turnover and the discount rates to be applied. These obligations are not covered by any assets.

The Group has elected for all actuarial gains and losses arising from changes in actuarial assumptions to be taken directly to equity.

An optional health insurance plan is available to former employees who retired before January 1, 1999. There are around 300 plan beneficiaries.

The only subsidiary committed to paying defined pension benefits was sold in 2007.

1.15 Stock option plans

In accordance with the requirements of IFRS 2, "Share-based Payment", options granted are measured on the grant date using the Black-Scholes pricing model.

In accordance with the possibility offered by IFRS 2, requirements have been applied retrospectively to all options granted after November 7, 2002 that were unvested as of January 1, 2005.

Changes in value subsequent to the grant date do not impact the initial measurement.

The value of the options, considered as the cost of services rendered by employee in return for the options granted to them, is expensed over the vesting period on a straight-line basis, the other side of the entry being to equity given as these are shared-based payments.

1.16 Treasury shares

In accordance with the requirements of IAS 32, the cost of the company's own equity instruments that it has repurchased (treasury shares) is deducted from equity. Proceeds from the sale of treasury shares are recognized directly as an increase in equity, so that no gain or loss is recognized on transactions involving these shares.

At each balance sheet date, the Group re-examines the number of options that could be exercised and, if applicable, recognizes the impact of this adjustment to profit or loss.

Treasury shares may be used in any way permitted by law and notably, by decreasing order of interest, for

- Market making through liquidity agreements complying with the model contract and with the code of conduct published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement - AFEI*) on March 14, 2005 and approved by the French Financial Markets Authority (*Autorité des Marchés Financiers – AMF*) on March 22, 2005;
- Granting shares under the conditions and terms provided by law, notably in connection with employee profit-sharing plans, stock option plans, employee savings plans or bonus issues to employees and directors and officers pursuant to the provisions of Articles L225-197 et seq. of the French Commercial Code (*Code de Commerce*);
- Meeting obligations arising from debt instruments providing access to the capital;
- Transferring shares by way of exchange or payment in connection with acquisitions; and
- Canceling the shares.

1.17 Profit on ordinary operating activities

The profit on ordinary operating activities, a key indicator of the Group's performance, represents the difference between revenue and operating charges. These charges are the sum of the total costs for the services rendered (in other words contract costs), distribution costs, and general and administrative expenses.

1.18 Other operating income and expenses

Other operating income and expenses comprise material items, not linked directly to the operating activities, which are presented separately in order for the Group's profit on ordinary operating activities to be more transparent. These items include notably:

- Restructuring and redundancy costs;
- Costs and external charges on the relocation of activities;
- Disputes for particularly material amounts;
- Profits on the sale of property assets;
- Asset write-downs resulting from impairment tests; and
- Expenses on stock options and bonus shares.

1.19 Earnings per share

Earnings per share care calculated as follows:

- Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period, not talking into account treasury shares.
- Diluted earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period, not talking into account treasury shares and adjusting for the effects of dilutive options and other dilutive ordinary shares. For this calculation, the reduction in finance costs resulting from the exercise of the dilutive instruments is ignored when not material.

1.20 Segment reporting

In 2007, the Group sold an entire segment of its operations (Mission Critical Infrastructures, the so-called Run business). Accordingly, the Group now considers that geographical segments should be used for its primary segment reporting format and that the secondary segment reporting format should be used to provide information on the Mission Critical Systems business.

As a rule, given that the business model is characterized notably by joint marketing organizations, the global service offerings, shared production teams and know-how, and cross-fertilization of activities, the revenues and profitability of each product line are closely linked. Accordingly, the allocation of goodwill, other intangible assets, cash flows and related sources of financing is not economically justified and would be arbitrary. Therefore, information on segment assets and liabilities is provided only when items can be allocated directly to a segment.

In the industry, operating assets and liabilities are often managed on a global basis. Rarely are they allocated to segments and when this can be reconstituted, this allocation would not be sufficiently reliable when no operational use is made of this information. However, the Group has information by segment on inventories, work-in-progress and trade receivables. Property, plant and equipment are allocated when related depreciation charges are allocated to the segments concerned.

1.21 Leasing

Leases are classified as operating leases when the lessor retains substantially all the risks and rewards of ownership. Rental paid by the Group, as the lessee, in respect of these leases is recognized as a charge on a straight-line basis over the term of the relevant lease.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group as the lessee. Assets held under finance leases are recognized as assets in the balance sheet and the corresponding liability to the lessor is included as a component of borrowings. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Rents dues to the lessor, net of finance charges, are reported under "Borrowings and other financial liabilities". Finance charges are recognized in the income statement over the term of the relevant lease.

Note 2 – Scope of consolidation

Company	Head office	Country (company registration number)	% owned in 2008	% owned in 2007	Consolidation method
- CS Communication & Systèmes	Paris	France (692000946)	Parent company	Parent company	Parent company
- CS Systèmes d'Information (CSSI)	Le Plessis-Robinson	France (393135298)	100.00	100.00	Full
- Intrans Group Inc	Dover	United States	100.00	100.00	Full
- Intrans Del Caribe	Dover	United States	100.00	100.00	Full
- RTI System Ltd	London	United Kingdom	99.99	99.99	Full
- CS Chile	Santiago de Chile	Chile	100.00	100.00	Full
- USB	Munich	Germany	50.96	50.96	Full
- CS Canada	Montreal	Canada	100.00	100.00	Full
- Expians	Issy-les-Moulineaux	France (441885282)	100.00	100.00	Full
- Diginext	Aix-en-Provence	France (408225845)	100.00	100.00	Full
- SNC Galilée Plessis	Le Plessis-Robinson	France (479483455)	80.00	80.00	Full
- Ecsat Croatie	Split	Croatia	100.00	90.00	Full
- CS Romania	Craiova	Romania	100.00	100.00	Full
- BetEireFlow	Dublin	Ireland	20.00	-	Equity
- CS Emirates	Abu Dhabi	United Arab Emirates	49.00	-	Full
- CenProCS AIRliance	Stuttgart	Germany	33.33	-	Equity
- ADCS	Le Plessis-Robinson	France (498483130)	51.00	-	Equity
- Newton One	Le Plessis-Robinson	France (444573265)	100.00	100.00	Full
- CS Technologies Informatiques	Le Plessis-Robinson	France (400518304)	100.00	100.00	Full

Changes in scope of consolidation in 2008

New consolidations: four companies were consolidated for the first time:
- CenProCS AIRliance
- BetEireFlow
- ADCS
- CS Emirates

Deconsolidations: none

Changes in scope of consolidation in 2007

New consolidations: none

Deconsolidations:
- CAM was sold in June 2007 and reported on a separate line of the income statement from January 1, 2007 for discontinued operations.
- CSSI sold its Mission Critical Infrastructures business.

CS started up and participated in the incorporation of four companies which had no operational activity in 2007. These companies were not consolidated in 2007 because their contribution was immaterial.

Note 3 – Segment reporting for continuing operations

Primary segment reporting format: geographical segments

Segmentation is based on the location of the relevant assets.

2008 (in € thousands)	**France**	**Rest of world**	**Total**
Income statement			
External sales	203,077	18,587	221,664
Profit on ordinary operating activities before amortization, depreciation and provisions	7,386	(3,143)	4,243
Amortization, depreciation, and provisions	(7,466)	(1,299)	(8,765)
Operating loss	(80)	(4,442)	(4,522)
Finance costs	(1,474)	(453)	(1,927)
Pre-tax loss from continuing operations	(2,938)	(4,888)	(7,826)
Income tax credit (expense)	2,168	(2,207)	(39)
Net loss from continuing operations	(729)	(7,097)	(7,826)
Balance sheet			
Investments in intangible assets and property, plant and equipment	3,608	484	4,092
Net non-current assets (1)	10,781	1,367	12,148
Trade receivables	113,497	10,553	124,050
Trade payables	45,674	5,311	50,985
Total assets	263,115	13,587	276,702

2007 (in € thousands)	France	Rest of world	Total
Income statement			
Revenue (excluding intercompany)	202,038	23,317	225,355
Revenue (including intercompany)	203,797	26,415	230,212
Operating profit before depreciation, amortization and provisions	12,948	1,290	14,238
Depreciation, amortization and provisions	50	(642)	(592)
Operating profit	12,998	648	13,646
Finance costs	(2,889)	(434)	(3,323)
Pre-tax income from continuing operations	9,589	214	9,803
Income tax credit	2,289	127	2,416
Net income from continuing operations	11,878	341	12,219
Balance sheet			
Investment in intangible assets and property, plant and equipment	5,256	780	6,036
Net non-current assets (1)	10,892	2,063	12,955
Trade receivables	114,199	7,991	122,190
Trade payables	52,680	2,853	55,533
Total assets	266,096	16,885	282,981

(1) Property, plant and equipment and all intangible assets other than goodwill

Secondary segment reporting format: business segments

2008 (in € thousands)	Defense, Space and Security	Aeronautics	Transportation	Energy and other	Total
Revenue	114,050	43,370	38,261	25,983	221,664
Investments (1)	1,295	163	803	1,831	4,092
Net non-current assets (2)	4,338	235	2,608	4,967	12,148

2007 (in € thousands)	Defense, Space and Security	Aeronautics	Transportation	Energy and other	Total
Revenue	121 432	38 817	40 719	24 386	225 355
Investments (1)	2 076	148	1 170	2 638	6 032
Net non-current assets (2)	3 538	263	3 256	5 898	12 955

(1) Excluding investments not involving the movement of funds (finance leases)

(2) Excluding goodwill

Note 4 – Assets classified as held for sales and discontinued operations

In 2007, the two following transactions were accounted for in accordance with the requirements of IFRS 5, *"Non-current Assets Held for Sale and Discontinued Operations"*:

- Disposal of CAM subsidiary finalized on June 30, 2007; and
- Disposal by CSSI of its Mission Critical Infrastructures business finalized on November 30, 2007.

Note 5 - Goodwill and other intangible assets

2008 (in € thousands)	**At January 1**	**Increases**	**Decreases**	**Changes in scope of consolidation**	**Other**	**At December 31**
Cost						
Goodwill	46,962					46,962
Development costs	5,711	1,515	(203)		(183)	6,840
Concessions, patents and licenses	13,206	674	(417)		37	13,500
Intangible assets held under finance leases (2)	335					335
Other	1,086					1,086
Total (a)	**67,300**	**2,189**	**(620)**		**(146)**	**68,723**
Amortization and impairment losses						
Goodwill	10,850					10,850
Development costs	800	1,016	(131)		(175)	1,510
Concessions, patents and licenses	11,318	777	(312)		13	11,796
Intangible assets held under finance leases (2)	203	92				295
Other	1,086					1,086
Total (b)	**24,257**	**1,885**	**(443)**		**(162)**	**25,537**
Carrying amount (a)-(b)	**43,043**	**304**	**(177)**		**16**	**43,186**

2007 (in € thousands)	**At January 1**	**Increases**	**Decreases**	**Changes in scope of consolidation** (1)	**Other**	**At December 31**
Cost						
Goodwill	70,791			(23,829)		46,962
Development costs	3,813	2,332	(370)	(65)	1	5,711
Concessions, patents and licenses	14,048	1,316	(96)	(1,919)	(143)	13,206
Intangible assets held under finance leases (2)	541		(141)	(65)		335
Other	1,086					1,086
Total (a)	**90,279**	**3,648**	**(607)**	**(25,878)**	**(142)**	**67,300**
Amortization and impairment losses						
Goodwill	22,785	8		(11,943)		10,850
Development costs	511	641	(352)			800
Concessions, patents and licenses	11,808	801	(93)	(1,161)	(37)	11,318
Intangible assets held under finance leases (2)	232	139	(141)	(27)		203
Other	1,086					1,086
Total (b)	**36,422**	**1,589**	**(586)**	**(13,131)**	**(37)**	**24,257**
Carrying amount (a)-(b)	**53,857**	**2,059**	**(21)**	**(12,747)**	**(105)**	**43,043**

(1) Disposals of CAM and Mission Critical Infrastructures business

(2) Mainly software

Internally-generated intangible assets include development costs and software of €1.6 million at December 31, 2008 (2007: €2.5 million).

Research and development expenditure, within the meaning of tax regulations governing research tax credits in France, amounted to €19.3 million in 2008 (2007: €16.9 million).

Assumptions used for impairment testing:

- Pre-tax discount rate of 10%, corresponding to the weighted average cost of capital; and
- Growth rate to infinity of 2.50% per annum.

No impairment loss was recognized as a result of the tests performed in 2008 and 2007.

Note 6 – Property, plant and equipment

2008 (in € thousands)	**At January 1**	**Increases**	**Decreases**	**Changes in scope of consolidation**	**Other**	**At December 31**
Cost						
Land and buildings	875	13	(2)			886
Plant and tooling	1,746	170	(49)		(13)	1,854
Office furniture and equipment and computer hardware	8,794	1,859	(1,580)		(20)	9,053
Office equipment and computer hardware held under finance leases	2,450		(48)			2,402
Total (a)	**13,865**	**2,042**	**(1,679)**		**(33)**	**14,195**
Depreciation and impairment losses						
Land and buildings	681	54	(2)			733
Plant and tooling	1,260	225	(30)		(7)	1448
Office furniture and equipment and computer hardware	4,705	1,137	(484)		(7)	5,351
Office equipment and computer hardware held under finance leases	1,195	443	(48)			1,590
Total (b)	**7,841**	**1,859**	**(564)**		**(14)**	**9,122**
Carrying amount (a)-(b)	**6,024**	**183**	**(1,115)**		**(19)**	**5,073**

2007 (in € thousands)	At January 1	Increases	Decreases	Changes in scope of consolidation	Other	At December 31
Cost						
Land and buildings	875					875
Plant and tooling	4,358	228	(2,265)	(500)	(75)	1,746
Office furniture and equipment and computer hardware	10,951	2,158	(507)	(3,660)	(148)	8,794
Office equipment and computer hardware held under finance leases	5,747	413	(2,367)	(1,343)		2,450
Total (a)	**21,931**	**2,799**	**(5,139)**	**(5,503)**	**(223)**	**13,865**
Depreciation and impairment losses						
Land and buildings	627	54				681
Plant and tooling	3,683	258	(2,165)	(442)	(74)	1,260
Office furniture and equipment and computer hardware	6,076	1,138	(158)	(2,250)	(101)	4,705
Office equipment and computer hardware held under finance leases	3,149	950	(2,290)	(614)		1,195
Total (b)	**13,535**	**2,400**	**(4,613)**	**(3,306)**	**(175)**	**7,841**
Carrying amount (a)-(b)	**8,396**	**399**	**(526)**	**(2,197)**	**(48)**	**6,024**

Internally-generated property, plant and equipment assets are immaterial.

There is no property, plant or equipment asset whose ownership is subject to restrictions. By the same token, the Group has not pledged any of these assets as loan collateral.

At the end of 2008, the Group sold various non-current assets for €1,220 thousand (excluding taxes) and then leased them back under a 36-month lease concluded at market conditions with a firm specialized in this form of financing. Given the characteristics of the transaction, no adjustment was needed in order to comply with the requirements of IAS 17.

Note 7 – Investments in associates

2008 (in € thousands)	
At January 1	0
Share of profit of associates	98
Cost of new investment in associates	69
Dividends	-
Capital increases	-
Translation differences and other	-
At December 31	167

Amounts reported on the balance sheet and income statement

	% held at balance sheet date	Net assets at balance sheet date (in € thousands)	Net income (loss) for the year (in € thousands)
CenProCS AIRliance	33	48	(2)
BetEireFlow	20	-	-
ADCS	51	119	100
Total		**167**	**98**

The Group has no obligation (legal or constructive) to make additional investments in any of the above companies in the event losses were to result in negative shareholders' equity. Accordingly, no liability has been recognized in this respect.

Note 8 – Available-for-sale investments and loans and receivables

2008 (in € thousands)	**Loans and other receivables**	**Available-for-sale investments**	**Derivative instruments designated as cash flow hedges**	**Derivative instruments held for trading**	**Total**
Non-current financial assets	3,366	1,374			**4,740**
Trade and other receivables	143,618				**143,618**
Derivative financial instruments			3,108	95	**3,203**
Cash and cash equivalents	49,498				**49,498**
Total financial assets	**196,482**	**1,374**	**3,108**	**95**	**201,059**

2007 (in € thousands)	**Loans and other receivables**	**Available-for-sale investments**	**Derivative instruments designated as cash flow hedges**	**Derivative instruments held for trading**	**Total**
Non-current financial assets	6,479	1,205			**7,684**
Trader and other receivables	140,040				**140,040**
Derivative financial instruments			163	1,276	**1,439**
Cash and cash equivalents	58,335				**58,335**
Total financial assets	**204,854**	**1,205**	**163**	**1,276**	**207,498**

Change in non-current financial assets

2008 (in € thousands)	**Loans and other receivables**	**Available-for-sale investments**	**Derivative instruments**	**Total**
Cost or valuation				
At January 1	10,536	7,159		17,695
Acquisitions	1,204	300		1,304
Disposals	(522)	(17)		(539)
Value adjustments				
Transfers to current financial assets	(3,718)			(3,718)
Translation differences and changes in scope of consolidation	(35)	(87)		(122)
At December 31	**7,465**	**7,355**		**14,820**
Provisions				
At January 1	4,057	5,954		10,011
Provisions recognized, net	41	27		68
At December 31	**4,098**	**5,981**		**10,079**
Carrying amount at January 1	**6,479**	**1,205**		**7,684**
Carrying amount at December 31	**3,367**	**1,374**		**4,741**

Article 95 of the 2008 Additional Budget Act (*Loi de Finances Rectificative 2008*) provided, exceptionally, for the immediate payment of amounts due in respect of research tax credits as reported on the companies' balance sheet at December 31, 2008. Accordingly, amounts receivable in respect of research tax credits were reclassified as current assets.

2007 (in € thousands)	Loans and other receivables	Available-for-sale investments	Derivative instruments	Total
Cost or valuation				
At January 1	9,424	7,072		16,496
Acquisitions	3,304	124		3,428
Disposals	(1,978)	(37)		(2,015)
Value adjustments				
Transfers to current financial assets				
Translation differences and changes in scope of consolidation	(214)			(214)
At December 31	**10,536**	**7,159**		**17,695**
Provisions				
At January 1	2,155	5,923		8,078
Provisions recognized, net	1,902	31		1,933
At December 31	**4,057**	**5,954**		**10,011**
Carrying amount at January 1	**7,269**	**1,149**		**8,418**
Carrying amount at December 31	**6,479**	**1,205**		**7,684**

Main available-for-sale investments (in € thousands)	**% held at December 31, 2008**	**Carrying amount at December 31, 2008**	**Carrying amount at December 31, 2008**
CEP Périgueux	16.9	686	686
Sofema	0.3	331	354
Plessis 22	99.9	32	37
Sofresa	1.0	23	23
ICP Germany	-	-	17
ODAS	1.0	300	-
SAF	99.9	-	-
Other		2	1

Note 9 – Deferred tax assets

At December 31 (in € thousands)	2008	2007
Non-current Current	21,042 -	20,715 -
Total	**21,042**	**20,715**

See also Note 23.

Note 10 - Inventories and working in progress

(in € thousands)	Cost	Impairment	Carrying amount
At January 1, 2007	**10,335**	**(2,339)**	**7,996**
Translation differences	(46)	16	(30)
Changes in scope of consolidation	(4,697)	2,063	(2,634)
Change in inventories and work-in-progress for the year	1,645	(1,276)	369
At December 31, 2007	**7,237**	**(1,536)**	**5,701**
Translation differences	(56)	32	(24)
Changes in scope of consolidation			
Change in inventories and work-in-progress for the year	4,993	(4,497)	496
At December 31, 2008	**12,174**	**6,001**	**6,173**

Note 11 – Trade and other receivables

At December 31, 2008 (in € thousands)	Gross amount	Impairment losses	Fair value	Of which more than 1 year
Trade receivables	127,272	3,222	124,050	39,345
Payments on account	901	93	808	-
Other operating receivables	16,966	835	16,131	-
Other receivables and prepayments	2,629		2,629	-
Total	**147,768**	**4,150**	**143,618**	**29,345**

At December 31, 2007 (in € thousands)	Gross amount	Impairment losses	Fair value	Of which more than 1 year
Trade receivables	123,816	1,626	122,190	22,143
Payments on account	476		476	-
Other operating receivables	16,353	981	15,372	-
Other receivables and prepayments	2,003	-	2,003	-
Total	**142,648**	**2,607**	**140,041**	**22,143**

Non-current receivables are not discounted to their present value unless they pertain to a financing transaction. Non-current receivables consist of pending invoices resulting from the application of the methods for recognizing revenue and profit described in Note 1.6.

Note 12 – Derivative financial instruments

Hedging of price indexing

Certain large contracts provide for the indexing of certain items to the copper and aluminum index published by the French National Institute for Statistics and Economic Studies (*Institut National de la Statistique et des Etudes Economiques – INSEE*). This potential risk is hedged, for the part to be billed until end-2010, by entering into forward sale agreements on the London Metal Exchange (LME). The underlying value of these agreements amounted to €6.14 million at December 31, 2008, of which €4.29 million for copper and €1.85 million for aluminum.

Fair value of derivative instruments	**At December 31, 2008**		
(in € thousands)	**Assets**	**Liabilities**	**Of which fair value recognized to equity**
Hedging of interest rates		55	(55)
Hedging of exchange rates	233	335	(264)
Hedging of price indexing	2,970		1,455
Total	**3,203**	**390**	**1,136**

Fair value of derivative instruments	**At December 31, 2007**		
(in € thousands)	**Assets**	**Liabilities**	**Of which fair value recognized to equity**
Hedging of interest rates	163	-	163
Hedging of exchange rates	1,140	25	-
Hedging of price indexing	136	-	-
Total	**1,439**	**25**	**163**

Fair value is provided by bank counterparties.

Note 13 – Cash and cash equivalents

Marketable securities consist mainly of units held in euro-denominated money market mutual funds.

Analysis of cash and cash equivalents as reported in the cash flow statement:

At December 31 (in € thousands)	2008	2007
Bank overdrafts	(2,672)	(1,329)
Cash at bank	31,291	27,878
Marketable securities	18,207	30,456
Cash and cash equivalents at December 31	**46,826**	**57,005**

At December 31, 2008 cash and cash equivalents amounting to € 1.3 million were not available for general use by the Group.

Note 14 – Share capital

The share capital consists of ordinary share with a par value of € 5 each.

Number of shares in issue	2008	2007
at January 1	6,306,539	6,299,098
New shares	-	-
Exercise of warrants	14	81
Exercise of options	-	7,360
At December 31	**6,306,553**	**6,306,539**

Double voting rights are granted to shareholders when they can establish their shares have been held in registered form for more than two years.

The share capital consists exclusively of the items reported on the balance sheet. No debt instruments are considered as equity and, conversely, there is no component of equity that is not considered to be equity.

Treasury shares	Quantity	Cost (in € thousands)
At January 1, 2007	**45,288**	**958**
Purchases	143,291	3,370
Sales	(47,719)	(1,091)
At December 31, 2007	**140,860**	**3,237**
Purchases	120,022	1,889
Sales	(64,816)	(1,353)
Bonus shares	(8,983)	(180)
At December 31, 2008	**187,083**	**3,593**

Information concerning share subscription warrants and redeemable share subscription warrants

On June 9, 2006, CS issued bonds with redeemable subscription warrants (*Obligations à Bons de Souscription d'Actions Remboursables - OBSAR*), the main characteristics of which are provided in Note 17.

	July 2007 warrants	Class A redeemable warrants	Class B redeemable warrants
Number of warrants outstanding at January 1, 2007	**1,116,420**	**165,000**	**165,000**
Converted in connection with exchange offer		-	-
Exercised during the year	(81)	-	-
Expired during the year	(1,116,339)	-	-
Number of warrants outstanding at January 1, 2008	**0**	**165,000**	**165,000**
Exercised during the year		(7)	(7)
Expired during the year		-	-
Number of warrants outstanding at December 31, 2008	**0**	**164,993**	**164,993**
Parity	1:1	1:1	1:1
Exercise price (in €)	30.00	41.69	45.48

Share subscription and purchase plans

	1998 Share subscription plan	2000 Share subscription plan	2001 Share subscription plan	2003 -1 Share purchase plan	2003 – 2 Share purchase plan	2004 Share purchase plan
Date of board meeting	May 25, 1998	January 31, 2000	December 18, 2001	January 13, 2003	September 5, 2003	November 25, 2004
Vesting conditions	Starting after the third year following the grant date	On a pro rata basis, one fifth of the quantity after each year of service in the Group	On a pro rata basis, one twelfth of the quantity after each quarter of service in the Group	On a pro rata basis, one twelfth of the quantity for each quarter of service in the group since the grant date	On a pro rata basis, one twelfth of the quantity for each quarter of service in the Group since the grant date	On a pro rata basis, one twelfth of the quantity for each quarter of service in the Group since the grant date
Maximum number of options granted initially	440,000	343,000	527,840	20,000	19,000	2,500
Options held by directors and officers at December 31, 2008	-	-	240,700	-	-	-
Expiration date	May 29, 2008	January 31, 2010	December 18, 2011	January 13, 2013	September 5, 2013	November 25, 2014
Subscription or purchase price	62.50	39.03	15.25	15.25	15.25	26.00
Options outstanding at December 31, 2007	53,500	23,400	298,915	18,700	4,000	2,500
Number of options granted in 2008						
Number of options exercised in 2008			,	,		
Number of options expired in 2008	53,500					
Options outstanding at December 31, 2008	-	23,400	298,915	18,700	4,000	2,500

Earnings per share

	2008	2007
Numerator (in € thousands)		
Profit attributable to the equity holders of the parent (a)	(7,582)	49,897
Denominator (number of shares)		
Total shares (b)	6,306,553	6,306,539
Treasury shares (c)	187,083	140,860
Shares excluding treasury shares (d) = (b) - (c)	6,119,470	6,165,679
Average number of shares excluding treasury shares (e)	6,119,456	6,159,339
Dilutive potential ordinary shares (f)	652,301	718,799
Average number of shares after dilution (g) = (e) + (f)	6,119,456	6,878,138
Basic earnings per share (h) = (a*1000) / (e) (in €)	(1.24)	8.10
Fully diluted earnings per share (i) = (a*1000) / (g) (in €)	(1.12)	7.25

Bonus shares

Date of board meeting	April 28, 2008	April 28, 2008	February 1, 2006
Number of beneficiaries	4	4	1
Maximum number of shares granted	16,200	16,200	12,984
Vesting period start date	April 28, 2008	April 28, 2008	February 1, 2006
Vesting period end date	April 28, 2010	April 28, 2010	February 1, 2008
Vesting condition	Individual performance	Stock market performance	Stock market performance
Fair value of share on grant date	11.50	10.85	34.65

The advantage granted to the beneficiaries is determined on the grant date. The resulting charge is amortized over the vesting period and classified as a component of “Other operating charges” in the income statement.

In 2008, 8,983 bonus shares were granted under the February 2006 plan.

In accordance with the provisions of Law 2006-1770 of December 30, 2006, directors and officers to whom bonus shares are granted must, at the end of the vesting period, retain at least 20% of these shares in pure registered form until their term of office expires.

Note 15 – Non-current and current provisions

2008 (in € thousands)	**At January 1**	**Recognized**	**Reversed**		**Changes in scope of consolidation and other**	**At December 31**
			Provision used	**Provision not used**		
Restructuring	209	497	(202)			504
Contracts (penalties, warranties, risks, etc.)	1,161	704	(539)			1,326
Disputes and other risks	5,235	572	(548)	(121)		5,138
Losses on completion [1]	4,474	213	(1,833)		3	2,857
Tax	519	19	(91)		(10)	437
Total	**11,598**	**2,005**	**(3,213)**	**(121)**	**(7)**	**10,262**

2007 (in € thousands)	**At January 1**	**Recognized**	**Reversed**		**Changes in scope of consolidation and other**	**At December 31**
			Provision used	**Provision not used**		
Restructuring	511	321	(196)		(427)	209
Contracts (penalties, warranties, risks, etc.)	2,582	637	(2,027)	(31)		1,161
Disputes and other risks	2,396	3,947	(592)	(123)	(393)	5,235
Losses on completion [1]	909	3,781	(214)		(2)	4,474
Tax	490	74	(41)		(4)	519
Total	**6,888**	**8,760**	**(3,070)**	**(154)**	**(826)**	**11,598**

[1] Given uncertainties about the timing of the outflow of resources, only provisions for losses on completion are broken down into their non-current and current portions. The latter amounted to €2.857 million and €2.664 million in 2008 and 2007, respectively.

The single most important provision in respect of a dispute amounted to €2 million in 2008 (2007: €2 million).

The single most important provision in respect of a contract (excluding losses on completion) amounted to €0.25 million in 2008 (2007: €0.1 million).

Losses on completion in respect of discontinued operations amounted to €1.8 million in 2008 (2007: €3.5 million).

Note 16 – Employee benefits

(in € thousands)	**Healthcare benefits for former employees**	**Retirement benefits and other post-employment benefits**	**Total**
At January 1, 2007	**1,718**	**9,028**	**10,746**
2007 movements	(61)	691	630
Changes in scope of consolidation and miscellaneous		(5,264)	(5,264)
Movements due to changes in actuarial assumptions		1,070	1,070
At December 31, 2007	**1,657**	**5,525**	**7,182**
2008 movements	(100)	649	549
Changes in scope of consolidation and other		(20)	(20)
Movements arising from changes in actuarial assumptions	(124)	(638)	(762)
At December 31, 2008	**1,433**	**5,516**	**6,949**

The effects of changes in actuarial assumptions are recognized directly to equity.

Principal assumptions used for the actuarial measurement of retirement benefits:

	2008	2007	2006
Discount rate	5.25	4.25	4.25
Expected rate of salary increases	2.00	2.00	2.00

At the end of 2007, the French Social Security Funding Act (*Loi de Financement de la Sécurité Sociale*) instituted a new contribution (50% from 2009) to be borne by the employer when making employees take compulsory retirement, regardless of age, at the same time ending the negotiated retirement procedure. The impact of this law was measured by projecting the expected behavior of employees and treated as a change of actuarial assumptions, resulting in an increase of the provision for retirement indemnities by €1.07 million in 2007.

One of the key provisions of the 2009 Social Security Funding Act voted on December 17, 2008 was to increase to 70 the age at which employers can require employees to take retirement, with this measure to take effect in 2010. At the same time, employer and employee will have the possibility to negotiate early retirement after the age of 65. At this point in time it is difficult to predict what decision will be taken by employees. The assumption is therefore that employees will opt for early retirement on reaching the age of 65.

Retirement indemnities amounting to €218 thousand (2007: €173 thousand). Payments are not expected to increase materially in 2009.

The discount rate used was determined by reference to yields on highly rated corporate bonds of the same term as the obligation to pay retirement indemnities, which is around 25 years.

At the end of 1998, CS negotiated an optional agreement with a view to assuming part of the medical care expenses of former employees. This agreement concerns employees who retired before January 1, 1999.

Payments in respect of defined contribution complementary pension plans amounted to €8.5 million in 2008 (2007: €10.2 million, including contributions paid in the first half of 2007 in respect of the Mission Critical Infrastructures business sold on June 30, 2007).

Note 17 – Borrowings and other financial liabilities

At December 31 (in € thousands)	2008		2007	
	Non-current	Current	Non-current	Current
Bonds	-	14,743	14,364	50
Bank loans and other borrowings	914	600	894	658
Finance lease obligations	94	798	892	896
Bank overdraft and credit balances	-	2,672	-	1,329
Borrowings and other financial liabilities	**1,008**	**18,813**	**16,150**	**2,933**

At December 31 (in € thousands)	2008	2007
Borrowings	(19,821)	(19,083)
Cash and marketable securities	49,498	58,334
Net cash position	**29,677**	**39,251**

Analysis of borrowings and other non-current financial liabilities by maturity

At December 31 (in € thousands)	2008			2007		
	Carrying amount	1 to 5 years	Over 5 years	Carrying amount	1 to 5 years	Over 5 years
Bonds	-	-	-	14,364	14,364	-
Bank loans and other borrowings	914	914	-	894	894	-
Finance lease obligations	94	94	-	892	892	-
Total	**1,008**	**1,008**	**-**	**16,150**	**16,150**	**-**

Bonds

On June 9, 2006, CS issued bonds with redeemable subscription warrants (*Obligations à Bons de Souscription d'Actions Remboursables - OBSAR*), the main characteristics of which are provided below:

Issue amount	Redemption date	Coupon rate	Hedged interest rate	Effective interest rate	Debt component at inception	Costs included in debt component	Equity component at inception
€14.85 million	June 9, 2009	3-month Euribor + 0.734%	4.414%	6.80%	€13.84 million	€0.64 million	€0.37 million

The main characteristics of the redeemable subscription warrants (*Bons de Souscription d'Actions Remboursables – BSAR*) are provided below:

	Class A warrants	Class B warrants
Number of warrants issued	165,000	165,000
Exercise price (in €)	41.69	45,48
Exchange parity	1:1	1:1
Number of warrants outstanding at December 31, 2008	164,993	164,993
Expiration date	December 9, 2011	December 9, 2013
Exercise period	the last year	the last three years

The Class A warrants cannot be sold in the first two years unless there is a public purchase offer for the shares of the Company or ownership of the Company changes hand.

The expiration dates for the Class A warrants and Class B warrants were pushed back to December 9, 2011 and December 9, 2013, respectively. This decision was approved by the General Meetings of the Class A and Class B warrant holders convened on March 11, 2008 and approved by the Shareholders' Meeting of September 8, 2008.

The main sources of financing used by the Group are detailed below:

At December 31 (in € thousands)	2008		2007	
	Authorized	Used	Authorized	Used
Bank overdrafts	6,500	2,672	6,512	1,329
Sales of receivables to OSEO BDPME	8,000	0	20,000	0
Factoring [(1)]	33,540	10,382	56,000	17,994
Non-recourse sale of receivables	6,542	6,466	-	-
Medium- and long-terms loans	2,407	2,407	3,340	3,340

(1) Eurofactor and Commerzbank.

The Group has not fully used its drawing rights on the sale of receivables.

At the end of 2008, an agreement was reached for the non-recourse sale of receivables. A total of €6.5 million in receivables were sold under this agreement.

Factoring

At the end of 2005, CSSI signed a factoring agreement with Eurofactor. Under this agreement, the default risk on debtors found to be insolvent are borne by the factor within the limit of the guaranteed amount. In 2006, the Diginext subsidiary entered into a similar agreement.

On June 26, 2006 an agreement for the sale of trade receivables was entered into with Commerzbank AG.

Receivables sold under factoring agreements

At December 31 (in € thousands)	2008	2007
Receivables sold to Eurofactor	20,730	26,247 [(1)]
Of which not guaranteed	306	76
Reserves and guarantees	410	580
Receivables sold to Commerzbank AG	10,382	12,877 [(1)]

(1) Including €6,708 thousand in receivables related to the Mission Critical Infrastructures business sold by the Group

As the main risk, being that of default or insolvency, has been transferred to the factor, the receivables have been excluded from the consolidated financial statements. Interest on these facilities is at variable rates indexed to Eonia or to the 3-month Euribor.

Restatements on consolidation

In the consolidated financial statements, recourse to simplified receivable financing procedure (so-called Loi Dailly procedure) involving OSEO BDPME and the sale of receivables with recourse under factoring agreements were restated as follows:

Assets	**2008**	**2007**	**Liabilities**	**2008**	**2007**
Trade receivables	2,942	7,227	Financial liabilities	-	-
Other receivables		(2)			
Cash and cash equivalents	(2,942)	(7,225)			
Total	**0**	**0**	**Total**	**0**	**0**

The only financing obtained by the Group requiring compliance with financial ratios is the agreement entered into with Commerzbank AG. Under the terms of this agreement, the facility may be withdrawn at the end of every half year if consolidated net debt came to represent more than 2.5 times the operating profit on ordinary activities before amortization, depreciation and current provisions.

Note 18 – Other current and non-current liabilities

At December 31 (in € thousands)	**2008**	**2007**
Non-current liabilities		
Deferred taxes	12	21
Other	13	-
Total	**25**	**21**
Current liabilities		
Payments on account	7,363	10,188
Trade payables	50,985	55,533
Other operating payables [1]	63,639	59,309
Fixed asset suppliers	47	47
Other	3,185	4,981
Deferred income	30,548	22,060
Total	**155,767**	**152,118**

[1] Mainly value added tax (VAT) on outstanding customer invoices, VAT on customer invoices to be raised, December VAT payable and employee-related payables (salaries, paid vacations, payroll taxes, etc.). Current income tax payable is immaterial.

Note 19 – Headcount and employee benefit expense

Average headcount	**2008**	**2007**
France	1,727	1,541
Rest of world	413	290
Total	**2,140**	**1,831**

Year ended December 31 (in € thousands)	**2008**	**2007**
Wages and salaries	81,803	70,886
Social security costs	36,098	30,271
Share subscription plans, employee profit-sharing and other	-	98
Total	**117,901**	**101,255**

No charge was recognized in respect of the fair value of the share subscription plans (2007: €14 thousand).

Note 20 – Amortization, depreciation and operating provisions

Year ended December 31 (in € thousands)	**2008**	**2007**
Amortization and depreciation	(3,612)	(3,121)
Impairment losses reversed (recognized)	(6,072)	1,615
Provisions reversed (recognized)	919	915
Total	**(8,765)**	**(591)**

In 2008, in connection with negotiations entered into for several large contracts, work was undertaken in anticipation of these contracts to develop a demonstrator and to define system specifications. Pre-contract costs amounting to €4.4 million were written off because these contracts had not been signed at the balance sheet date.

Note 21 – Other operating income and expenses

Year ended December 31, 2008 (in € thousands)	**Income**	**Expenses**	**Net**
Cost of relocations and unoccupied premises		(26)	(26)
Restructuring – personnel	512	(1,846)	(1,334)
Gains and losses on asset disposals	1,304	(1,401)	(970
Goodwill impairment			
Other	383	(303)	80
Total	**2,199**	**(3,576)**	**(1,377)**

Year ended December 31, 2007 (in € thousands)	**Income**	**Expenses**	**Net**
Cost of relocations and unoccupied premises	17	(178)	(161)
Restructuring – personnel	430	(1,382)	(952)
Gains and losses on asset disposals	3,099	(3,099)	0
Settlement of dispute (1)	768	(34)	734
Other	491	(632)	(141)
Total	**4,805**	**(5,325)**	**(520)**

(1) Final settlement in respect of a dispute concerning a contract completed in 2006.

Note 22 – Finance costs

Year ended December 31 (in € thousands)	**2008**	**2007**
Gross borrowing costs	(2,570)	(3,914)
Income from cash and cash equivalents	622	353
Net borrowing costs	**(1,948)**	**(3,561)**
Other financial income and charges	21	238
Finance costs	**(1,927)**	**(3,323)**
Of which changes in the fair value of hedging instruments not involving the movement of funds	(1,870)	1,245

Analysis of other financial income and charges

Year ended December 31 (in € thousands)	**2008**	**2007**
Provisions, net	43	(366)
Gains and losses on foreign exchange and commodity hedging (including changes in fair value)	(428)	497
Dividends	406	0
Total	**21**	**130**

Note 23 – Income tax

Year ended December 31 (in € thousands)	2008	2007
Consolidated pre-tax profit from continuing operations	7,504	9,803
Statutory tax rate	33.3%	33.3%
Theoretical tax	2,501	(3,268)
Actual tax reported in the income statement	(39)	2,416
Differences	**2,540**	**5,684**
Deferred tax credit representing the increase in the amount to be recovered over the next 5 years	-	2,872
Deferred tax asset of foreign subsidiary cancelled because of uncertainties as to the asset's recovery	(1,922)	-
Deferred tax credit offset against tax losses brought forward in respect of which no deferred tax asset had been recognized	4,516	3,268
Other	(54)	(456)
Total	**2,540**	**5,684**

The method of accounting for deferred tax assets in respect of tax losses carried forward by the Group is described in Note 1.2. The income tax expense in the income statement reflects mainly changes in the business plan from one year to the next and the resulting changes in deferred tax assets.

Income tax expense for companies consolidated under the full method

Year ended December 31 (in € thousands)	2008	2007
Current taxes	(415)	(399)
Deferred taxes	380	2,815
Total	**(39)**	**2,416**

Most current taxes are attributable to foreign subsidiaries.

The research tax credit is recognized as a deduction from research and development costs (mainly staff costs).

Changes in deferred tax assets

(in € thousands)	2008	2007
At January 1	**20,716**	**18,105**
Recognized in the period	2,248	2,815
Cancelled in the period	(1,922)	(204)
At December 31	**21,042**	**20,716**

Tax position of the Group

Year ended December 31 (in € millions)	2008	2007
Tax base	165.4	134.8
Corresponding maximum potential tax savings	49.6	44.9

Temporary differences that did not result in the recognition of deferred tax assets amounted to around €12.7 million in 2008 (2007: €16.3 million). Taking into account these temporary differences, potential tax savings totaled €49.6 million, compared with recognized deferred tax assets of €21 million in 2008 (2007: €20.7 million).

The parent company CS Communication & Systèmes and certain of its subsidiaries have elected to be assessed to tax on a group basis. Each company calculates and recognizes income tax as if this tax group did not exist. Even tax savings from group relief are retained by the parent company. Tax savings amounted € 0.26 million in 2008 (2007: € 0.17 million).

Note 24 – Management of market risks

The Group's operations expose it to different types of financial risks, including liquidity risk, interest rate risk, credit risk, currency risk and counterparty risk.

<u>A/ Liquidity risk</u>

As defined by the French Financial Markets Authority, a liquidity risk arises when assets are longer term than liabilities, resulting in the impossibility of settling short-term debts were it not possible to transform assets into cash or to negotiate new credit lines.

Liquidity risk management implies maintaining an adequate level of liquidity as well as access to financial resources as may be appropriate through confirmed credit lines.

The negative net debt situation on the last balance sheet dates does not signify that the Group may not have temporary financing requirements to address variations in operating cash flows. This financing is provided by bank overdraft facilities as well as the use

of factoring and the sale of receivables. By its nature, the amount used is limited to customer claims as yet uncollected. Undated lines to which the Group has access are sized so as to be commensurate with its needs and rarely has the volume of customer claims exceeded these lines. However, an eventual decrease in the invoicing of customers would curtail temporarily the Group's ability to finance its debts in this way

These facilities are not subject to covenants other than those indicated in Note 17.

B/ Interest rate risk

The interest rate risk concerns mainly loans entered into by the Group. Management of the interest rate exposure seeks to hedge two types of risk:

- The risk of a change in the value of financial assets and financial liabilities bearing fixed rates. When entering into a fixed-rate loan, for instance, the Group is exposed to potential opportunity costs were interest rates to decline. Any change in interest rates is likely to have an impact on the market value of financial assets and financial liabilities bearing fixed rates. This opportunity cost would not, however, affect the financial income and charges recognized in the consolidated income statement and, by the same token, the future net profit recognized by the Group until the maturity of these assets and these liabilities.
- The risk of changes in the cash flows generated by assets and liabilities bearing variable interest rates were there to be a rise in interest rates.

When managing the interest rates with the Group's borrowings, the main objective is to minimize borrowing costs and hedge exposure to interest rate fluctuations by entering into swaps to exchange variable rates for fixed rates. Authorized derivative instruments used by the Group to this end are swap agreements entered into with first rate financial institutions.

To reduce borrowing costs on medium- and long-term loans, the Group's policy for managing its interest rate exposure is to be protected against the effects of a rise in interest rates in the case of variable-rate debt and to be in a position to benefit from the effects of a decline in interest rates in the case of fixed-rate debt. The instruments used to these ends are mainly interest rate swaps.

Medium and long-term debt (excluding bonds with redeemable with redeemable warrants) is all in the form of fixed-rate financing agreements (finance leases, direct financing leases, etc.) that are not therefore exposed to interest rate risk.

Short-term debt consists entirely of trade receivables financing and bank overdrafts. As the use of these sources of financing is prone to sharp fluctuations according to cash flows generated each, no hedging has been implemented.

Variable-rate financial assets and financial liabilities

At December 31, 2008 (in € thousands)	**Total**	**Less than 1 year**	**1 to 5 years**
Financial assets	18,207	18,207	-
Financial liabilities	(54,890)	(54,890)	-
Net position before hedging	(36,683)	(36,683)	-
Derivative instruments	14,866	14,866	-
Net position after hedging	(21,817)	(21,817)	-
Impact of a 1 percentage point rise in interest rates	(218)	(218)	-
At December 31, 2007 (in € thousands)	**Total**	**Less than 1 year**	**1 to 5 years**
Financial assets	30,456	30,456	0
Financial liabilities	(54,791)	(40,376)	(14,415)
Net position before hedging	(24,335)	(9,920)	(14,415)
Derivative instruments	14,415	-	14,415
Net position after hedging	(9,920)	(9,920)	-
Impact of a 1 percentage point rise in interest rates	(99)	(99)	-

As explained in the note on financial liabilities, the bonds with redeemable warrants are indexed to a variable benchmark (3-month Euribor), which generates a financial risk in the event of a rise in interest rates. This risk was hedged by entering into a swap to receive 3-month Euribor and to pay a fixed rate of 3.68%.

C/ Counterparty risk

There is no significant concentration of credit risks. The Group's customer base consists of large accounts. The risk of customer insolvency or disappearance is therefore slight. Nearly half of revenue is generated with government agencies and public corporations, mainly in France.

The procedures applied with regard to initial customer acceptance and related credit risk analyses have been integrated into the global risk assessment process implemented over the entire life of each customer contract.

Trade receivables are analyzed and monitored, with a special focusing on past dues.

The Group does not make significant loans to third parties, whether natural or legal persons, nor to employees or to entities in which it owns shares and that are not consolidated.

All cash management transactions and transactions involving derivative instruments are with first rate financial institutions.

D/ Currency risk

Trade activities may generate a currency risk when part of the revenue is invoiced in one currency and costs are incurred in another currency. Exposure to currency risk is limited because the Group's geographical presence is concentrated substantially in the euro zone. Residual currency exposures are mainly to the U.S. dollar.

The Group has established procedures for managing foreign currency operations arising from trade and financial transactions denominated in currencies other than the entity's local currency. These procedures require all material exposure to be hedged on inception. To hedge its currency exposure, the Group uses various financial instruments, notably forward transactions and currency put and call options.

As part of its policy for managing its currency and interest rate risk exposures, the Group enters into hedging agreements with first rate financial institutions. For this reason, the counterparty risk may be considered as negligible.

At December 31, 2008 (in € thousands)	**USD**	**GBP**	**CAD**
Assets Liabilities	12,894	75 (85)	678
Exposure to currency risk pre-hedging (a)	12,894	(10)	678
Assets hedged Liabilities hedged	4,888	75 (24)	
Net assets hedged (b)	4,888	51	
Exposure to currency risk post-hedging (a)-(b)	8,006	(61)	678

At December 31, 2007 (in € thousands)	**USD**	**GBP**	**CAD**
Assets Liabilities	13,326 (395)	689 (137)	821
Exposure to currency risk pre-hedging (a)	12,931	552	821
Assets hedged Liabilities hedged	10,363 (395)	689	
Net assets hedged (b)	9,968	689	
Exposure to currency risk post-hedging (a)-(b)	2,963	(137)	821

Analysis of borrowings by currency

At December 31 (in € thousands)	**2008**	**2007**
Euro	19,240	18,386
U.S. dollar	268	466
Other currencies	314	231
Total	**19,822**	**19,083**

The Group manages its currency exposures - which arise primarily from its trade activity - in such a way as to hedge the risk of monetary fluctuations. Hedging instruments used to this end include notably forward transactions and currency put and call options.

At December 31, 2008, business contracts denominated in foreign currencies had been hedged in a totally effective manner. Therefore, currency risk exposure post-hedging was confined mainly to current accounts with subsidiaries denominated in foreign currencies.

At December 31, 2008, currency hedges concerned transactions expected to unwind in 2009 and 2010. Hedging instruments consisted of forward purchases and sales of currencies:

- $29.85 million, equivalent to €21.07 million, covering receivables and payables;
- $2.50 million, equivalent to €1.70 million, covering an intra-group current account; and
- £0.29 million, equivalent to €0.33 million, covering trade receivables.

E/ Price risk

For two large customer contracts, the Group has exposure to increases in the price of certain commodities. These risks are hedged the manner described Note 12.

Note 25 – Off balance sheet commitments

At December 31 (in € thousands)	Notes	2008	2007
Commitments given			
Endorsements and guarantees outside the Group and commitments related to contract performance (excluding restitution of payments on account)		27,561	61,340
Pledges, mortgages and collateral given	a	1,623	1,792
Endorsements, security deposits and guarantees	b	48,034	67,215
Other guarantees given		-	-
Commitments received			
Endorsements, security deposits and guarantees		615	1,688

When material, finance leases are restated on consolidation. Hedging instruments are discussed in Note 11.

(a) Allocation of collateral given

At December 31 (in € thousands)	2008	2007	
Bank overdrafts and sureties	1,238	1,239	Pledge of securities
Sureties	385	553	Pledge of factoring guarantee account
Total	**1,623**	**1,792**	

(b) Endorsements, security deposits and guarantees

They consist mainly of:

- Rental guarantees given to the owners of buildings leased by the Group amounting to €24.9 million at December 31, 2008 (2007: €30.16 million);
- Guarantees in respect of liabilities amounting to €0.3 million at December 31, 2008 (2007: €1.30 million); and
- Guarantees in respect of financing lines amounting to €21 million at December 31, 2008 (2007: €34 million).

Asset and liability guarantees

In connection with the purchase and sale of companies, asset or liabilities were received or given by the Group. A guarantee given in respect of the liabilities of a subsidiary sold by the Group was exercised by the buyer, resulting in the recognition of a provision in 2007.

Note 26 – Operating leases

Analysis of commitments on operating leases:

At December 31 (in € thousands)	2008	2007
Total	25,547	24,465
Within 1 year	6,920	5,361
From 1 to 5 years	18,626	16,467

Net rents in respect of operating leases amounting to €4.0 million were recognized in 2008 (2007: €5.1 million).

Note 27 – Audit and advisory fees recognized in the income statement

	Deloitte		Mazars in 2008 and Constantin in 2007	
Year ended December 31 (in € thousands)	**2008**	**2007**	**2008**	**2007**
Statutory audits (including audit reports and the audit of separate parent company and consolidated financial statements)				
Issuer	46	57	46	57
Fully-consolidated subsidiaries	102	84	68	169
Other work and services directly related the statutory audits				
Issuer				10
Fully-consolidated subsidiaries	61			
Sub-total	**209**	**141**	**114**	**236**
Other services				
Tax, legal and labor-related			3	
Other				56
Sub-total	**-**	**-**	**3**	**56**

Fees in respect of statutory audits amounted to €339 thousand in 2008 (2007: €401 thousand).

Note 28 – Contingent liabilities

Individual right to training

In accordance with the provisions of Law no. 2004-391 of May 4, 2004 relating to vocational training, the Group's French companies grant each employee individual rights to training amounting to 20 hours that can accumulated over a period not exceeding 6 years. At the end of this six-year period, and if these rights have been not used, they remain capped at 120 hours. Total rights vested at December 31, 2008 amounted to 111,555 hours. Given the recommendation issued by the French Urgent Issues Task Force (*Comité d'Urgence du Conseil National de la Comptabilité*) and the situation at Group companies in this respect, no provision was recorded in respect of these rights.

Tax audits

The parent company CS and its subsidiary CSSI were the subject of tax audits in 2005 and 2006. The final adjustments notified by the tax administration did not result in the recognition of significant additional liabilities or expenses.

Note 29 – Related party transactions

Associates

Relates to companies in which the Group holds a stake of between 20% and 50% and that are accounted for by the equity method. All transactions with these companies are on an arm's length basis.

Year ended December 31 (in € thousands)	**2008**	**2007**
Loans	-	-
Trade receivables	1,928	40
Trade payables	-	-
Purchases	-	-
Sales	11,192	943

Sales to related parties are mainly with CenProCS (under a contact for which the end customer is Airbus) and with BetEireFlow (under the contract for the Dublin ring road).

Relating parties exercising significant influence on the Group

There are no material transactions with a shareholder controlling more than 5% of the capital of CS Communication & Systèmes.

Compensation paid to corporate directors and officers, namely to the members of the Board of Directors and to the Chief Executive Officer, is indicated on a global basis for each of the categories defined in IAS 24 *Related Party Disclosures*.

Year ended December 31 (in € thousands)	**2008**	**2007**
Compensation paid to administrative bodies	225	247
Compensation and other benefits paid to management bodies:		
Compensation	1 295	879
Equity compensation benefits (IFRS 2)	212	-

No advance or loan has been made to members of the administrative and management bodies of the Company, nor have commitments been given on their behalf (retirement or other benefits). Details concerning the options to purchase or subscribe to shares of CS Communication et Systèmes held by directors and officers are provided in Note 14.

During its meeting of July 12, 2005, the Board of Directors of the Company agreed to the payment of redundancy benefits equal to 150% of their gross annual salary to two directors were their term of office to be ended by the Company.

Note 30 - Events after the balance sheet date

When the consolidated financial statements were approved by the Board of Directors of CS Communication & Systèmes, there was no dispute, arbitration proceedings or other exceptional item likely to have a material impact on the activities of the Group, its financial position or its assets.