GROUP CONSOLIDATED FINANCIAL STATEMENTS

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report, together with the Statutory Auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Cap Gemini SA and subsidiaries, for the year ended December 31, 2005.

These consolidated financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union. They include comparative information restated in accordance with the same standards in respect of financial year 2004.

I - Opinion on the consolidated financial statements

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

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

II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 1 f) to the consolidated financial statements describes the methods used to account for revenues and costs related to long-term services rendered. As part of our assessments of the accounting rules and principles adopted by the Group, we verified whether the methods used to account for revenues and costs related to long-term services rendered were appropriate, and obtained assurance of their correct application and that the estimates used were reasonable.
- A deferred tax asset of €811 million is recorded in the consolidated balance sheet. Note 13 to the consolidated financial statements describes the methods used to calculate this asset. As part of our assessments, we verified the overall consistency of the information and assumptions used to calculate this deferred tax asset.
- Net intangible assets carried in the consolidated balance sheet include €1,809 million in unamortized goodwill. The accounting principles used and the methods applied to determine the value in use of these assets are described in notes 1 i) and 10 to the consolidated financial statements.
  As part of our assessments, we verified whether the approach applied was correct and that the assumptions used and resulting valuations were consistent overall.

The assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III - Specific verifications

In accordance with professional standards applicable in France, we have also reviewed the information given in the Group management report. We have no comments to make as to its fair presentation and its conformity with the consolidated financial statements.

Paris, February 22, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Bernard RASCLE

KPMG Audit

Department de KPMG S.A.

Jean-Luc DECORNOY – Frédéric QUÉLIN

Partner Partner

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005

in millions of euros	*Notes*	2004 Amount	2004 %	2005 Amount	2005 %
Revenues	3	**6, 235**	**100**	**6, 954**	**100**
Cost of services rendered	4	4,712	75.6	5,377	77.3
Selling expenses	4	611	9.8	524	7.6
General and administrative expenses	4	936	15.0	828	11.9
Operating margin		**(24)**	**(0.4)**	**225**	**3.2**
Other operating income	5	6	0.1	175	2.5
Other operating expense	5	(263)	(4.2)	(186)	(2.6)
Operating profit/(loss)		**(281)**	**(4.5)**	**214**	**3.1**
Finance costs, net	6	(28)	(0.5)	(24)	(0.4)
Other financial income and expense, net	7	1	-	(14)	(0.2)
Finance expense, net		**(27)**	**(0,5)**	**(38)**	**(0.6)**
Income tax expense	8	(226)	(3.6)	(35)	(0.5)
Profit/(loss) for the period		**(534)**	**(8.6)**	**141**	**2.0**
Attributable to:					
Equity holders of the parent		(534)	(8.6)	141	2.0
Minority interests		-	-	-	-

	Note	2004	2005
Weighted average number of ordinary shares		**131,292,801**	**131,391,243**
Basic earnings/(loss) per share (in euros)	9	(4.07)	1.07
Weighted average number of ordinary shares (diluted)		**132,789,755**	**138,472,266**
Diluted earnings/(loss) per share (in euros)	9	(4.02)	1.06

CONSOLIDATED BALANCE SHEETS

AT DECEMDER 31, 2004 AND DECEMBER 31, 2005

in millions of euros	*Notes*	2004	2005
ASSETS			
Intangible assets	10	1,963	1,951
Property, plant and equipment	11	449	399
Financial assets	12	64	48
TOTAL FIXED ASSETS AND INVESTMENTS		**2,476**	**2,398**
Deferred tax	13	775	811
Non current receivables	14	124	127
TOTAL NON-CURRENT ASSETS		**3,375**	**3,336**
Accounts and notes receivable	15	1,814	1,868
Other receivables	16	178	180
Assets held for sale	17	17	-
Short-term investments	18-19	1,001	1,805
Cash	18	251	416
TOTAL CURRENT ASSETS		**3,261**	**4,269**
TOTAL ASSETS		**6,636**	**7,605**

in millions of euros	*Notes*	2004	2005
EQUITY AND LIABILITIES			
Share capital		1,051	1,053
Additional paid-in capital		2,226	2,229
Retained earnings and other reserves		45	(431)
Profit/(loss) for the period		(534)	141
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		**2,788**	**2,992**
Minority interests		-	-
TOTAL EQUITY		**2,788**	**2,992**
Long-term financial debt	18-19	768	1,145
Deferred tax	13	95	121
Provisions for pensions and other post-retirement benefits	20	426	448
Non-current provisions	21	19	14
Other non current liabilities	22	145	138
TOTAL NON-CURRENT LIABILITIES		**1,453**	**1,866**
Short-term financial debt and bank overdrafts	18-19	200	171
Accounts and notes payable	23	2,082	2,490
Current provisions	21	20	20
Current income tax liabilities		56	47
Other payables	24	37	19
TOTAL CURRENT LIABILITIES		**2,395**	**2,747**
TOTAL EQUITY AND LIABILITIES		**6,636**	**7,605**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005

in millions of euros	*Note*	2004	2005
Profit/(loss) for the period		**(534)**	**141**
Impairment of goodwill	5	19	6
Depreciation, amortization and write-downs of fixed assets	10-11	213	200
Net additions to provisions (excluding current assets)		24	28
(Gains)/losses on disposals of assets	5	(14)	(166)
Expense relating to stock options and share grants	5	4	12
Finance costs, net	6	28	24
Income tax expense	8	226	35
Cash flows from operations before finance costs, net and income tax (A)		**(34)**	**280**
Income tax paid (B)		4	(36)
Change in accounts and notes receivable, net		(29)	(39)
Change in accounts and notes payable, net		295	244
Change in other receivables and payables, net		82	93
Change in operating working capital (C)		**348**	**298**
NET CASH FROM OPERATING ACTIVITIES (D=A+B+C)		**318**	**542**
Acquisitions of property, plant and equipment and intangible assets	10-11	(125)	(106)
Proceeds from disposals of property, plant and equipment and intangible assets		24	14
		(101)	**(92)**
Acquisitions of financial assets		(73)	(39)
Proceeds from disposals of businesses and consolidated companies	5	18	194
Proceeds from disposals of non-consolidated companies	7	70	5
Proceeds from disposals of other financial assets		8	16
		23	**176**
Effect of changes in Group structure		(5)	(6)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES (E)		**(83)**	**78**
Increase in share capital		-	5
Proceeds from borrowings		43	474
Repayments of borrowings		(199)	(183)
Finance costs, net	6	(28)	(24)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES (F)		**(184)**	**272**
NET CHANGE IN CASH AND CASH EQUIVALENTS (G=D+E+F)		**51**	**892**
Effect of exchange rate movements on cash and cash equivalents (H)		(9)	12
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (I)	**18**	**1,190**	**1,232**
CASH AND CASH EQUIVALENTS AT END OF YEAR (G+H+I)	**18**	**1,232**	**2,136**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005

in millions of euros	Number of shares	Share capital	Additional paid-in capital	Treasury stock (1)	Retained earnings and other reserves	Deferred taxes recognized in equity	Re-measurement of available-for-sale financial instruments	Effective portion – hedging instruments	Translation adjustments	Total equity (2)
At January 1, 2004	**131,165,349**	**1,049**	**2,220**	**(5)**	**43**	**-**	**-**	**-**	**-**	**3,307**
Increase in share capital upon exercise of options (3)	6,700	-	-	-	-	-	-	-	-	-
Net increase in share capital for the acquisition of Transiciel	211,129	2	5	-	-	-	-	-	-	7
Disposal of treasury stock (209,477 shares) returned to the Company in 2003	-	-	1	5	-	-	-	-	-	6
Translation adjustments	-	-	-	-	-	-	-	-	(11)	(11)
Valuation of stock options (3)	-	-	-	-	4	-	-	-	-	4
Transiciel earn-out payment (4)	-	-	-	-	9	-	-	-	-	9
Loss for the period	-	-	-	-	(534)	-	-	-	-	(534)
At December 31, 2004	**131,383,178**	**1,051**	**2,226**	**-**	**(478)**	**-**	**-**	**-**	**(11)**	**2,788**
Increase in share capital upon exercise of options (3)	198,800	2	3	-	-	-	-	-	-	5
Issue of "OCEANE 2005" convertible/exchangeable bonds (June 16, 2005) (5)	-	-	-	-	40	(14)	-	-	-	26
Purchase of a call on Capgemini shares to neutralize the dilutive impacts of the "OCEANE 2003" convertible/exchangeable bonds issued on June 24, 2003 (6)	-	-	-	-	(16)	6	-	-	-	(10)
Translation adjustments	-	-	-	-	-	-	-	-	29	29
Valuation of stock options (3)	-	-	-	-	11	-	-	-	-	11
Consolidation and elimination of 576,438 shares attributed or attributable to employees of the Capgemini Group (7)	-	-	-	(16)	19	-	-	-	-	3
Elimination of 85,000 treasury shares purchased under the share buyback program (8)	-	-	-	(2)	-	-	-	-	-	(2)
Impact of measuring shares ` in non-consolidated companies at fair value (9)	-	-	-	-	-	-	2	-	-	2
Change in reserves relating to hedging instruments	-	-	-	-	-	-	-	(1)	-	(1)
Transiciel earn-out payment (4)	-	-	-	-	2	-	-	-	-	2
Other changes (10)	-	-	-	-	(2)	-	-	-	-	(2)
Profit for the period	-	-	-	-	141	-	-	-	-	141
At December 31, 2005	**131,581,978**	**1,053**	**2,229**	**(18)**	**(283)**	**(8)**	**2**	**(1)**	**18**	**2,992**

(1) See Note 1.K.
(2) At December 31, 2005, minority interest amounted to €0.1 million.
(3) The method for measuring and recognizing stock options is described in Note 9.A. – "Stock option plans and shares grants", as well as in Note 31.IV.F. "Share-based payment: stock options" concerning the transition to IFRS.
(4) The second tranche of the alternative public exchange offer for Transiciel shares launched by Cap Gemini S.A. on October 20, 2003, contains an earn-out mechanism. Based on 2004 and 2005 earnings, additional purchase consideration was estimated at €11 million at December 31, 2005 (subject to validation by the third-party mediator as provided for by article 1.4.13.10 of the alternative public exchange offer) €2 million higher than the previous year's valuation.
(5) On June 16, 2005, Cap Gemini S.A. issued bonds convertible and/or exchangeable into existing or new Cap Gemini shares ("OCEANE"), due January 1, 2012, for a nominal value of €437 million (see Note 18 – "Net cash and cash equivalents"). The after-tax difference (€26 million) between the nominal value of the bonds and the fair value of the liability component at issue is recognized in equity.
(6) Simultaneously to the above mentioned "OCEANE" issue, the Group decided to neutralize in full the potential dilutive impact of the "OCEANE 2003" convertible bonds issued on June 24, 2003, for a nominal amount of €460 million and due January 1, 2010, via the purchase for €16 million (before tax) of a call option on approximately 9 million Capgemini shares, equal to the number of underlying shares of the "OCEANE 2003" convertible bonds issue. This call option is recorded in equity, net of tax.
(7) As mentioned in Note 9.A. – "Stock option plans and shares grants", and pursuant to the amendment to Interpretation 12 of the Standing Interpretation Committee (SIC 12) issued in November 2004, the Capgemini shares and cash corresponding to the proceeds from the sale of Capgemini shares held in the trusts and bank accounts set up at the time of the May 2000 acquisition of Ernst & Young's consulting business were consolidated as from January 1, 2005. These entities i) initially held a portion of the shares issued and granted to the owners of the Ernst & Young consulting business as consideration for their asset contributions (these Capgemini shares vested on a gradual basis), and ii) subsequently held a portion of the shares returned by former partners of Ernst & Young's consulting business who became employees of the Capgemini Group and who left the Group, in accordance with the agreements relating to the acquisition which provided for their subsequent reallocation to other employees within the country concerned. At December 31, 2005, these entities held a total of 576,438 Capgemini shares and €1.7 million in cash. The expense for the year 2005 concerning shares allocated amounted to €1.7 million.
(8) Within the scope of the share buyback program described in the information memorandum approved by the AMF under reference number 05.238 on April 8, 2005, the 85,000 treasury shares held at December 31, 2005 in connection with the liquidity contract implemented as from September 30, 2005 were deducted from consolidated equity for an amount of €2 million.
(9) The remaining 5% interest held in Zacatii Consulting Inc (formerly Capgemini Japan K.K.) following the Group's August 12, 2005 sale of a stake in this company (see Note 2 – "Changes in Group structure") were reassessed at fair value at December 31, 2005.
(10) A certain number of IFRS adjustments to transactions which took place prior to January 1, 2005 have been recognized in that statement of changes in equity in 2005. These adjustments concern non-material changes in accounting treatment compared to that applied in the IFRS transition financial statements presented Note 31 – "Impact of the transition to IFRS on the 2004 financial statements".

NOTE 1~ACCOUNTING POLICIES

Pursuant to European Commission Regulation No. 1606/2002 of July 19, 2002, the 2005 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), including International Accounting Standards (IASs) and the related interpretations endorsed by the European Union at December 31, 2005 and published in the Official Journal of the European Union.

The Group has elected to apply from January 1, 2004, IAS 32 – "Financial Instruments: Disclosure and Presentation", IAS 39 –"Financial Instruments: Recognition and Measurement", and the amendment to IAS 39 relating to "Cash Flow Hedge Accounting of Forecast Intragroup Transactions".

The Group has not opted for early adoption of certain standards and interpretations issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Union at December 31, 2005.
These include:

- IFRIC 4 – "Determining whether an Arrangement contains a Lease" which will be effective for accounting periods commencing on or after January 1, 2006. The Group is currently analyzing and calculating the estimated impact of IFRIC 4 on the consolidated financial statements.
- The Amendment to IAS 19 – "Employee Benefits", entitled "Actuarial Gains and Losses, Group Plans and Disclosures" which will be effective for accounting periods commencing on or after January 1, 2006. This amendment will principally lead to additional disclosures in the notes to the consolidated financial statements.

The Group has also not opted for early adoption of standards and interpretations issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) but not yet endorsed by the European Union at December 31, 2005. These include IFRS 7 – "Financial Instruments" and the amendment to IAS 1 – "Presentation of Financial Statements" concerning disclosures.

The financial statements for the year ended December 31, 2005 are the Group's first full set of accounts published in accordance with IFRS. They include comparative data consisting of the restated statement of income for the year ended December 31, 2004, the restated balance sheet at December 31, 2004, and the restated opening balance sheet at January 1, 2004 prepared in accordance with IFRS 1 – "First-time adoption of IFRS".

Note 31 – "Impact of the transition to IFRS on the 2004 financial statements" sets out the accounting principles used to restate the opening balance sheet at January 1, 2004 and provides a detailed evaluation of the impacts on the balance sheet captions at January 1, 2004 and December 31, 2004, as well as on the 2004 statement of income.

The consolidated financial statements and related notes for the year ended December 31, 2005 were approved by the Board of Directors on February 22, 2006.

The financial statements for 2004 and 2003 prepared according to French GAAP, as well as the Statutory Auditors' reports are available on pages 48 to 88 of the Group's 2004 Reference Document.

The main accounting policies applied by the Group are as follows:

A) Consolidation methods

The accounts of companies which are directly or indirectly controlled by Cap Gemini S.A. are fully-consolidated. Cap Gemini S.A. is deemed to exercise control over an entity when it has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in companies which Cap Gemini S.A. directly or indirectly controls jointly with a limited number of other shareholders are accounted for by the method of proportional consolidation. This method consists of consolidating the income and expenses, assets and liabilities of jointly-controlled companies, line by line, based on the Group's percentage interest in their capital.

Investments in affiliated companies over whose management Cap Gemini S.A. exercises significant influence, without however exercising full or joint control, are accounted for by the equity method. This method consists of replacing the cost of the shares with an amount corresponding to the Group's equity in the underlying net assets and of recording in the income statement the Group's equity in net income.

Details of the scope of consolidation are provided in Note 30 – "List of consolidated companies by country".

All consolidated and equity-accounted companies prepared their accounts at December 31, 2005 in accordance with the accounting policies and methods applied by the Group.

Intragroup transactions are eliminated on consolidation, as well as intercompany profits.

As mentioned in Note 9.A. – "Stock option plans and shares grants", and in application of the amendment to Interpretation 12 of the Standing Interpretation Committee (SIC 12) issued in November 2004, the Capgemini shares and cash corresponding to the proceeds from the sale of Capgemini shares held in the trusts and bank accounts set up at the time of the May 2000 acquisition of Ernst & Young's consulting business were consolidated as from January 1, 2005.

The Group does not have any special purpose entities.

B) Use of estimates

The preparation of financial statements involves the use of estimates and assumptions which may have an impact on the reported values of assets and liabilities at the period-end or on certain items of income and expense for the period. Estimates are based on economic data which are likely to vary over time and are subject to a degree of uncertainty. They mainly concern revenue recognition on contracts, the recognition of deferred tax assets, asset impairment tests, and current and non-current provisions.

C) Foreign currency translation

The consolidated financial statements presented in this report have been prepared in euros.

The balance sheets of foreign subsidiaries are translated into euros at year-end rates of exchange with the exception of equity accounts, which are kept at their historical values. Statements of income of foreign subsidiaries are translated into euros at the weighted average rates of exchange for the year. However, for certain material transactions, it may be relevant to use a specific rate of exchange. Differences arising from the translation of profit at different rates are directly recognized in equity under "Translation adjustments" and have no impact on profit.

Exchange differences arising on monetary items which form an integral part of the net investment in foreign subsidiaries are recognized in equity, under "Translation adjustments", for their net-of-tax amount.

Exchange differences on receivables and payables denominated in a foreign currency are recorded as operating income or expense or financial income or expense, depending on the type of transaction concerned.

The exchange rates used to translate the financial statements of the Group's main subsidiaries into euros are as follows:

	Average exchange rates			Rates at December 31		
	2003	2004	2005	2003	2004	2005
US dollar	0.88582	0.80512	0.80461	0.79176	0.73416	0.84767
Pound sterling	1.44597	1.47413	1.46235	1.41884	1.41834	1.45921
Canadian dollar	0.63237	0.61874	0.66459	0.61599	0.60916	0.72860
Swedish krona	0.10961	0.10960	0.10779	0.11013	0.11086	0.10651
Australian dollar	0.57592	0.59241	0.61292	0.59517	0.57277	0.62077
Norwegian krona	0.12519	0.11950	0.12485	0.11885	0.12141	0.12523
Indian rupee	0.01901	0.01777	0.01823	0.01745	0.01684	0.01867
Polish zloty	0.22770	0.22119	0.24873	0.21268	0.24483	0.25907
Japanese yen (100)	0.76413	0.74426	0.73081	0.74105	0.71607	0.71994

D) Statement of income

Income and expenses are analyzed in the consolidated statement of income by function, reflecting the specific nature of the Group's business, as follows: cost of services rendered (corresponding to the costs incurred for the execution of client projects), selling expenses and general and administrative expenses. These elements do not include the charge resulting from the deferral of the fair value of shares and stock options granted to employees.

These three captions together represent ordinary operating expenses which are deducted from revenues to obtain operating margin. This is the main Group business performance indicator.

Certain reclassifications have been made compared with the amounts originally reported for 2004 concerning cost of services rendered, selling expenses, and general and administrative expenses, to comply with the classification principles applied in 2005. In order to provide more complete information, these operating expenses are analyzed by nature in Note 4 – "Operating expenses by nature".

Operating profit is obtained by deducting other operating income and expense from operating margin. These include the charge resulting from the deferral of the fair value of shares and stock options granted to employees and non-recurring revenues or expenses, such as provisions for impairment of goodwill, capital gains or losses on disposals of consolidated companies or businesses, restructuring costs incurred under a detailed formal plan approved by the Board of Directors, the main features of which have been announced.

Profit for the period is subsequently obtained by taking into account the following items:

- Finance cost, net which include interest on borrowings calculated based on the effective interest rate, less income from cash and cash equivalents.
- Other financial income and expense which primarily corresponds to the impact of measuring financial instruments at fair value, disposal gains and losses and impairment of investments in non-consolidated companies, net interest costs on defined benefit plans, exchange gains and losses when the underlying are included in the net cash and cash equivalents, and other financial income and expense on miscellaneous financial assets and liabilities calculated using the effective interest method.
- Current and deferred income tax expense.

E) Earnings per share

Earnings per share are measured as follows:

- Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares. The weighted average number of ordinary shares is adjusted by the number of ordinary shares bought back or issued during the period and is calculated by reference to the date of issue of shares during the year.

- Diluted earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding, excluding treasury shares, both items being adjusted, if need be, for the effects of all dilutive potential ordinary shares corresponding to (i) options granted to employees of the Group (see Note 9.A. – "Stock option plans and shares grants"), (ii) bonds convertible and/or exchangeable into existing or new Capgemini shares and (iii) equity warrants (see Note 26 – "Commitments received from and given to third parties").

F) Revenue recognition and recognition of the cost of services rendered

The method for recognizing revenues and costs depends on the nature of the services rendered:

Time and materials contracts:

Revenues and costs relating to time and materials contracts are recognized as services are rendered.

Long-term fixed price contracts:

Revenues from long-term fixed price contracts, including systems development and integration contracts, are recognized under the "percentage-of-completion" method.
Costs related to long-term fixed price contracts are recognized as they are incurred.
When the projected cost of the contract exceeds contractual revenues, a provision is made for forecast losses on completion.

Outsourcing contracts:

Revenues from outsourcing agreements are recognized over the life of the contract as the services are rendered. When the services are made up of various different services which are not separately identifiable, the related revenue is recognized on a straight line basis over the life of the contract.

The related costs are recognized as they are incurred. However, a portion of costs incurred in the initial phase of outsourcing contracts (transition and/or transformation costs) may be deferred when they relate directly to the specific contract, relate to future activity on the contract and/or will generate future economic benefits, and are recoverable. Any repayment is recorded as a deduction of the costs incurred.

Revenues receivable from these contracts are recognized in assets under "Trade accounts receivable" when invoiced to customers, and under "Accrued income" when they are not yet invoiced. Deferred costs relating to outsourcing contracts are recorded under "work-in-progress".

Advances received from customers are recognized in liabilities under "Accounts and notes payable".

G) Intangible assets

Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition, which is generally the date on which control is acquired. Goodwill is not amortized.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is greater than the acquisition cost, the excess is recognized immediately in the statement of income.

The cost of a business combination is allocated by recognizing the identifiable assets acquired and liabilities and contingent liabilities assumed at their fair values at the acquisition date, except for non-current assets classified as held for sale, which are recognized at fair value less costs to sell.

Other intangible assets

Computer software and user rights acquired on an unrestricted ownership basis, as well as software developed for internal use, which have a positive, lasting and quantifiable effect on future results, are capitalized and amortized over three to five years.
The capitalized cost of software developed for internal use represents costs that directly relate to its production, i.e. the salary costs of staff that developed the software concerned, as well as a directly attributable portion of production overheads.

H) Property, plant and equipment

The net value of property, plant and equipment corresponds to the historical cost of these items, less accumulated depreciation and impairment. No items of property, plant and equipment have been revalued. Buildings owned by the Group are measured based on the components method.

The cost of property, plant and equipment does not include any borrowing costs.

Subsequent expenditure (replacement and compliance costs of property, plant and equipment) are capitalized and depreciated over the remaining useful life of the asset concerned.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned. It is calculated based on the acquisition cost, less the residual value.
Property, plant and equipment are depreciated over the estimated useful lives of the assets concerned:

Buildings	20 to 40 years
Fixtures and fittings	10 years
Computer equipment	3 to 5 years
Office furniture and equipment	5 to 10 years
Vehicles	5 years
Other equipment	5 years

Residual values and estimated useful lives are reviewed at each period-end.

The sale of property, plant and equipment gives rise to disposal gains and losses corresponding to the difference between the selling price and carrying amount of the asset concerned.

I) Impairment of assets

Assets are tested for impairment when there is any indication at the period-end that their recoverable amount may be less than their carrying amount. Goodwill is tested for impairment at least once a year.
The impairment test consists of assessing the recoverable amount of each asset or group of assets whose continued use generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. The assessment is performed using the discounted cash flows method and consists of assessing the recoverable amount of each Cash Generating Unit (CGU) within the Group, corresponding to a subsidiary or a geographic area where the Group has operations. Discounted cash flows are determined based on various parameters used in the budget procedure and on five-year projections, including growth and profitability rates considered reasonable. A standard discount rate and a standard long-term growth rate for the period beyond 5 years are applied to all valuations of CGUs. These rates are determined based on an analysis of the business segment in which the Group operates. When the recoverable amount of a CGU is less than its carrying amount, the impairment loss is deducted from goodwill to the extent possible and charged to operating profit under "Other operating expense".

J) Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee. When a fixed asset is held under a finance lease, it is recognized as an asset at the lower of the fair value of the leased asset and the present value of future minimum lease payments, with the related obligation recorded as a liability. The asset is depreciated over its useful life in accordance with Group policy, the obligation is amortized over the lease term and deferred tax are recognized in accordance with accounting policy describe in Note 1.L "deferred tax".

K) Treasury stock

Cap Gemini S.A. shares held by the Company or any consolidated companies are shown as a deduction from equity, at cost. The proceeds from sales of treasury stock are allocated directly to equity, net of the tax effect, so that the gain or loss on the sale has no impact on profit for the period.

L) Deffered taxes

Deferred taxes are recorded in the statement of income and balance sheet to take into account temporary differences between the carrying amounts of certain assets and liabilities and their tax basis.

Deferred taxes are accounted for using the balance sheet liability method and are measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Adjustments to deferred taxes for changes in tax rates (or tax laws) previously recognized in the statement of income or in equity are recognized in the statement of income or in equity, respectively, for the period in which these changes become effective.

Deferred tax is recognized in profit or loss for the period when the related transaction or other event is recognized in profit or loss, except to the extent that the tax arises from a transaction or event which is charged or credited directly to equity, in which case the related deferred tax is also recognized directly in equity.

Deferred tax assets are recognized when it is probable that taxable profits will be available against which the deferred tax asset can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date. This amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed when it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are offset if, and only if, the subsidiaries have a legally enforceable right to set off current tax assets against current tax liabilities, and when the deferred taxes relate to income taxes levied by the same taxation authority at the same time.

Deferred tax assets and liabilities are not discounted.

M) Financial instruments

Financial instruments consist of:

- financial assets, which primarily include long-term investments, non current receivables, accounts and notes receivable, other receivables and short-term investments;
- financial liabilities, which include long-term financial debt, other non current liabilities, short-term financial debt and bank overdrafts, accounts and notes payable and other payables.

Financial instruments (assets and liabilities) are first booked in the balance sheet at their initial fair value.

The subsequent measurement of financial assets and liabilities, depending on their classification in the balance sheet, is based either on their fair value or amortized cost. Financial assets measured at amortized cost are subject to tests to assess their recoverable amount as soon as there are indicators of a loss in value and at least at each closing date. The loss in value is recognized in the statement of income.

The amortized cost corresponds to the initial carrying amount (net of transaction costs), plus/minus interest expenses calculated using the effective interest rate, and less cash outflows (interest payments and reimbursement of principal). Accrued interests (income and expense) are not recorded on the basis of the financial instrument's nominal interest rate, but on its effective rate (actuarial rate, including costs, commissions and any redemption premium).

Financial instruments (assets and liabilities) are derecognized when the related risks and rewards of ownership have been transferred, and when the Group no longer exercises control over the instruments.

a) Recognition and measurement of financial assets

- *Financial assets and non current receivables*

Financial assets mainly consist of shares in non-consolidated companies.
The Group holds shares in certain companies over whose management it does not exercise significant influence or control. These shares mainly represent long-term investments supporting strategic alliances with the companies concerned. The investments in non-consolidated companies are analyzed as available-for-sale financial assets and are thus recognized at fair value. For listed shares, fair value corresponds to the share price. If the fair value cannot be determined reliably, the shares are recognized at cost.
In the event of an objective indicator of a loss in the value of the financial assets (in particular, a significant and lasting decrease in the assets value), an impairment loss is recognized in the income statement.
Any increase in the fair value of shares in non-consolidated companies after initial recognition is recorded through equity and subsequently reclassified under financial income and expense on disposal of the shares concerned or where there is an objective indication that the value of the shares may be impaired (see above).

Financial assets also consist of “aides à la construction” (building aid program) loans, security deposits and guarantees and other long-term loans.
Non current receivables mainly include receivables due from the French Treasury resulting from an election to carry back tax losses, receivables which are expected to be settled beyond the normal operating cycle of the business to which they relate, and non-current derivative instruments.

Financial assets and non current receivables are recognized at amortized cost, with the exception of:

- shares in non-consolidated companies
- non-current derivative instruments recognized at their fair value (see below).

Accounts and notes receivable
Accounts and notes receivable mainly consist of trade receivables and correspond to the fair value of the expected consideration to be received. Where payment is deferred beyond the usual periods applied by the Group, the future payments concerned are discounted.

Short-term investments
Short-term investments are recognized in the balance sheet at their fair value at the year end. For listed securities, fair value corresponds to market price at the balance sheet date. Gains and losses from changes in fair value are recognized in the statement of income under "Income from cash and cash equivalents". Short-term investments mainly consist of mutual fund units and negotiable debt securities that can be rapidly converted into known amounts of cash that are not exposed to any material risk of impairment in value in the event of a change in interest rates.

Derivative instruments
Derivative instruments are initially recognized at fair value. Except as described below concerning hedging instruments, changes in the fair value of derivative instruments, estimated based on market rates or data provided by banks, are recognized in the statement of income at the balance sheet date.

Derivative instruments that qualify for hedge accounting are classified as fair value hedges or cash flow hedges in accordance with the criteria set out in IAS 39 "Financial Instruments: Recognition and Measurement".

The accounting treatment applied to these instruments is as follows:
- For fair value hedges of financial instruments recognized in the balance sheet, the change in fair value recognized in profit is offset by a symmetrical change in the fair value of the hedged instrument, to the extent that the hedge is effective.
- For cash flow hedges of future transactions, (i) the effective portion of the change in fair value of the derivative instrument is recorded directly in equity and taken to income when the hedged item affects profit, and (ii) the ineffective portion is recognized directly in income.

The effectiveness of a hedge is demonstrated by means of prospective retrospective tests performed at each balance sheet date. These tests are designed to validate whether the hedge qualifies for hedge accounting, by demonstrating that the hedging relationship is effective. The 80% to 125% range set in standard for retrospective tests is also used for the prospective tests.

b) Recognition and measurement of financial liabilities
Long-term financial debt
Long-term financial debt mainly consists of loans granted by banks, bonds and obligations under finance leases.

Loans granted by banks and bonds are initially recognized at fair value and are subsequently measured at amortized cost at each period-end up to maturity.
Fair value determined for the purpose of initial recognition corresponds to the present value of future cash outflows discounted at the market interest rate, minus transaction costs and any issue premiums.

Regarding convertible bonds, the difference between the nominal amount of convertible bonds and the fair value of the liability component as calculated above is recorded under equity.

In each subsequent period, the interest expense recorded in the statement of income corresponds to the theoretical interest charge calculated by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is calculated when the loan is taken out and corresponds to the rate that exactly discounts estimated future cash payments through the expected life of the loan to the initial fair value of the liability component of the loan.
The difference between interest expense thus calculated and the nominal amount of interest is recorded in gross borrowings costs, with the corresponding adjustment posted to liabilities.

Other financial liabilities
With the exception of derivative instruments, other financial liabilities are measured at amortized cost, calculated in accordance with the principles set out above.
Derivative instruments are measured at fair value in accordance with the principles set out above - see a) Recognition and measurement of financial assets.

N) Net cash and cash equivalents
Net cash and cash equivalents comprise cash and cash equivalents less short-term and long-term financial debt. Cash and cash equivalents correspond to short-term investments and cash, less bank overdrafts and derivative instruments when the underlying elements to which these relate are included in net cash and cash equivalents.

O) Pensions and other post-retirement benefits
Defined contribution plans are funded by contributions paid by employees and Group companies to the organizations responsible for managing the plans. The Group's obligations are limited to the payment of such contributions which are recorded in the statement of income as incurred.

Defined benefit plans consist of either:
- Unfunded plans, where benefits are paid directly by the Group. The related obligation is covered by a provision corresponding to the discounted present value of future benefit payments. Estimates are based on regularly reviewed internal and external parameters;
- Funded plans, where the benefit obligation is covered by external funds. Group contributions to these external funds are made in accordance with the specific regulations in force in each country.

Obligations under these plans are generally determined by independent actuaries using the projected unit credit method. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each of these units is valued separately in order to obtain the amount of the Groups' final commitment.

The resulting obligation is discounted by reference to market yields on high quality corporate bonds, of a currency and term consistent with the currency and term of the post-retirement benefit obligation.

For funded plans, only the deficit is covered by a provision.

Current and past service costs – corresponding to an increase in the obligation – are respectively recorded in operating expense as incurred and over the residual vesting period of the rights concerned.

The impact during the year of discounting pension benefit obligations, as well as any changes in the expected return on plan assets, is recorded under "other financial income and expense".

Actuarial gains and losses correspond to the effect of changes in actuarial assumptions and experience adjustments (i.e. differences between previous actuarial assumptions and actual data) on the amount of the defined benefit obligation or the value of plan assets. They are recognized in operating profit based on corridor method, which consists of recognizing at each period-end over the average remaining service lives of plan participants, the portion of net cumulative unrecognized actuarial gains and losses that exceeds the greater of: (i) 10% of the present value of the defined benefit obligation at that date; and (ii) 10% of the fair value of any plan assets at that date.

P) Stock options granted to employees

Stock options may be granted to a certain number of Group employees entitling them to purchase Capgemini shares issued for this purpose within five or six years at an exercise price set when the options are granted.

Stock options are measured at fair value, corresponding to the value of the benefit granted to the employee on the grant date. It is recognized in "Other operating expense" in the statement of income on a straight-line basis over the option vesting period, with a corresponding adjustment to equity.

The fair value of stock options is calculated using the Black and Scholes option pricing model which incorporates assumptions concerning the option exercise price and the vesting period, the share price at the date of grant, implicit share price volatility, and the risk-free interest rate. The expense recognized also takes into account staff attrition rates for eligible employee categories.

In accordance with IFRS 1 – "First-time Adoption of International Financial Reporting Standards", only stock options granted after November 7, 2002 with a vesting date after January 1, 2005, are measured and recognized as "other operating expense". Recognition and measurement of stock options granted prior to November 7, 2002 is not required.

Q) Provisions

A provision is recognized in the balance sheet when the Group has a present obligation as a result of an event prior to the closing date, and when an outflow of resources embodying economic benefits that can be measured in a reliable manner is probable. Provisions are discounted when the impact of the time value of money is material.

R) Consolidated statement of cash flows

The consolidated statement of cash flows analyzes cash flows from operating, investing and financing activities.

S) Segment information

The Group manages its operations based on geographic areas, business segments and its clients' business lines. Only the geographic entities constitute profit centers for which detailed performance measurements exist. The primary reporting segment corresponds to the geographic areas housing the Group's operations. The secondary reporting segment corresponds to the Groups' business segments.
Costs relating to operations and incurred at Group level on behalf of geographic areas and business lines are attributed to the segments concerned either directly or on the basis of reasonable assumptions.
Items that have not been allocated correspond to headquarters' expenses. Inter-segment transfer prices are determined based on competitive market prices.

T) Exchange gains and losses on intragroup transactions

The incorporation of the results and financial position of a foreign subsidiary with those of the Group follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary. However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, such an exchange difference continues to be recognized in profit or loss or it is classified in equity if the underlying forms an integral part of the net investment in the foreign operation.

U) Non-current assets held for sale and discontinued operations

Non-current assets that meet the criteria to be classified as held for sale, and liabilities relating to discontinued operations are presented separately on the face of the balance sheet if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.
These assets and liabilities are measured at the lower of carrying amount and fair value less costs to sell.

NOTE 2~**CHANGES IN GROUP STRUCTURE**

A) 2004

The main changes in the scope of consolidation during 2004 were as follows:

- On April 23, 2004, further to the reopened alternative public exchange offer and the public buyout offer followed by a compulsory buyout, the Group's percentage interest in Transiciel was raised to 100%.

- In Switzerland, Capgemini Schweiz AG took over Logimatik, the IT services subsidiary of the Georg Fischer group, on January 1, 2004 as part of an outsourcing contract. At December 31, 2004, Logimatik was 100% owned and was fully consolidated.

- In Germany, the Group took over the IT services subsidiaries of the Drägerwerk AG group on March 1, 2004 as part of an outsourcing contract. At December 31, 2004, these 100%-owned companies were fully consolidated.

- In the United States, the Group formed Capgemini Energy LP as part of a ten-year service contract, effective July 1, 2004, with the American electricity company TXU Energy Company LLC. At December 31, 2004, Capgemini Energy LP, which is 97.1% owned by the Group, was fully consolidated.

- In December 2004, the Group sold its Swedish and Norwegian infrastructure maintenance activities to the EDB group.

B) 2005

The main changes in the scope of consolidation during 2005 were as follows:

- At the end of 2004, a reorganization of French operations led to the formation of seven new entities (Capgemini Consulting, Capgemini Finance et Services, Capgemini Industrie et Distribution, Capgemini Est, Capgemini Ouest, Capgemini Sud and Capgemini Outsourcing Services), via a succession of asset-for-share exchanges that took place early in 2005.
  Furthermore, Capgemini OS Electric, formerly Cap Sogeti France S.A.S., was utilized for the purpose of the Group's contract with Schneider. This company is wholly-owned by the Group and is fully consolidated.

- In January 2005, the activities of Sogeti/Transiciel (now known as Sogeti) were reorganized and some new entities were created as a result of mergers and asset-for-share exchanges.

- In January 2005, the Group sold its 25.22% stake in IS Energy for €21 million, further to the end-2004 exercise by E.ON of the call option it held in relation to IS Energy's shares.

- On June 16, 2005, the Group sold its US healthcare business to the Accenture Group for €143 million.

- On August 12, 2005, the Group entered into an alliance with the Japanese Group N.T.T. Data Corporation and sold its 95% stake in Capgemini Japan K.K. for €30 million.

- On December 22, 2005 the Group converted into preference shares half of the ordinary shares it held in the UK-based company, Working Links (Employment) Limited, representing 16.5% of interest. This company – which was previously proportionally consolidated – is now recorded under shares in non-consolidated companies.

NOTE 3~**REVENUES**

Revenues break down as follows by geographic area :

in millions of euros	2004		2005	
	Amount	**%**	**Amount**	**%**
North America	1,351	22	1,353	20
United Kingdom and Ireland	1,288	20	1,738	25
Nordic countries	391	6	415	6
Benelux countries	857	14	956	14
Germany and Central Europe	477	8	443	6
France	1,479	24	1,666	24
Southern Europe	299	5	310	4
Asia-Pacific	93	1	73	1
TOTAL	**6,235**	**100**	**6,954**	**100**

The year-on-year increase in revenues in 2005 is 11.5% on a current Group structure and exchange rate basis and 15.0% on a like-for-like basis (based on constant exchange rates and Group structure).

NOTE 4~**OPERATING EXPENSES BY NATURE**

The analysis of expenses by nature is as follows:

in millions of euros	2004	2005
Personnel costs	4,001	4,175
Travel expenses	309	309
	4,310	**4,484**
Purchases and sub-contracting	1,437	1,808
Rent and local taxes	282	240
Depreciation, amortization and provisions	230	197
TOTAL	**6,259**	**6,729**

Foreign currency gains and losses relating to operating items amounted to a net loss of €6 million in 2004 and a net gain of €0.3 million in 2005.

Personnel costs break down as follows:

in millions of euros	2004	2005
Wages and salaries	3,171	3,283
Payroll taxes	747	803
Pension costs related to defined benefit plans (1)	83	86
Other post-retirement benefit expenses	-	3
TOTAL	**4,001**	**4,175**

(1) See Note 20 – "Provisions for pensions and other post-retirement benefits".

NOTE 5~**OTHER OPERATING INCOME AND EXPENSE**

A) Other operating income

in millions of euros	2004	2005
Capital gains or losses on the sale of consolidated companies or businesses	6	166
Other	-	9
OTHER OPERATING INCOME	**6**	**175**

Other operating income mainly includes the following items:

- **Capital gains or losses on the sale of consolidated companies or businesses :**

- In December 2004, the Group sold its Swedish and Norwegian infrastructure maintenance activities to the EDB group for €18 million, generating a €6 million gain.
- In January 2005, the Group sold its 25.22% stake in IS Energy in Germany for €21 million, further to the end-2004 exercise by E.ON of the call option it held in relation to IS Energy's shares. This transaction generated a capital gain of €15 million.
- On June 16, 2005, the Group sold its US healthcare business to the Accenture Group for €143 million, generating a capital gain of €123 million.
- In August 2005, the Group sold 95% of its interest in Capgemini Japan K.K. to the Japanese group NTT Data Corporation for €30 million, generating a capital gain of €28 million.

- **Other income :**

- In April 2005, the Group sold the finance lease on the property at Béhoust, which housed the Group University until the opening in 2003 of the new university at the "Les Fontaines" site located in Gouvieux. This transaction generated a net capital gain of €5 million.

B) Other operating expense

in millions of euros	2004	2005
Restructuring costs	(240)	(164)
Impairment of goodwill	(19)	(6)
Expenses relating to stock options and shares grants	(4)	(12)
Other	-	(4)
OTHER OPERATING EXPENSE	**(263)**	**(186)**

Other operating expense mainly includes the following items:

In 2004

- **Restructuring costs**

- €153 million in costs directly related to workforce reduction measures involving 2,335 employees, mainly in France, the Benelux countries, the United Kingdom, Germany and Central Europe, and Italy.
- €87 million in other costs, mainly relating to measures taken to streamline the Group's real estate assets. These costs concerned North America, the United Kingdom, the Nordic countries, France, the Benelux countries, and Germany and Central Europe.

- **Impairment of goodwill**

In 2004, an impairment loss of €7 million was recorded relating to residual goodwill in Italy. Impairment losses relating to goodwill were also recognized in the following regions: €8 million for the Benelux countries; €2 million for the United Kingdom; and €2 million for Central Europe.

In 2005

- **Restructuring costs**

- €83 million in costs directly related to workforce reduction measures, mainly in North America (€31 million), France (€12 million), the Nordic countries (€9 million), the Benelux countries (€8 million), the United Kingdom (€6 million) and Italy (€2 million).
- €66 million in other costs, all of which relate to measures taken to streamline the Group's real estate assets in North America (€56 million), France (€3 million) and the United Kingdom (€2.5 million).
- €15 million in costs related to the accelerated amortization of software in North America.

- **Expenses relating to stock options and shares grants**

These expenses are determined as explained in Note 9.A. – "Stock option plans and shares grants".

- **Impairment of goodwill**

In 2005, a €4 million impairment loss was recognized on residual goodwill in the Netherlands. An impairment loss of €2 million was also recognized on goodwill in the United Kingdom.

NOTE 6~FINANCE COSTS, NET

Finance cost, net can be analyzed as follows:

in millions of euros	2004	2005
Gross borrowings costs	(46)	(57)
Income from cash and cash equivalents	18	33
FINANCE COSTS, NET	**(28)**	**(24)**

• **Gross borrowings costs**

Gross borrowings costs can be broken down as follows:

in millions of euros	2004	2005
Interest on convertible bonds	(20)	(30)
Other interest expenses	(26)	(27)
TOTAL	**(46)**	**(57)**

The change in gross borrowings costs in 2005 is attributable to the interest expense on the €10 million related to the "OCEANE 2005" convertible bonds issued on June 16, 2005 (see Note 18 – "Net cash and cash equivalents").

Other interest expenses items mainly correspond to:
- €11 million in notional interest related to finance leases (mainly concerning the United Kingdom, the Netherlands and Canada),
  - €4 million in notional interest related to the recognition (at amortized cost) of a financial debt following the reinstatement in the balance sheet of the carry back tax credits sold in 2003 and 2004. The recognition of a financial expense is offset by notional income related to the carry back tax credits and recorded in operating income (see Note 31.IV.E – "Taxes")
- €5 million in notional interest related to the recognition in financial debt of the present value of the put option held by the TXU group (see Note 31.IV.I – "Put Options on Minority Interests")

• **Income from cash and cash equivalents**

This mainly consists of income on investments.

NOTE 7~OTHER FINANCIAL INCOME AND EXPENSE, NET

Other financial income and expense, net consist of:

in millions of euros	2004	2005
Measurement of financial instruments at fair value	3	2
Gain on disposal of investments in non-consolidated companies	18	3
Exchange gains	2	2
Other	4	2
Total other financial income	**27**	**9**
Measurement of financial instruments at fair value	(3)	(2)
Impairment of investments in non-consolidated companies	-	(3)
Net interest cost on defined benefit plans	(9)	(8)
Expenses related to measurement of financial liabilities in accordance with the amortized cost method (1)	(5)	(4)
Exchange losses	(4)	(2)
Other	(5)	(4)
Total other financial expenses	**(26)**	**(23)**
Total other financial income and expense, net	**1**	**(14)**

(1) This item concerns financial liabilities which are not included in net cash and cash equivalents (see Note 1.N. – "Net cash and cash equivalents").

The change in other financial income and expense, net between 2004 and 2005 is primarily due to the €18 million net gain on the sale for €70 million of the Group's non-consolidated interest in Vertex that positively impacted 2004.

NOTE 8~**INCOME TAX EXPENSE**

Income tax expense can be analyzed as follows:

in millions of euros	2004	2005
Current income taxes	11	(34)
Deferred income taxes	(237)	(1)
TOTAL	**(226)**	**(35)**

Current income tax expense for 2005 mainly comprises:

- €21 million in income taxes on profits, especially relating to the Netherlands, Germany and Central Europe, and India.
- €11 million in taxes not based on taxable income mainly related to North America and Italy.

Deferred income tax expense for 2005 primarily corresponds to:

- €38 million related to the utilization of deferred tax assets on tax loss carry-forwards previously recognized due to taxable net income of the period. Of this amount, €33 million concerned the utilization of tax losses of the French tax group relief.
- €4 million related to the recognition of net deferred tax assets on temporary differences, mainly concerning Canada.
- €36 million related to the reassessment of deferred tax assets recognized in France further to the reorganization of the Group's North American operations (see Note 13 – "Deferred taxes").

In 2005, the Group's average effective rate of income tax was 19.9% of pre-tax profit. The Capgemini Group operates in countries with different tax regimes and the effective rate of income tax therefore varies from one year to another, based on changes in each country's contribution to consolidated profit. The effective rate of income tax is also significantly affected by changes in deferred tax assets recognized in relation to tax loss carry-forwards available to the Group.

The difference between the French standard rate of income tax and the effective tax rate of the Group can be analyzed as follows:

in millions of euros	2004	2005
STANDARD TAX RATE IN FRANCE (%)	**35.4**	**34.9**
Tax (expense)/income at the standard rate	**109**	**(61)**
Impact of:		
Deferred tax assets unrecognized or depreciated on tax loss carry-forwards and temporary differences	(117)	(16)
Impact of reassessment of deferred taxes related to the Ernst & Young acquisition	(226)	-
Impact of reassessment of deferred taxes recognized in France as the result of the reorganization of North American operations	36	36
Recognition of deferred tax assets on tax loss carry-forwards previously depreciated	-	10
Utilization of tax loss carry-forwards previously depreciated	-	4
Difference in tax rates between countries	3	1
Permanent differences and other items	(31)	(9)
Tax (expense)/income at the effective rate	**(226)**	**(35)**
EFFECTIVE RATE OF INCOME TAX (%)	**(73.4)**	**19.9**

In 2005, the Group's effective tax rate was principally due to the combined effect of:

- Unrecognized deferred tax assets totalling €11 million, mainly relating to North America, Central Europe, Italy and Asia-Pacific and the depreciation of deferred tax assets in France in the amount of €5 million, arising from the consolidation of the Transiciel group and the reorganization of the Local Professional Services business.
- The €36 million reassessment impact of deferred tax assets recognized in France in accordance with the procedures described in Note 13 – "Deferred taxes".
- The recognition of deferred tax assets on tax loss carry-forwards arisen prior to January 1, 2005, concerning Germany (€7 million) and Norway (€3 million).
- The utilization of previously depreciated tax loss carry-forwards relating to taxable profit for 2005, primarily concerning the United Kingdom (€4 million).
- Permanent differences and other items including:
  - €11 million in taxes not based on taxable income, of which €7 million related to North America and Italy,
  - €2 million in permanent differences and other items, mainly concerning Central Europe and France.

Deferred tax liabilities relating to the "equity" component of the "OCEANE 2005" convertible bonds issue of June 16, 2005, calculated in accordance with the method described in footnote 5 of the consolidated statements of changes in equity, were recorded through equity. In addition, the deferred tax assets relating to the purchase of a call option aimed at neutralizing the dilutive impact of the "OCEANE 2003" convertible bonds issued on June 24, 2003, were also recorded through equity (see footnote 6 of the consolidated statements of changes in equity).

NOTE 9~SHAREHOLDERS' EQUITY

A) Stock option plans and shares grants

At the May 24, 1996, May 23, 2000 and May 12, 2005 Annual Shareholders' Meetings, the Directoire and the Board of Directors, respectively, were given a five-year authorization in respect of the May 24, 1996 and May 23, 2000 plans, and an authorization period of 38 months in respect of the May 12, 2005 plan, to grant stock options to a certain number of Group employees on one or several occasions.

The main features of these plans and their bases of calculation are set out in the table below:

	1996 Plan	2000 Plan		2005 Plan	Total
Date of Shareholders' Meeting	May 24, 1996	May 23, 2000		May 12, 2005	
Maximum number of shares to be issued on exercise of options	6,000,000	12,000,000		6,000,000	
Date options first granted under the plan	July 1, 1996	September 1, 2000	October 1, 2001	October 1, 2005	
Deadline for exercising stock options after their grant date (based on progressive tranches)	6 years	6 years	5 years	5 years	
Exercise price as a % of the average share price over the twenty stock market trading days preceding the grant date	80%	80%	100%	100%	
Exercise price (per share and in euros) of the various stock option grants:					
High	114.00	139.00	21.00	30.00	
Low	178.00	161.00	60.00	30.00	
Maximum number of shares to be issued on exercise of outstanding options at December 31, 2004	1,411,950	10,877,200		-	12,289,150
Number of new stock options granted during the year	Plan expired	1,623,000		1,915,500	3,538,500
Number of options forfeited or cancelled during the year	852,950	1,674,100		-	2,527,050
Number of options exercised at December 31, 2005	-	198,800 (1)		-	198,800
Maximum number of shares to be issued on exercise of outstanding options at December 31, 2005	559,000 (2)	10,627,300 (3)		1,915,500 (4)	13,101,800
Residual weighted average life (in years)	0.65	2.57		4.75	

(1) At December 31, 2005, 170,000 stock options granted at a price of €24, and 28,800 stock options granted at a price of €21, had been exercised.
(2) Representing 293,000 shares purchased at a price of €161 and 266,000 shares purchased at a price of €144.
(3) Representing 776,100 shares purchased at a price of €161; 524,500 shares at €139; 1,770,500 shares at €60; 1,447,600 shares at €24; 1,020,000 shares at €40; 371,000 shares at €31; 3,255,600 shares at €21 and 1,462,000 shares at €27.
(4) Representing 1,915,500 shares purchased at a price of €30.

The Group has no contractual or implicit obligations to purchase or settle the options in cash.

In the event of a notice of authorization of a tender offer or public exchange offer for some or all of the Company's shares published by Euronext, option holders would be entitled, if they so wish, to exercise all of their options immediately - or all of their remaining unexercised options.

Fair value of options granted and impact on the financial statements

In accordance with IFRS 1 – "First-time Adoption of International Financial Reporting Standards", only stock options granted after November 7, 2002 with a vesting date after January 1, 2005, are measured and recognized as other operating expenses. Recognition and measurement of stock options granted prior to November 7, 2002 is not required, thus they are not measured and recognized.

Summary	Plan no. 5 (5-year authorization)				Plan no. 6 (38-month authorization)
Dates of the stock option grants impacted by restatements in accordance with IFRS 2	October 1, 2003	April 1, 2004	October 1, 2004	April 1, 2005	October 1, 2005
Number of stock options initially granted	1,406,000	566,000	3,634,500	1,623,000	1,915,500
Exercise price (per share and in euros) of the various stock option grants	40	31	21	27	30
Share price at the grant date	35.88	31.19	19.09	27.06	32.59
Number of shares subscribed at December 31, 2005	-	-	28,800	-	-
Principal market conditions at the grant date:					
Volatility	*37-38%*	*38.1-38.8%*	*37.5-38.5%*	*32.4-33.8%*	*27.4-29.4%*
Average length of the option exercise period (years)	*3.5-4.25*	*3.5-4.25*	*3-4.25*	*3-4.25*	*3-4.25*
Risk-free interest rate	*2.7-3.1%*	*2.8-3%*	*3-3.3%*	*2.2-2.9%*	*2.3-2.7%*
Expected dividend rate	*1%*	*1%*	*1%*	*1%*	*1%*
Off-market conditions:					
Employee presence within the Group at the exercise date	*yes*	*yes*	*yes*	*yes*	*yes*
Other	*no*	*yes (1)*	*no*	*no*	*no*
Pricing model used to calculate stock option fair values	Black & Scholes model				
Range of fair values in euros	8.7-10.3	9.2-10.3	4.5-5.7	6.2-7.8	7.6-9.4
Maximum number of shares to be issued on exercise of outstanding options at December 31, 2005	1,020,000	371,000	3,255,600	1,462,000	1,915,500

(1) Certain Transiciel employees were granted stock options that were subject to exercise conditions (based on the Sogeti/Transiciel entity attaining a target adjusted gross operating profit) set out in a prospectus which was approved by the *Commission des Opérations de Bourse* under reference no. 03-935 on October 29, 2003.

Based on the calculation parameters used to determine fair value under the Black & Scholes option pricing method (see Note 1.P – Stock options granted to employees), the expense to be recorded between 2006 and 2010 with respect to the five option grants falling within the scope of application of IFRS 2 totals €20.3 million. The expense recorded in 2005 in "other operating expense" amounts to €10.5 million.

Agreements signed on the May 2000 acquisition of Ernst & Young's consulting business

These agreements included an employee-retention scheme applicable over a maximum five-year period for the key employees of Ernst & Young's consulting business who have joined the Group. This scheme was based on the gradual acquisition of ownership of shares granted to the sellers of the Ernst & Young consulting business. If a person covered by this scheme left the Group he or she could be required to return a portion of the shares received in May 2000. The agreements also provided that ownership of a portion of the shares thus returned would automatically be transferred to Cap Gemini S.A. (to be subsequently cancelled or sold) with the balance to be held within the local entities to which employees are attached (trusts and bank accounts) as part of the employee-retention scheme in order to be subsequently reallocated to other employees in the countries concerned. As certain shares were sold, in accordance with the provisions of the agreements, prior to their ownership fully vesting in the beneficiaries concerned and which have left the Group, cash amounts were also paid into these entities. These cash amounts corresponded to the disposal gain on the shares returned, which could, where appropriate, be granted to employees in the countries concerned in the form of exceptional remuneration.

The reallocations of Capgemini shares under this scheme are based on gradual acquisition of ownership of the shares – i.e. vesting conditions – which timeframe is similar to the one applicable to the stock options granted by Cap Gemini S.A.
In 2005, the above-mentioned entities granted 117,987 Capgemini shares to their respective employees (primarily in North America). In view of the vesting conditions applicable and the number of shares reallocated since November 7, 2002, i.e. in 2003 (126,299 shares) and 2004 (207,850 shares), the related expense for 2005 calculated in accordance with IFRS 2 amounts to €1.7 million.

B) Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. The weighted average number of ordinary shares is adjusted by the number of ordinary shares bought back or issued during the period.

	2004	2005
Profit/(loss) for the period *(in millions of euros)*	(534)	141
Weighted average number of ordinary shares	131,292,801	131,391,243
BASIC EARNINGS/(LOSS) PER SHARE (in euros)	**(4.07)**	**1.07**

The increase in the number of shares in 2005 is due to the exercise of stock options held by employees.

Diluted earnings per share

Diluted earnings per share are calculated by assuming conversion into ordinary shares of all dilutive instruments outstanding at the balance sheet date.

The average share price in 2005 is €28.15.

At December 31, 2005, dilutive instruments include:

- Share warrants related to the acquisition of Transiciel that were granted to former shareholders of Transiciel who had opted for the second tranche of the offer. Subject to the earnings targets of the new Sogeti/Transiciel entity being reached, these warrants will entitle their beneficiaries to a number of new Capgemini shares, carrying rights from January 1, 2006.
- Employee stock options considered to be potentially dilutive when the average market price of ordinary shares during the period exceeds the exercise price of the option including its fair value.
- "OCEANE 2005" convertible bonds issued on June 16, 2005 as the €6 million interest expense recorded (net of taxes), is lower for each bond than basic earnings per share (see Note 18 – "Net cash and cash equivalents").

The "OCEANE 2003" convertible bonds issued on June 24, 2003 are not deemed to be dilutive at December 31, 2004 or December 31, 2005, as the interest expense recorded (net of tax) on each bond exceeds basic earnings per share. Accordingly, the Group's net profit has not been adjusted to include the impact of the interest expense on convertible bonds (net of taxes).

	2004	2005
Profit/(loss) for the period *(in millions of euros)*	**(534)**	**141**
Interest expense on "OCEANE 2005" convertible bonds (net of taxes)	-	6
Diluted profit/(loss) for the period *(in millions of euros)*	**(534)**	**147**
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares	131,292,801	131,391,243
Adjustments:		
- conversion of "OCEANE 2003" convertible bonds	-	-
- conversion of "OCEANE 2005" convertible bonds (weighted average number)	-	5,905,405
- exercise of share warrants related to the acquisition of the Transiciel group	508,600	315,790(*)
- exercise of employee stock options	988,354	859,828
Weighted average number of ordinary shares (diluted)	**132,789,755**	**138,472,266**
DILUTED EARNINGS/(LOSS) PER SHARE *(in euros)*	**(4.02)**	**1.06**

(*) Subject to validation by the third-party mediator as provided for by article 1.4.13.10. of the alternative public exchange offer.

NOTE 10~**INTANGIBLE ASSETS**

Changes in intangible assets can be analyzed as follows by type of asset:

in millions of euros	Goodwill	Software	Internally generated intangible assets	Other	Total
GROSS VALUE					
AT JANUARY 1, 2004	**1,788**	**146**	**37**	**38**	**2,009**
Translation adjustments	(16)	(7)	-	(6)	(29)
Acquisitions/Increase	-	22	2	50	74
Disposals/Decrease	(14)	(29)	-	(14)	(57)
Changes in Group structure	35	2	-	85	122
Other movements	(7)	50	-	1	44
AT DECEMBER 31, 2004	**1,786**	**184**	**39**	**154**	**2,163**
Translation adjustments	41	10	-	13	64
Acquisitions/Increase	1	19	2	5	27
Disposals/Decrease	(5)	(20)	-	(13)	(38)
Changes in Group structure	4	(16)	-	(2)	(14)
Other movements	-	8	-	(16)	(8)
AT DECEMBER 31, 2005	**1,827**	**185**	**41**	**141**	**2,194**
ACCUMULATED AMORTIZATION					
AT JANUARY 1, 2004		**98**	**21**	**23**	**142**
Translation adjustments		(5)	-	1	(4)
Additions		33	7	12	52
Disposals		(22)	-	(13)	(35)
Changes in Group structure		-	-	8	8
Other movements		15	-	2	17
AT DECEMBER 31, 2004		**119**	**28**	**33**	**180**
Translation adjustments		7	-	2	9
Additions		44	7	16	67
Disposals		(19)	-	(12)	(31)
Changes in Group structure		(12)	-	(1)	(13)
Other movements		2	-	-	2
AT DECEMBER 31, 2005		**141**	**35**	**38**	**214**
IMPAIRMENT					
AT JANUARY 1, 2004	**-**	**4**	**-**	**-**	**4**
Translation adjustments	-	-	-	-	-
Additions	19	-	-	-	19
Changes in Group structure	-	-	-	-	-
Other movements	(7)	4	-	-	(3)
AT DECEMBER 31, 2004	**12**	**8**	**-**	**-**	**20**
Translation adjustments	-	-	-	-	-
Additions	6	3	-	-	9
Changes in Group structure	-	-	-	-	-
Other movements	-	-	-	-	-
AT DECEMBER 31, 2005	**18**	**11**	**-**	**-**	**29**
NET					
At January 1, 2004	1,788	44	16	15	1,863
At December 31, 2004	1,774	57	11	121	1,963
AT DECEMBER 31, 2005	**1,809**	**33**	**6**	**103**	**1,951**

Goodwill net value
Goodwill is allocated by geographic area. At December 31, 2005, goodwill net value primarily relates to France (€480 million, including €379 million in connection with the acquisition of Transiciel), the United Kingdom (€471 million), the Benelux countries (€438 million), North America (€222 million), and Germany and Central Europe (€95 million).

Changes in the net value of goodwill primarily reflect:
In 2004:
- measurement of the identifiable assets and liabilities of Transiciel at December 31, 2004, which leads to recognition of additional goodwill in an amount of €26 million;
- the sale of the Swedish and Norwegian infrastructure maintenance activities, formerly part of the Group's Outsourcing business, to the EDB group, leading to a gross value decrease of €13 million;
- an impairment loss of €7 million recognized on residual goodwill in Italy and impairment losses relating to goodwill recognized in the following regions: €8 million for the Benelux countries; €2 million for the United Kingdom; and €2 million for Central Europe;
- translation differences arising on goodwill denominated in foreign currencies, amounting to €(16) million.

In 2005:
- an impairment loss for €4 million on residual goodwill in the Benelux countries, and €2 million in goodwill impairment in the United Kingdom;
- translation differences arising on goodwill denominated in foreign currencies, amounting to €41 million.

Goodwill impairment tests
The carrying amounts of goodwill at December 31, 2005 were tested for impairment in accordance with the Group's related specific procedure. Based primarily on the discounted cash flows method, this procedure consists of assessing the recoverable amount of each cash generating unit (CGU) within the Group. CGUs correspond either to subsidiaries or to geographic areas in which the Group has operations. The assessment is based on various parameters used in the budget procedure and on five-year projections, including growth and profitability rates considered reasonable. Standard discount rates (based on the weighted average cost of capital) and a standard long-term growth rates for the period beyond 5 years are applied to all valuations of CGUs. These rates are determined based on an analysis of the business segment in which the Group operates.

The Sogeti-Transiciel CGU was created following the January 2005 reorganization of Sogeti-Transiciel's businesses (see Note 2 – "Changes in Group structure"). In 2004, the Transiciel group – which was acquired by Capgemini in December 2003 – already constituted a CGU, whereas the operations of the cross-border entity Sogeti, which was set up further to an internal restructuring in 2002, formed part of the CGU corresponding to the geographic areas in which the Group is present.

Revenue and margin growth rates are based on past performance and the growth outlook for the Group's markets. They are consistent with the forecasts issued by the Group.

The main assumptions used to measure the recoverable amount of goodwill are as follows:

CGU	North America	United Kingdom	Benelux countries	Sogeti-Transiciel	Other	**Total**
Net carrying amount of goodwill (in millions of euros)	222	471	321	458	337	**1,809**
Method used to measure the value of the CGU	Value in use					
Number of years over which cash flows are estimated	5 years					
Long-term growth rate	3%					
After-tax discount rate at December 31, 2005 (1)	10.5%	10.1%				
After-tax discount rate at December 31, 2004 (1)	10.1%					

(1) The application of pre-tax discount rates to pre-tax cash flows leads to the same valuation of CGUs.

Impairment tests on software and other intangible assets
The carrying amount of software and other intangible assets (essentially rights of use acquired) was compared to their value in use at December 31, 2005. An impairment loss was recorded during the year for an amount of €3 million in Germany.

Reconciliation between the cost of acquisitions of intangible assets in the balance sheet and the cash flow statement
The cost of acquisitions of intangible assets set out in the balance sheet (€27 million) is different from the figure provided in the cash flow statement as the cash flow statement does not include transactions with no cash impact such as acquisitions of assets held under finance leases.

NOTE 11~**PROPERTY, PLANT AND EQUIPMENT**

Changes in property, plant and equipment break down as follows:

in millions of euros	Land, buildings, fixtures and fittings	Computer equipment	Other	Total
GROSS VALUE				
AT JANUARY 1, 2004	**456**	**579**	**126**	**1,161**
Translation adjustments	(6)	(4)	(1)	**(11)**
Revaluations	-	-	-	**-**
Acquisitions/Increase	32	98	11	**141**
Disposals/Decrease	(27)	(116)	(8)	**(151)**
Changes in Group structure	5	10	8	**23**
Other movements	1	(42)	(8)	**(49)**
AT DECEMBER 31, 2004	**461**	**525**	**128**	**1,114**
Translation adjustments	13	17	3	**33**
Revaluations	-	-	-	**-**
Acquisitions/Increase	16	89	10	**115**
Disposals/Decrease	(79)	(135)	(15)	**(229)**
Changes in Group structure	(2)	(54)	(1)	**(57)**
Other movements	19	(3)	(9)	**7**
AT DECEMBER 31, 2005	**428**	**439**	**116**	**983**
o/w finance leases	*107*	*211*	*10*	*328*
ACCUMULATED DEPRECIATION				
AT JANUARY 1, 2004	**180**	**375**	**90**	**645**
Translation adjustments	(4)	(4)	-	**(8)**
Revaluations	-	-	-	**-**
Additions	43	102	16	**161**
Reversals	(20)	(103)	(8)	**(131)**
Changes in Group structure	5	7	1	**13**
Other movements	-	(13)	(2)	**(15)**
AT DECEMBER 31, 2004	**204**	**364**	**97**	**665**
Translation adjustments	9	11	1	**21**
Revaluations	-	-	-	**-**
Additions	40	80	10	**130**
Reversals	(63)	(117)	(13)	**(193)**
Changes in Group structure	-	(39)	(1)	**(40)**
Other movements	5	(2)	(5)	**(2)**
AT DECEMBER 31, 2005	**195**	**297**	**89**	**581**
o/w finance leases	*25*	*142*	*8*	*175*
IMPAIRMENT				
AT DECEMBER 31, 2005	**3**	**-**	**-**	**3**
NET				
At January 1, 2004	276	204	36	**516**
At December 31, 2004	257	161	31	449
AT DECEMBER 31, 2005	**230**	**142**	**27**	**399**
o/w finance leases	*82*	*69*	*2*	*153*

Impairment tests
The carrying amount of property, plant and equipment was compared to their value in use at December 31, 2005. An impairment loss was recorded during the year for an amount of €3 million in Germany.

Reconciliation between the cost of acquisitions of property, plant and equipment in the balance sheet and the cash flow statement
The cost of acquisitions of property, plant and equipment set out in the balance sheet (€115 million) is different from the figure provided in the cash flow statement as the cash flow statement does not include transactions with no cash impact such as acquisitions of assets held under finance leases.

NOTE 12~FINANCIAL ASSETS

Financial assets can be analyzed as follows:

At December 31 *(in millions of euros)*	2004	2005
Shares in non-consolidated companies	5	5
Deposits and other long-term investments	59	43
TOTAL	**64**	**48**

A) Shares in non-consolidated companies

Movements in shares in non-consolidated companies can be analyzed as follows:

in millions of euros	2004	2005
At January 1	**55**	**5**
Translation adjustments	2	1
Acquisitions	-	3
Disposals	(52)	(1)
Impairment	-	(3)
At December 31	**5**	**5**

Shares in non-consolidated companies are classified as available-for-sale financial assets and are thus recognized at fair value.

In November 2004, the Group sold its 14.6% interest in Vertex to United Utilities, representing €52 million.

Further to the disposal of 95% of its stake in Zacatii Consulting Inc (formerly Capgemini Japan K.K.) on August 12, 2005, the Group's remaining 5% stake was measured at fair value at December 31, 2005 (see the consolidated statement of changes in equity).

No amounts were recorded in the income statement in 2005 in relation to the measurement of available-for-sale financial assets.

B) Deposits and other long-term investments

Deposits and other long term investments consist of "aides à la construction" (building aid program) loans, security deposits and guarantees and other long-term loans.

The value in use of deposits and other long-term investments is not materially different from their carrying amount.

NOTE 13~DEFERRED TAXES

I. RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

A) Analysis by recovery date

At December 31 *(in millions of euros)*	2004	2005
Deferred tax assets:		
- Deferred tax assets over one year	702	720
- Deferred tax assets within one year	73	91
Total deferred tax assets	**775**	**811**
Deferred tax liabilities:		
- Deferred tax liabilities over one year	75	105
- Deferred tax liabilities within one year	20	16
Total deferred tax liabilities	**95**	**121**

Deferred tax assets over one year primarily represent tax loss carry-forwards.
Deferred tax liabilities over one year primarily relate to goodwill which is deductible for tax purposes.

Deferred tax assets and liabilities within one year are generated by tax loss carry-forwards as well as temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax base.

B) Changes in recognized deferred taxes

in millions of euros	Deferred tax assets on tax loss carry-forwards	Deferred tax assets arising from the acquisition of the Ernst & Young consulting business	Deferred tax assets arising from temporary differences	**Total deferred tax assets**	**Total deferred tax liabilities (1)**	**Total Net**
At January 1, 2005	**586**	**123**	**66**	**775**	**(95)**	**680**
Changes in Group structure	-	-	-	**-**	**2**	**2**
Translation adjustments	(1)	19	7	**25**	**(7)**	**18**
Deferred taxes recognized in profit or loss	(2)	(2)	7	**3**	**(4)**	**(1)**
Deferred taxes recognized in equity	-	-	6	**6**	**(14)**	**(8)**
Other movements	-	-	2	**2**	**(3)**	**(1)**
At December 31, 2005	**583**	**140**	**88**	**811**	**(121)**	**690**

(1) Deferred tax liabilities relate to temporary differences.

The appreciation of the US and Canadian dollars against the euro during 2005 led to an increase in the deferred tax assets recognized in North America, particularly those relating to the acquisition of the Ernst & Young consulting business.

Deferred tax assets recognized in profit or loss represented a net expense of €1 million in 2005, primarily reflecting:
- the utilization of deferred tax assets on tax loss carry-forwards for a total of €38 million, essentially in France (€33 million).
- the recognition of net deferred tax assets on temporary differences in Canada in an amount of €4 million.
- the reassessment of deferred tax assets recognized in France further to the reorganization of the Group's North American operations, representing €36 million.

Deferred taxes recognized in equity during the year concern items which were directly credited to or deducted from equity during the same period (see the consolidated statement of changes in equity). They represent deferred tax liabilities of €14 million relating to the difference between the nominal value of the June 16, 2005 "OCEANE 2005" convertible bonds and the fair value of the liability component (see Note 18 – "Net cash and cash equivalents") and deferred tax assets of €6 million on the call option on Capgemini shares purchased in order to neutralize the potential dilutive impact of the "OCEANE 2003" convertible bonds issue of June 23, 2003 (see Note 18 – "Net cash and cash equivalents").

Deferred tax assets arising from the acquisition of Ernst & Young consulting business in North America
The USD 4,280 million difference between the acquisition price of the Ernst & Young consulting business in North America and the tax base of the assets and liabilities acquired is amortized over fifteen years for tax purposes, representing an income tax saving of around USD 1,669 million based on current tax rates. Over recent fiscal years, these amortization charges have led to an increase in tax losses generated by North American operations that may be carried forward over a period of 20 years. In view of the above, the Group has potential tax savings available in the form of tax losses and tax-deductible future amortization allowances that may be utilized up to 2035 under current regulations.

The value of the related deferred tax asset is reviewed in the light of certain tax planning opportunities – related mainly to the deferred payment of intra-group royalties – and based on an estimate of the taxable profit of the Group's North American operations over the next five years using growth and profitability rates considered reasonable.

At December 31, 2005, the value of the deferred tax asset recognized in relation with the acquisition of Ersnt & Young consulting business in North America is €140 million.

Deferred tax assets on tax loss carry-forwards in France further to the reorganization of the Group's North American operations
Cap Gemini S.A. recognized a net short-term capital loss of €2.8 billion in 2002 on the reorganization of the Group's North American operations. Since December 31, 2003, the corresponding tax loss may be carried forward without time limit against future taxable profit generated in France.

At each balance sheet date, this deferred tax asset is adjusted to reflect the estimated taxable profit of the Group's French operations over the next fifteen years. The calculation is based on growth and profitability assumptions considered as reasonable, using the following visibility parameters: 100% utilization in the first five years. As from the sixth year, probable recoveries are covered by provisions calculated at a standard rate of 35%, which is increased by five points per year up to 70% in the fifteenth year, and to 100% beyond the fifteenth year.

Basis for this calculation model is a progressive decline in visibility as regards the future realization of estimates, so that recognized deferred tax assets are utilized as follows:
- about 50% in the first five years,
- the remaining 50% between the sixth and fifteenth year.

At December 31, 2005, the corresponding deferred tax asset recognized in France amounts to €525 million (breaking down into a portion over one year of €467 million and a portion within one year of €58 million), compared with €522 million at December 31, 2004.

Other tax loss carry-forwards recognized
Tax loss carry-forwards recognized at Group level, apart from the deferred tax assets recognized in France further to the reorganization of North American operations, primarily relate to Central Europe and particularly Germany (€22 million), Belgium and the Netherlands (€15 million), the United Kingdom (€8 million), Norway and Sweden (€7 million), France (€2 million) and Spain (€2 million).

C) Analysis by type

Recognized deferred tax assets can be analyzed as follows by type:

in millions of euros	**At December 31, 2005**
Tax loss carry-forwards	525
Acquisition of the Ernst & Young consulting business	140
Post-retirement benefits	19
Revaluation of work in progress	11
Restructuring costs	7
Other	18
Total deferred tax assets over one year	**720**
Tax loss carry-forwards	58
Retirement bonuses	8
Miscellaneous provisions	6
Revaluation of work-in-progress	5
Employee profit-sharing	4
Restructuring costs	2
Other	8
Total deferred tax assets within one year	**91**
Total recognized deferred tax assets	**811**

Deferred taxes recognized on the acquisition of the Ernst & Young consulting business include tax-loss carry-forwards generated by tax-deductible amortization charges recorded against goodwill, as well as future amortization allowances.

Deferred tax liabilities can be analyzed as follows by type: *in millions of euros*	At December 31, 2005
Tax deductible goodwill amortization	62
Equity component of "OCEANE 2003 and 2005" convertible bonds	26
Restatement of finance leases	8
Provisions	8
Other	1
Total deferred tax liabilities over one year	**105**
Revaluation of work-in-progress	9
Other	7
Total deferred tax liabilities within one year	**16**
Total deferred tax liabilities	**121**

II. UNRECOGNIZED DEFERRED TAX ASSETS

Unrecognized deferred tax assets can be analyzed as follows:

At December 31 *(in millions of euros)*	2004	2005
Tax loss carry-forwards	564	524
Acquisition of the Ernst & Young consulting business	1,067	1,183
Temporary differences	204	318
TOTAL	**1,835**	**2,025**

At December 31, 2005, unrecognized deferred tax assets essentially relate to North America (€1,485 million).

Unrecognized deferred tax assets relating to tax loss carry-forwards primarily concern France (€170 million) and North America (€168 million) at the year-end 2005.

Unrecognized deferred taxes on the acquisition of Ernst & Young consulting business include tax-loss carry forwards generated by tax-deductible amortization charges recorded against goodwill, as well as future amortization allowances.

At December 31, 2005, unrecognized deferred tax assets on temporary differences mainly relate to the following:

- Post-retirement benefits in the United Kingdom (€99 million).
- Differences in the methods used for capitalizing and amortizing fixed assets in various countries between the individual company accounts and the consolidated accounts (€48 million).
- Differences in revenue recognition between individual company accounts and the consolidated accounts in various countries (€58 million).
- Restructuring costs (€25 million), provisions (€32 million) and other miscellaneous items (€56 million) in various countries.

III. EXPIRY DATES OF TAX LOSS CARRY-FORWARDS

The expiry dates of tax loss carry-forwards are as follows:

	2004		2005	
At December 31 *(in millions of euros)*	Amount	%	Amount	%
y+1	4	0	3	0
y+2	3	0	69	2
y+3	52	1	48	1
y+4	37	1	43	1
y+5 and subsequent years	23	1	9	0
Without time limit	4,188	97	4,442	96
TOTAL	**4,307**	**100**	**4,614**	**100**

Tax loss carry-forwards do not include tax-deductible amortization charges recorded against goodwill arising from the acquisition of the Ernst & Young's consulting business, which have a tax effect of €791 million at December 31, 2005, compared with €804 million at December 31, 2004.

NOTE 14~NON CURRENT RECEIVABLES

Non current receivables break down as follows:

At December 31 *(in millions of euros)*	2004	2005
Carry-back tax credits	112	116
Derivative instruments	1	-
Other	11	11
TOTAL	**124**	**127**

On June 26, 2003 and June 28, 2004, Cap Gemini S.A. sold to a credit institution for €74 million and €33 million respectively a receivable of €90 million and an additional receivable of €39 million due from the French Treasury (see Note 26 – "Commitments received from and given to third parties"). These receivables are measured at amortized cost.

NOTE 15~ACCOUNTS AND NOTES RECEIVABLE

At December 31 *(in millions of euros)*	2004	2005
Trade accounts and notes receivable	1,773	1,798
Receivables from social security	41	70
TOTAL	**1,814**	**1,868**

Trade accounts and notes receivable

Trade accounts and notes receivable can be analyzed as follows:

At December 31 *(in millions of euros)*	2004	2005
Trade accounts receivable	1,329	1,337
Accrued income	459	467
Work in-progress	22	27
Provisions for doubtful accounts	(37)	(33)
TOTAL	**1,773**	**1,798**

Advances received from customers, mainly arising from operations relating to projects, are recognized in "Accounts and notes payable" in accordance with the accounting principle whereby receivables and payables may not be netted off. However, accounts receivable and advances received from customers are netted when calculating the average customer settlement period.

At December 31 *(in millions of euros)*	2004	2005
Trade accounts and notes receivable	1,773	1,798
Advances received from customers	(538)	(609)
Total accounts receivable net of advances received from customers	**1,235**	**1,189**
In number of days of total sales	72	62

NOTE 16~**OTHER RECEIVABLES**

At December 31 *(in millions of euros)*	2004	2005
Recoverable income taxes	29	21
Prepaid expenses	139	134
Other	10	25
TOTAL	**178**	**180**

NOTE 17~**ASSETS HELD FOR SALE**

At December 31, 2004 this item corresponded to the value of the property located in Béhoust, which housed the Group University until the opening in 2003 of the new university at the "Les Fontaines" site, located in Gouvieux.
The Group sold the finance lease relating to this property in April 2005.

NOTE 18~**NET CASH AND CASH EQUIVALENTS**

Net cash and cash equivalents correspond to available cash and cash equivalents less short and long-term financial debt.

At December 31 *(in millions of euros)*	2004	2005
Cash and cash equivalents	1,232	2,136
Financial debt	(948)	(1,231)
Derivative instruments	1	(1)
NET CASH AND CASH EQUIVALENTS	**285**	**904**

At December 31, 2005, derivative instruments recognized in liabilities are shown under "Other non current liabilities". These derivatives relate to two interest rate swaps (see Note 19 – "Derivative instruments").

Short-term financial debt (due within the next twelve months) and bank overdrafts break down as follows:

At December 31 *(in millions of euros)*	2004	2005
Short-term financial debt	180	86
Bank overdrafts	20	85
SHORT-TERM FINANCIAL DEBT AND BANK OVERDRAFTS	**200**	**171**

I. CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported in the consolidated statement of cash flows correspond short-term investments and cash, less bank overdrafts.

At December 31 *(in millions of euros)*	2004	2005
Short-term investments	1,001	1,805
Cash	251	416
Bank overdrafts	(20)	(85)
CASH AND CASH EQUIVALENTS	**1,232**	**2,136**

Changes in short-term investments can be analyzed as follows:

in millions of euros	2004	2005
At January 1	**929**	**1,001**
Translation adjustments	(4)	17
Changes in Group structure	-	(4)
Increases	157	792
Decreases	(81)	(1)
At December 31	**1,001**	**1,805**

The increase in short-term investments primarily reflects the investment of the proceeds from the "OCEANE 2005" convertible bonds issued on June 16, 2005.

The cash available is being invested in SICAV funds and other traditional money-market funds.

II. SHORT AND LONG-TERM FINANCIAL DEBT

Financial debt is broken down into long and short-term financial debt, with short-term financial debt referring both to the current portion of long-term financial debt and those originally due within one year.

At December 31 *(in millions of euros)*		2004	2005
"OCEANE 2003 and 2005" convertible and/or exchangeable bonds	(A)	408	814
Obligations under finance leases	(B)	164	124
Other financial debt	(C)	196	207
Long-term financial debt		**768**	**1,145**
Obligations under finance leases	(B)	64	50
Drawdowns on bank and similar facilities	(D)	46	8
Commercial paper		-	15
Other financial debt	(C)	70	13
SHORT-TERM FINANCIAL DEBT		**180**	**86**
TOTAL FINANCIAL DEBT		**948**	**1,231**

A) Bonds convertible and/or exchangeable into new or existing Cap Gemini S.A. shares ("OCEANE")

"OCEANE 2005" convertible bonds issued on June 16, 2005

On June 16, 2005, Cap Gemini S.A. issued bonds convertible and/or exchangeable into new or existing Cap Gemini shares, maturing on January 1, 2012 ("OCEANE 2005"). The effective issue and settlement date of the bonds was June 24, 2005. The total amount of the issue was €437 million, represented by 11,810,810 bonds with a nominal value of €37 each. The bonds bear interest at 1% per year. The terms and conditions of this issue are set out in the information memorandum approved by the AMF under the reference number n°05-564 on June 16, 2005.

MAIN TERMS AND CONDITIONS OF THE "OCEANE 2005"

Conversion and/or exchange of the bonds for shares

Each bond may be converted and/or exchanged for one Cap Gemini S.A. share, at any time between the settlement date (June 24, 2005), and the seventh business day preceding the normal or early redemption date, subject to the adjustments provided for. The Company may choose to issue new shares or allocate existing shares.

Redemption at maturity

The bonds will be redeemed in full on January 1, 2012 (or the first business day following this date if this is not a business day) at a price of €41.90 per bond, representing a premium of 13.24% over the bonds' nominal value.

Early redemption at the Company's option

The Company may redeem all or some of the bonds in advance of maturity as follows:

- At any time, without limitation on price or quantity, by buying back all or some of the bonds either on or off market or by means of a public buyback or exchange offer.
- Between June 24, 2009 and December 31, 2011, subject to a 30-day notice period, all outstanding bonds may be redeemed at an early redemption price calculated in such a way that the resulting yield to maturity is equal to that which would have been obtained at maturity, i.e., a rate of 2.875%, plus accrued interest, if the product of (i) the then current conversion/exchange ratio and (ii) the arithmetic average of the opening prices quoted for the Company's ordinary shares on the Eurolist market of Euronext Paris S.A. over a period of 20 trading days selected by the Company from among the 40 trading days immediately preceding the date of publication of the early redemption announcement, exceeds 130% of such early redemption price.
- At any time, for all outstanding bonds, if less than 10% of the bonds are still outstanding.

Early redemption at the option of bondholders

Bondholders may request the early redemption of all or some of their bonds in the event of a change of control of the Company.

Early repayment

The "OCEANE" documentation contains the usual provisions relating to early repayment at the initiative of a majority of bondholders, particularly in the event of a failure to pay sums due or to comply with other obligations set out in the documentation (beyond any "grace periods", if applicable), cross default (in excess of a minimum threshold), liquidation, dissolution or sale of all of the Company's assets, or delisting of the Company's shares from the "Premier Marché" of Euronext Paris S.A

Any upgrade or downgrade in Cap Gemini S.A.'s credit rating would not constitute any early redemption event and would not have any impact on the applicable interest rate.

RECOGNITION OF THE "OCEANE 2005" BOND ISSUE AT FAIR VALUE

In accordance with the accounting principle set out in Note 1.M.b "Long-term financial debt", the fair value of the corresponding financial debt carried in liabilities, as well as the embedded option recognized in equity, were calculated at the date of issue of the "OCEANE 2005" convertible bonds on June 16, 2005.

The fair value of financial debt in the balance sheet, recognized in long-term financial debt, was calculated based on the implied interest rate for an issue of straight bonds at the same date as the "OCEANE 2005" convertible bond issue (i.e., 4.5%). The difference between the nominal value of the "OCEANE 2005" convertible bonds and the fair value of the liability component was recognized in equity, under "Other reserves", net of deferred taxes.

At December 31, 2005, the liability component of the "OCEANE 2005" convertible bond issue amounts to €396 million.

Based on the effective interest rate of 4.5% (4.8% including issue costs), the interest charge for the second half year is €9.6 million, compared with a coupon of €2.2 million calculated on the basis of the convertible bonds' nominal interest rate of 1% per annum.

"OCEANE 2003" convertible bonds issued on June 24, 2003

On June 24, 2003, Cap Gemini S.A. issued bonds convertible and/or exchangeable into new or existing shares, maturing on January 1, 2010. The effective issue and settlement date of the bonds was July 2, 2003 ("OCEANE 2003").

The total amount of the issue was €460 million, represented by 9,019,607 bonds with a nominal value of €51 each. The bonds bear interest at 2.50% per year. On October 28, 2004, the Company took out an interest rate swap to convert interest on the convertible bonds from fixed to variable rate (see Note 19 below – "Derivative instruments").

The terms and conditions of this issue are set out in the information memorandum approved by the AMF under the reference number n°03-607 on April 24, 2003.

Simultaneously to the "OCEANE 2005" convertible bond issue of June 16, 2005, Capgemini decided to neutralize in full the potential dilutive impact of the "OCEANE 2003" convertible bonds issued on June 24, 2003 and maturing on January 1, 2010 by purchasing from Société Générale at a cost of €16 million a call option on approximately 9 million Cap Gemini shares, corresponding to the number of shares to be delivered assuming that all the bonds in the "OCEANE 2003" convertible bond issue are converted/exchanged. The option's strike price and maturity correspond to those of the "OCEANE 2003" convertible bond issue.

RECOGNITION OF THE "OCEANE 2003" BOND ISSUE AT FAIR VALUE

In accordance with the accounting principle set out in Note 1.M.b "Long-term financial debt", the fair value of the corresponding financial debt carried in liabilities, as well as the embedded option recognized in equity, were calculated at the date of issue of the "OCEANE 2003" convertible bonds on June 24, 2003.

The fair value of financial debt in the balance sheet, recognized in long-term financial debt, was calculated based on the implied interest rate for an issue of straight bonds at the same date as the "OCEANE 2003" convertible bond issue (i.e., 4.8%). The difference between the nominal value of the "OCEANE" convertible bonds and the fair value of the liability component was recognized in equity, under "Other reserves", net of deferred taxes.

At December 31, 2005, the liability component of the "OCEANE 2003" convertible bond issue amounts to €418 million.
Based on the effective interest rate of 4.8% (5.1% including issue costs), the interest charge for the year ended December 31, 2005, is €20.9 million, compared with a coupon of €11.5 million, calculated on the basis of the convertible bonds' nominal interest rate of 2.5% per annum.

B) Obligations under finance leases

The amount reported under this caption at December 31, 2005 corresponds mainly to the finance lease relating to the "Les Fontaines" site of the Group University located at Gouvieux and investments in IT equipment made by Capgemini UK Plc and New Horizons Systems Solutions LP (Canada).

in millions of euros	Inception date	Term of lease	Rate	Balance at Dec. 31, 2004	Balance at Dec. 31, 2005
Capgemini University (Béhoust) (1)	-	-	-	27	-
Capgemini University (Les Fontaines)	Dec. 2002	July 2014	3-Month Euribor +0.75%	80	74
Capgemini UK Plc	Aug. 2000	July 2010	Fixed rates (5.29% to 11.05%)	58	43
Capgemini Outsourcing B.V.	June 2003	June 2008	Fixed rates (2.33% to 6.31%)	19	9
New Horizons Systems Solutions LP	Feb. 2003	Oct. 2010	Fixed rates (6.0% to 7.0%)	13	19
Capgemini Outsourcing Services S.A.S.	Aug. 2001	March 2009	Fixed rates (5.26% to 9.01%)	3	5
Capgemini Systems GmbH	July 2003	July 2008	Fixed rate 4.0%	4	4
Sogeti-Transiciel S.A.S.	April 1999	April 2011	Eonia +0.8%	5	3
Capgemini Finland O.Y.	Oct. 2003	Oct. 2009	Fixed rates (0.01% to 4.56%)	2	4
Capgemini Est S.A.S.	July 2003	Jan. 2008	Fixed rate 2.6%	2	1
Other	July 2001	June 2016	Fixed rates (0.3% to 7%)	15	12
TOTAL				**228**	**174**

(1) In April 2005, the Group disposed of its finance lease on the property located in Béhoust, which housed the Group University prior to the opening in 2003 of the new university at the "Les Fontaines" site, located in Gouvieux.

A certain number of leases included in the outsourcing contract signed with Schneider Electric on October 28, 2004 have not yet been transferred to the Group. These leases will be analyzed by reference to the criteria of IAS 17 – "Leases". Following this analysis, the restatement of finance leases may lead to the recognition of additional financial liabilities for an estimated maximum amount of €15 million, corresponding to the total lease commitments. At December 31, 2005, these commitments are included in "Commitments received from and given to third parties".

C) Other financial debt

At December 31, 2005, the €220 million in other financial debt mainly consist of:

- €116 million corresponding to €74 million and €33 million in tax credits arising from the carry back of 2002 tax losses in France that were sold on June 26, 2003 and June 28, 2004 respectively. The sold receivables were recognized in financial debt in the IFRS balance sheet at the transition date as explained in Note 31.IV – "Impact of the transition to IFRS on the 2004 financial statements",
- €66 million corresponding to the present value of the put option held by the TXU group in connection with the 10-year outsourcing contract signed on May 17, 2004. The put covers the TXU Group's 2.9% minority interest in Capgemini Energy LP and certain assets (essentially the IT platform owned by the TXU group and used by Capgemini Energy LP for the term of the contract) and is exer-

cisable by the TXU group during the ten years following the end of the contract. It has a total value of US$200 million (€169 million) and was initially recognized in the balance sheet at its present value of US$114 million based on a discount rate of 5.9%. The value of this put option is partially offset by the assets concerned which are valued at US$45 million.

In accordance with IAS 32 - "Financial Instruments: Disclosure and Presentation" a financial debt has been recognized in the balance sheet with the corresponding adjustment being the recognition of items described in Note 31.IV.I "Put options and minority interest".

The put option's carrying amount is reassessed at each period-end. The variance between December 31, 2004 and December 31, 2005 corresponds to the recognition of notional interest and the effect of the change in the USD/euro exchange rate. This expense, amounting to €5 million, is recorded in the 2005 income statement under gross borrowings costs.

- A €21 million financial debt owed to TXU under the terms of the contract;
- The €10 million balance due on the acquisition of the IT services subsidiaries of the Drägerwerk AG group, payable in February 2006.

D) Drawdowns on bank and similar facilities

The decrease in "Drawdowns on bank and similar facilities" between December 31, 2004 (€46 million) and December 31, 2005 (€8 million) is mainly due to the reduction in drawdowns by Group operating companies on lines of credit. In some circumstances, these drawdowns are backed by a guarantee from Cap Gemini S.A.

Syndicated credit facility obtained by Cap Gemini S.A.

On November 14, 2005, the Company signed a €500 million multi-currency credit facility with a syndicate of banks to replace the previous €600 million multi-currency five-year credit facility implemented on July 31, 2001 which was as a result cancelled in advance of its maturity. The syndicate is made up of BNP Paribas, Calyon and ING Bank N.V., acting as bookrunners and mandated lead arrangers, Crédit Mutuel - CIC, IXIS Corporate & Investment Bank, Natexis Banques Populaires and SG Corporate & Investment Banking, acting as mandated lead arrangers, and Caisse Régionale de Crédit Agricole Mutuel de Paris et d'Ile de France, Dresdner Bank AG in Frankfurt am Main, HSBC France SA, JP Morgan Chase Bank N.A., Paris Branch and Crédit du Nord, acting as co-arrangers.

The maturity of the new credit facility is November 14, 2010, unless Cap Gemini S.A. exercises the one-year extension option (subject to the agreement of the banks) at the end of the first year, in which case the maturity of the credit facility will be extended to November 14, 2011.

Use of this credit facility is subject to the following conditions:

- An initial margin of 0.50% (above Euribor or Libor 1 to 12 months). In addition, a utilisation fee of 0.025% to 0.050% may apply for drawdowns in excess of certain amount of the credit facility. The margin may be adjusted according to the Company's credit rating;
- A fee on undrawn amounts initially set at 35% of the margin (i.e. currently 0.175%) that may be reduced to 30% if Cap Gemini S.A.'s rating improves.

Any upgrading or downgrading of Cap Gemini S.A.'s credit rating would not have any impact on the availability of this credit line.

The Company has agreed to comply with the following covenants regarding financial ratios (as defined in IFRS):

- the net financial debt to consolidated equity ratio must at all times be less than 1;
- interest cover – i.e. the extent to which net finance costs adjusted for certain items are covered by consolidated operating margin – must be equal to or higher than 3x at December 31 and June 30 of each year (based on the 12 months then ended).

At December 31, 2005, the Group complied with these financial ratios. The net financial debt to consolidated equity ratio stood at 0 and the interest cover was 15.7.

The facility agreement includes covenants restricting the Company's ability to carry out certain operations. These covenants also apply to the Group subsidiaries which are signatories to the agreement and, where relevant, to the "principal subsidiaries" – defined based on their contribution to consolidated revenues – and in turn to their respective subsidiaries. They include restrictions primarily relating to:

- pledging certain assets as collateral,
- substantially modifying the general nature of a company's operations,
- asset sales, mergers or similar transactions.

Cap Gemini S.A. also committed to standard obligations, including obtaining and retaining the necessary authorizations, maintaining insurance cover, maintaining pari passu treatment, and providing financial information.

Lastly, the agreement contains the usual provisions relating to early repayment (including for failure to pay sums due), misrepresentation or failure to comply with other obligations included in the agreement (subject to any applicable "grace" periods), cross-defaults (in excess of a minimum threshold), insolvency and bankruptcy proceedings, change of control, or changes which would have a significant negative impact on the financial position of the Group.

At the date of this report, no drawdowns had been made on this credit facility.

III. MAIN CHARACTERISTICS OF FINANCIAL DEBT

A) Interest rates

Average interest rate paid on Group financial debt

In 2005, the average interest rate on the Group's financial debt was 5.2%.

Fixed rates/variable rates

At December 31, 2005, 41% of Group financial debt is at variable rates, of which 34% is capped (respectively 60% and 43% at December 31, 2004), and 59% at fixed rates (40% at December 31, 2004).

The change in these proportions between December 31, 2004 and December 31, 2005 was primarily due to the impact of the June 16, 2005 issuance of "OCEANE 2005" convertible bonds, which increased the relative weight of fixed rate financial debt.

Analysis of the sensitivity of net finance costs to an increase in interest rates

The impact on gross finance costs of a theoretical annual average increase of 1% in interest rates, based on an annual average financial debt position, is an estimated €6 million.

The impact on income from cash and cash equivalents of a theoretical annual average 1% increase in interest rates, based on an annual average cash and cash equivalents position, is an estimated €14 million.

Accordingly, a 1% increase in interest rates would have an estimated €8 million positive impact on net finance costs.

Effective interest rates and maturities of financial debt

At December 31 *in millions of euros*	2004						2005					
	Effective interest rate	Total	Within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years	Effective interest rate	Total	Within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years
Short-term investments	2.2%	**1,001**	1,001	-	-	-	2.5%	**1,805**	1,805	-	-	-
Cash	1.9%	**251**	251	-	-	-	1.9%	**416**	416	-	-	-
Bank overdrafts	2.6%	**(20)**	(20)	-	-	-	2.8%	**(85)**	(85)	-	-	-
CASH AND CASH EQUIVALENTS		**1,232**	**1,232**	**-**	**-**	**-**		**2,136**	**2,136**	**-**	**-**	**-**
"OCEANE 2003" convertible bonds	5.1%	**408**	-	-	-	408	5.1%	**418**	-	-	418	-
"OCEANE 2005" convertible bonds	-	**-**	-	-	-	-	4.8%	**396**	-	-	-	396
Drawdowns on bank and similar facilities	2.8%	**46**	46	-	-	-	6.1%	**8**	8	-	-	-
Obligations under finance leases	4.9%	**228**	64	42	67	55	4.3%	**174**	50	34	55	35
Other financial debt	3.7%	**266**	70	12	3	181	4.4%	**220**	13	2	117	88
Commercial paper	-	**-**	-	-	-	-	2.65%	**15**	15	-	-	-
TOTAL FINANCIAL DEBT		**948**	**180**	**54**	**70**	**644**		**1,231**	**86**	**36**	**590**	**519**

Effective interest rates by currency

At December 31 *(%)*	2004			2005		
	Euro	US Dollar	Pound Sterling	Euro	US Dollar	Pound Sterling
"OCEANE 2003" convertible bonds	5.1%	-	-	5.1%	-	-
"OCEANE 2005" convertible bonds	-	-	-	4.8%	-	-
Drawdowns on bank and similar facilities	-	2.8%	-	-	-	-
Obligations under finance leases	2.9%	6.0%	8.2%	2.3%	6.0%	8.2%
Other financial debt	3.2%	5.4%	-	3.8%	5.3%	-
Commercial paper	-	-	-	2.65%	-	-

B) Fair values

At December 31 *(in millions of euros)*	2004		2005	
	Carrying amount	Fair Value	Carrying amount	Fair Value
ASSETS				
Short-term investments	1,001	1,001	1,805	1,805
Cash	251	251	416	416
Bank overdrafts	(20)	(20)	(85)	(85)
LIABILITIES				
"OCEANE 2003" bonds (1)	408	406	418	419
"OCEANE 2005" bonds (2)	-	-	396	387
Drawdowns on banks and similar facilities	46	46	8	8
Obligations under finance leases	228	(3) -	174	(3) -
Other financial debt	266	267	220	220
Commercial paper	-	-	15	15

(1) On June 24, 2003 the fair value of the financial instrument amounted to €460 million, compared to respectively €465 million and €456 million as of December 31, 2005 and 2004.
(2) On June 16, 2005 the fair value of the financial instrument amounted to €495 million, compared to €496 million as of December 31, 2005.
(3) In view of the number and diverse forms and maturities of finance leases, this information is not deemed to be relevant.

C) Analysis by currency

The breakdown of financial debt by currency is as follows:

At December 31 *(in millions of euros)*	2004 Amount	2004 %	2005 Amount	2005 %
Euro	747	78.8	1,063	86.3
US dollar	103	10.9	94	7.7
Pound sterling	58	6.1	43	3.5
Other currencies	40	4.2	31	2.5
TOTAL	**948**	**100**	**1,231**	**100**

D) Collateral

At December 31, 2005, borrowings were secured by collateral totalling €400 million (€526 million at December 31, 2004), including €174 million relating to obligations under finance leases.

E) Movements in financial debt

Movements in financial debt can be analyzed as follows:

in millions of euros	2004	2005
At January 1	**1,005**	**948**
Translation adjustments	(10)	20
Changes in Group structure	5	-
New borrowings	158	514
Repayments	(237)	(210)
Net change in drawdowns on lines of credit	(7)	(43)
Other movements	34	2
At December 31	**948**	**1,231**

NOTE 19~DERIVATIVE INSTRUMENTS

A) Interest rate hedges

At December 31, 2005, two interest rate hedges were outstanding in the form of swaps and options (caps and floors) on a total amount of €496.8 million (versus €500.2 million at December 31, 2004), for periods ranging from 4 to 9 years, as follows:

- An interest rate swap contracted by the Company on October 28, 2004 as a hedge of the "OCEANE 2003" bonds convertible and/or exchangeable into Cap Gemini S.A. shares, issued by the Company on June 24, 2003. This swap covers a total amount of €460 million over a remaining period of 4 years. Under the terms of the swap contract, the Company pays a variable rate (12-month post-fixed Euribor less 0.59%) against the fixed rate of the OCEANE convertible bonds (2.5%). The variable rate is capped at 3.41% and has a floor of 1.41%. This interest rate swap also contains a zero-cost automatic deactivation clause in the event that the Company exercises its right (under certain conditions) to redeem the bonds early (see "Early redemption at the Company's option" in Note 15 of the Reference Document at December 31, 2004).
  The measurement of this contract at market value at December 31, 2005 led the Group to record income of €1.4 million under "Other financial income and expense".

- €36.8 million interest rate swap contract over a remaining period of 9 years, covering 50% of the finance lease taken out by S.A.R.L Immobilière Les Fontaines (Capgemini University) in December 2002. Under the terms of the swap, S.A.R.L. Immobilière Les Fontaines pays a fixed rate of 3.51% and receives the 3-month Euribor.
  The measurement of this contract at market value at December 31, 2005 led the Group to record a loss of €0.2 million under "Other financial income and expense" (compared with a loss of €0.4 million at December 31, 2004).

B) Currency hedges

In 2005, the Group hedged certain risks of exposure to variability in cash flows related to forecast transactions (see below) in connection with its outsourcing activities in India and Poland (Business Process Outsourcing).

The implementation of hedge accounting (see Note 1.M – "Financial Instruments"), led to the following:
- the effective portion of the change in fair value of the derivatives qualifying for hedge accounting was recorded in equity if the forecast transaction had not occurred at December 31, 2005 or in operating margin for the year if the transaction had occurred.
- the ineffective portion of the change in fair value of the derivatives qualifying for hedge accounting was recorded in "Other financial income and expense".

At December 31, 2005, currency hedges totalled €206.5 million, as follows:

- Hedges of commercial transactions expiring in 2006 and 2007 in the form of currency swaps for a total equivalent value of €74 million and relating to amounts denominated in euros, US dollars, Pounds sterling, Polish zlotys, Indian rupees, Australian dollars, and Swedish and Danish krona.

- Currency swaps expiring in 2006, acquired as hedges of intercompany financing transactions, including:

- GBP 85 million, for an equivalent value of €124.6 million,
- HKD 25 million, for an equivalent value of €2.7 million,
- SEK 40 million, for an equivalent value of €4.2 million,
- CHF 1.5 million, for an equivalent value of €1 million.

The market value of these hedging instruments at December 31, 2005 was €1 million lower than their carrying amount.

NOTE 20~**PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS**

Changes in provisions for pensions and other post-retirement benefits can be analyzed as follows:

in millions of euros	At January 1, 2005 (1)	Changes in Group structure	Increases	Reversals	At Decembre 31, 2005
Current and non-current provisions for pensions and other post-retirement benefits	427	(11)	99	(67)	448
TOTAL	**427**	**(11)**	**99**	**(67)**	**448**

(1) Including current provisions of €1 million.

Changes in Group structure during the year reflect the January 2005 sale of the Group's 25.22% stake in IS Energy, and the August 2005 divestment of 95% of its interest in Capgemini Japan K.K.

There are two categories of retirement plans:

Defined contribution plans

Defined contribution plans exist in the majority of European countries in which the Group has operations – including France, the Benelux countries, Germany and Central Europe, the Nordic countries, Italy, Spain and Portugal – as well as in the United States and the Asia-Pacific region. These plans are funded by contributions paid to authorized agencies, which are expensed as incurred. The Group's obligation under these plans is recorded in "Accounts and notes payable".

Defined benefit plans

Two types of defined benefit plans are recognized in provisions for pensions and other post-retirement benefits:

- Funded defined benefit plans. These plans exist in the United Kingdom and Canada, as well as in other regions (the United States, Ireland, Sweden, the Benelux countries, Germany, Switzerland and France).
- Unfunded defined benefit plans. These plans correspond to retirement bonuses and medical coverage. The main countries concerned are Canada, France, Central Europe and Italy.

A) Provisions for funded defined benefit plans

Analysis of obligation

	2004				2005			
At December 31 *(in millions of euros)*	United Kingdom	Canada	Other	Total	United Kingdom	Canada	Other	Total
Present value of obligation	993	138	72	**1,203**	1,572	212	104	**1,888**
Fair value of plan assets	673	132	52	**857**	1,045	182	76	**1,303**
Gross benefit obligation	**320**	**6**	**20**	**346**	**527**	**30**	**28**	**585**
Unrecognized actuarial gains and losses	(24)	(6)	(3)	**(33)**	(198)	(33)	(13)	**(244)**
Unrecognized past service costs	-	-	-	-	-	-	-	-
Net benefit obligation in balance sheet	**296**	**-**	**17**	**313**	**329**	**(3)**	**15**	**341**
Assets (1)	-	(16)	-	**(16)**	-	(11)	-	**(11)**
Liabilities	296	16	17	**329**	329	8	15	**352**
NET BENEFIT OBLIGATION IN BALANCE SHEET	**296**	**-**	**17**	**313**	**329**	**(3)**	**15**	**341**

(1) The €11 million worth of assets in Canada correspond to surplus coverage for one of the Canadian plans. This surplus amounted to €16 million at December 31, 2004.

The net benefit obligation for other regions, amounting to €15 million, primarily concerns the United States (€9 million), the Benelux countries (€3 million), Ireland (€2 million) and Central Europe (€1 million).

Analysis of movements in obligation

in millions of euros	Present value of obligation	Fair value of plan assets	Unrecognized actuarial gains and losses	Net benefit obligation in balance sheet
At January 1, 2005	**1,203**	**(857)**	**(33)**	**313**
Net expense for the year:				
- Service cost	78	-	-	78
- Interest cost	73	-	-	73
- Expected return on plan assets	-	(68)	-	(68)
- Net actuarial loss/(gain) recognized	-	-	-	-
- Recognized past service cost	-	-	-	-
Benefits paid to employees	(31)	28	-	(3)
Contributions paid	-	(57)	-	(57)
Changes in actuarial gains and losses	313	(120)	(193)	-
Translation adjustments	63	(50)	(5)	8
Aspire Plan at transfer date	178	(165)	(13)	-
Other movements	11	(14)	-	(3)
At December 31, 2005	**1,888**	**(1,303)**	**(244)**	**341**

Service cost for the period amounts to €78 million and mainly concerns the United Kingdom (€59 million) and Canada (€10 million).

Interest cost for the period corresponds to the discounting of the obligation for an amount of €73 million, which primarily concerns the United Kingdom (€54 million).

Expected return on plan asset primarily concerns the United Kingdom and relates to the return on funds invested at rates specific to each of the countries concerned, as detailed below under "Actuarial assumptions".

Benefits paid to employees, totalling €31 million, relate to the United Kingdom (€14 million), Canada (€8 million) and other countries (€9 million).

Changes in actuarial gains and losses for the year arise essentially from the decrease in rates used to discount obligations in the United Kingdom and Canada (see "Actuarial assumptions" below), and also from the adoption of a new mortality table in the United Kingdom.

In 2005, commitments related to the signing of the Aspire contract in the UK were transferred, as the voluntary subscription period open to employees in respect of Capgemini UK Plc's retirement plan expired during the first half of 2005. At the transfer date, the previous service provider undertook to refinance the plan, concerning 1,530 employees, based on a valuation performed by actuaries.

Contributions to plan assets totalled €57 million during the year. The main contributors were the United Kingdom (€40 million) and Canada (€12 million).

Employees

	2004				2005			
	United Kingdom	Canada	Other	Total	United Kingdom	Canada	Other	Total
Current employees	4,110	1,308	573	**5,991**	5,100	1,348	4,491	**10,939**
Former employees	5,215	16	420	**5,651**	5,510	29	768	**6,307**
Retirees	751	50	10	**811**	865	55	16	**936**
TOTAL	**10,076**	**1,374**	**1,003**	**12,453**	**11,475**	**1,432**	**5,275**	**18,182**

The total relating to other employees primarily concerns India (3,489 employees in 2005), and the related discounted benefit obligations amounted to €1 million in 2005. In India, the Group has taken out an insurance contract to cover its obligation to pay leaving bonuses to employees with at least two years' service who leave the Group.

Actuarial assumptions

	2004			2005		
	United Kingdom	Canada	Other	United Kingdom	Canada	Other
Pension obligation discounting rate (%)	5.4	6.0	3.5 - 7.0	4.8	5.25	2.6 - 7.4
Salary inflation rate (%)	3.5	3.3	1.5 - 6.0	3.5	3.0 - 3.3	1.5 - 6.0
Expected return on plan assets (%)	7.0	7.0	1.5 - 8.5	6.9	7.0	3.3 - 8.5

b) Provisions for unfunded defined benefit plans

Analysis of obligation

At December 31 *(in millions of euros)*	France	Canada	Sweden	Germany and Central Europe	Italy	2005 Total	2004 Total
Present value of obligation	31	34	13	24	14	**116**	**108**
Fair value of plan assets							
Gross benefit obligation	**31**	**34**	**13**	**24**	**14**	**116**	**108**
Unrecognized actuarial gains and losses	(4)	(3)	(3)	(5)	-	**(15)**	**(5)**
Unrecognized past service costs	(5)	-	-	-	-	**(5)**	**(5)**
Net benefit obligation in balance sheet	**22**	**31**	**10**	**19**	**14**	**96**	**98**
Assets							
Liabilities	22	31	10	19	14	**96**	**98**
Net benefit obligation in balance sheet	**22**	**31**	**10**	**19**	**14**	**96**	**98**

In France and Italy, the defined benefit plan concerns retirement bonuses. In Canada, it mainly relates to medical coverage, and in Germany and Central Europe, it primarily concerns supplementary pension plans provided in addition to the statutory scheme.

Analysis of movements in obligation

in millions of euros	Present value of obligation	Fair value of plan assets	Unrecognized actuarial gains and losses	Unrecognized past service costs	Net benefit obligation in balance sheet
At January 1, 2005	**108**		**(5)**	**(5)**	**98**
Changes in Group structure	(11)		-	-	**(11)**
Net expense for the year:					
- Service cost	11		-	-	**11**
- Interest cost	3		-	-	**3**
Benefits paid to employees	(5)		-	-	**(5)**
Changes in actuarial gains and losses	10		(10)	-	**-**
Translation adjustments	3		-	-	**3**
Other movements	(3)		-	-	**(3)**
At December 31, 2005	**116**		**(15)**	**(5)**	**96**

Service cost for the year, amounting to €11 million, relates to France (€4 million), Canada (€3 million), Italy (€3 million) and Central Europe (€1 million).

Benefits paid to employees mainly concern Italy (€3 million).

Translation adjustments mainly concern Canada.

Employees

	France	Canada	Sweden	Germany and Central Europe	Italy	2005 Total	2004 Total
Current employees	16,894	1,348	37	432	1,278	**19,989**	**23,767**
Former employees	-	29	1,053	66	-	**1,148**	**986**
Retirees	-	55	8	57	-	**120**	**116**
TOTAL	**16,894**	**1,432**	**1,098**	**555**	**1 278**	**21,257**	**24,869**

Actuarial assumptions

	2004					2005				
	France	Canada	Sweden	Germany and Central Europe	Italy	France	Canada	Sweden	Germany and Central Europe	Italy
Pension obligation discounting rate (%)	4.7 - 5.0	6.0	4.4	5.0 - 6.0	4.8	4.2	6.0	4.4	3.7 - 5.5	4.0
Salary inflation rate (%)	1.5 - 2.0	3.3	2.0	2.0 - 2.8	4.8	2.0	3.3	2.0	2.0 - 2.8	4.5

NOTE 21~CURRENT AND NON-CURRENT PROVISIONS

in millions of euros	Current and non-current provisions
At January 1, 2005	**39**
Additions	18
Reversals (utilization of provisions)	(18)
Reversals (surplus provisions)	(10)
Other	5
At December 31, 2005	**34**

At December 31, 2005, current and non-current provisions mainly concerned risks relating to projects (€28 million) and risks relating to employee litigation (€6 million).

NOTE 22~OTHER NON CURRENT LIABILITIES

Other non current liabilities primarily relate to restructuring costs concerning the real estate streamlining measures implemented during the year in the United States and in previous years in the United Kingdom, as well as the non current portion of the special employee profit-sharing reserve in France.

NOTE 23~**ACCOUNTS AND NOTES PAYABLE**

Accounts and notes payable break down as follows:

AT DECEMBER 31 *(in millions of euros)*	**2004**	**2005**
Trade accounts payable	534	735
Advances received from customers	538	609
Accrued taxes other than on income	251	294
Accrued personnel costs	697	787
Other	62	65
TOTAL	**2,082**	**2,490**

Changes in trade accounts payable over the periods presented is directly in line with movements in "Purchases and sub-contracting" over the same periods, and mainly reflect the increasing importance of major outsourcing contracts to the Group's business.

NOTE 24~**OTHER PAYABLES**

Other payables include the special employee profit-sharing reserve, deferred income and other current liabilities amounting to €19 million at December 31, 2005 and €37 million at December 31, 2004. Year-on-year changes reflect the payment in France of employee profit-sharing on earnings for 1999.

NOTE 25~**EXECUTIVE COMPENSATION**

The table below provides a breakdown of compensation due to members of the Group Management team at December 31, 2005 (20 people).

in kilos of euros	**2005**
Short-term benefits excluding employer payroll taxes (1)	14,632
Short-term benefits: employer payroll taxes	2,451
Post-employment benefits (2)	504
Share-based payment (3)	973

(1) Includes gross wages and salaries, bonuses, profit-sharing, directors' fees and advantages in kind.
(2) This amount mainly includes statutory retirement indemnities.
(3) This amount corresponds to the annual expense relating to the award of stock options

NOTE 26~**COMMITMENTS RECEIVED FROM AND GIVEN TO THIRD PARTIES**

A) Commitments received

AT DECEMBER 31 *(in millions of euros)*	**2004**	**2005**
Commitments received from third parties:		
- on contracts	7	11
- other	4	4
TOTAL	**11**	**15**

B) Commitments given

AT DECEMBER 31 *(in millions of euros)*	**2004**	**2005**
Commitments given to third parties:		
- on non-cancellable leases	1,078	1,046
- on contracts	79	96
- other	75	44
TOTAL	**1,232**	**1,186**

• At December 31, 2005, the Group's commitments under non-cancellable leases by type and maturity are as follows:

in millions of euros	Computer equipments	Offices	Cars	Other	Total
y+1	56	173	47	5	**281**
y+2	27	151	37	4	**219**
y+3	14	133	24	3	**174**
y+4	3	104	8	-	**115**
y+5	-	83	1	-	**84**
y+6 and subsequent years	-	173	-	-	**173**
Total at December 31, 2005	**100**	**817**	**117**	**12**	**1,046**
Total at December 31, 2004	**69**	**888**	**112**	**9**	**1,078**

Year-on-year changes in obligations under non-cancellable office leases essentially relate to the streamlining of the property portfolio (see Note 5 "Other operating income and expense").
Year-on-year changes in obligations under leases of IT equipment primarily reflect the recognition of the entire obligation under certain lease agreements included in the outsourcing contract signed with Schneider Electric (see Note 18 – "Cash and cash equivalents").

Office lease terms depend on the geographic area and vary between 5 and 25 years. Vehicle leases are short-term contracts of 3 to 5 years.
Commitments relating to non-cancellable leases are mainly given in North America (€231 million), the United Kingdom (€198 million), the Benelux countries (€157 million), France (€148 million), and Germany and Central Europe (€120 million). Lease payments recognized in the income statement during the year totalled €212 million.

• Commitments given on contracts primarily represent purchase orders to be issued under global purchase contracts and bank guarantees given to clients in connection with projects.

• Other commitments relate mainly to:
- guarantees given to the tax authorities in connection with tax disputes in France and Spain;
- commitments relating to employees in the Netherlands and Sweden.

c) Other commitments

Under the terms of the agreements signed in connection with the acquisition of the Ernst & Young consulting business, former partners of Ernst & Young who worked in the consulting business became employees of the Capgemini Group and as such have employment contracts. If any of these employees leaves the Group within a specified period – and by March 23, 2005 at the latest – they are required to return all or some of the shares received at the time of sale of the Ernst & Young consulting business to Capgemini. The number of shares to be returned depends on the reason for and timing of the employee's departure.

Cap Gemini S.A. as well as all subsidiaries and any companies at least 50%-owned, either directly or indirectly, are insured for possible financial losses resulting from general or professional liability claims arising in the course of their business. The coverage has been taken out with several different insurance companies as part of a worldwide insurance program. The program is reviewed and adjusted periodically to take into account any changes in the Group's revenues, businesses and risks.
€30 million of this program (compared with €20 million until October 15, 2005) is covered by a fully-consolidated captive reinsurance entity whose commitments are totally covered or re-insured.

On June 26, 2003 and June 28, 2004, Cap Gemini S.A. sold to a credit institution for €74 million and €33 million respectively, a tax receivable of €90 million and an additional tax receivable of €39 million due from the French Treasury resulting from the election to carry back the French tax loss generated in 2002. Under the sale agreements, Cap Gemini S.A. undertook to compensate the buyer for any difference between the amount of the credits sold and the amount effectively recoverable from the French Treasury. This undertaking expires on June 30, 2011.

Under IFRS, the sale of carry-back tax credits is treated as a guaranteed financing transaction. Further to an analysis of the risks and rewards related to these carry-back tax credits, they have been taken back to the consolidated balance sheet at present value, with a corresponding adjustment to financial debt. The related financial debt and carry-back credits should be derecognized in 2011, when the effective amount of payments due by the French Treasury in 2008 and 2009 to the buyer of the carry-back credits is known.

On October 20, 2003 Cap Gemini S.A. filed a public exchange offer to acquire all of the outstanding share capital of Transiciel, in which Transiciel shareholders were invited to exchange their shares under one of the two following options:

- Option 1: an exchange ratio of 1 new Capgemini share for every 3 Transiciel shares;
- Option 2: an exchange ratio of 5 new Capgemini shares plus 16 warrants giving entitlement to new Capgemini shares, for 16 Transiciel shares.

Option 2 includes an earn-out mechanism which would allow Transiciel shareholders to receive additional Capgemini shares subject to the Sogeti/Transiciel entity attaining certain earnings targets in 2004 and 2005. This earn-out mechanism is described in the prospectus which was approved by the "Commission des Opérations de Bourse" under reference no.03-935 on October 29, 2003. If the targets under Option 2 are met by the new Sogeti/Transiciel entity, shareholders who have chosen Option 2 would be entitled to receive a maximum of 508,600 new Capgemini shares – with a dividend entitlement date of January 1, 2006 – at the close of the extended public exchange offer for Transiciel shares on January 28, 2004. At December 31, 2005, the resulting additional purchase consideration was estimated at €11 million, i.e. 315,790 new shares (subject to validation by the third-party mediator as provided for by article 1.4.13.10 of the alternative public exchange offer) valued at €35.44 each (market price on December 18, 2003, the date of the Extraordinary Shareholders' Meeting which approved the transaction). The goodwill relating to Transiciel was adjusted to reflect this additional purchase consideration, with a corresponding adjustment to equity.

On April 12, 2005, the Group entered into an alliance with the Japanese Group N.T.T. Data Corporation providing for the sale of 95% of its stake in Capgemini Japan K.K. for €30 million. The sale agreement included a put option for the Capgemini Group in relation to its 5% residual interest in Zacatii Consulting Inc (formerly Capgemini Japan K.K.) and a call option for the N.T.T. Data Corporation in relation to the same shares. These options are exercisable for a period of two years as from July 14, 2008 at the higher of the market value of the shares at the exercise date and the valuation of the shares as determined based on the initial transaction cost (i.e. €1.6 million for the residual 5% stake in Zacatii Consulting Inc).

For various large contracts signed by Group entities (in particular the "ASPIRE" contract signed with the UK Inland Revenue on January 5, 2004 for an estimated amount of £3 billion, the TXU contract signed on May 17, 2004 for US$3.5 billion and the Schneider Electric Industries SAS contract signed on October 28, 2004 for €1.6 billion), the Group has provided a performance and/or a financial guarantee. In addition to the standard clauses, the outsourcing contract signed with TXU Energy Company LLC and TXU Electric Delivery Company (formerly named Oncor Electric Delivery Company) provides the TXU group with a right to terminate the contract if the Group's corporate credit rating is downgraded to below investment grade. The contract continued to remain in force following the downgrade of the Group's credit rating by Standard & Poor's on January 7, 2005.

On May 25, 2004, the Capgemini Group signed an agreement with France Telecom providing for the outsourcing of part of its telecommunications network for a term of eight years. Under the agreement, an indemnity is payable to either Capgemini or France Telecom depending on whether or not actual purchase volumes are higher or lower than the level specified in the agreement. Capgemini's maximum liability under this agreement amounted to €19.8 million at December 31, 2005.

NOTE 27~SEGMENT INFORMATION

I. SEGMENT REPORTING BY GEOGRAPHIC AREA

At December 31, 2005 the Group had operations in the following eight geographic areas:

GEOGRAPHIC AREA	COUNTRIES
North America	Canada, United States, Mexico
United Kingdom and Ireland	United Kingdom, Ireland
Nordic countries	Sweden, Finland, Denmark, Norway
Benelux countries	Netherlands, Belgium, Luxembourg
Germany and Central Europe	Germany, Austria, Switzerland, Hungary, Poland, Czech Republic, Slovakia, Serbia
France	France
Southern Europe	Spain, Portugal, Italy
Asia-Pacific	Australia, China, India, Indonesia, Japan, Malaysia, Singapore

A) Analysis of segment profit/(loss)

Segment profit/(loss) for the year 2005 breaks down as follows:

in millions of euros	North America	United Kingdom & Ireland	Nordic countries	Benelux countries	Germany & Central Europe	France	Southern Europe	Asia-Pacific	Not allocated (1)	Éliminations	Total
REVENUES											
External revenue	1,353	1,738	415	956	443	1,666	310	73	-	-	**6,954**
Inter-segment revenue	17	50	17	49	42	67	22	70	-	(334)	-
Revenues	**1,370**	**1,788**	**432**	**1,005**	**485**	**1,733**	**332**	**143**	**-**	**(334)**	**6,954**
OPERATING MARGIN											
Operating margin	(26)	67	24	101	36	44	9	9	(39)	-	**225**
%	*(1.9)*	*3.8*	*5.9*	*10.6*	*8.2*	*2.6*	*2.9*	*12.1*	-	-	**3.2**
OPERATING PROFIT/(LOSS)											
Operating profit/(loss)	20	56	14	85	50	16	5	8	(40)	-	**214**
Finance costs, net											**(24)**
Other financial income and expense, net											**(14)**
Income tax expense											**(35)**
Profit for the period											**141**
Profit attributable to equity holders of the parent											**141**

(1) Items not allocated correspond to headquarters' expenses.

The operating margin reported by France in 2005 was hit by the negative results generated over the period on the Schneider contract. This contract, begun at the end of 2004, represents an ambitious and complex transformational process leading the Group to reschedule the timeframe of the project and renegotiate certain aspects of the contract, with the client's agreement.

Segment profit/(loss) for the year 2004 breaks down as follows:

in millions of euros	North America	United Kingdom & Ireland	Nordic countries	Benelux countries	Germany & Central Europe	France	Southern Europe	Asia-Pacific	Not allocated (1)	Éliminations	Total
REVENUES											
External revenue	1,351	1,288	391	857	477	1,479	299	93	-	-	**6,235**
Inter-segment revenue	13	35	12	45	23	64	12	50	-	(254)	-
REVENUES	**1,364**	**1,323**	**403**	**902**	**500**	**1,543**	**311**	**143**	**-**	**(254)**	**6,235**
OPERATING MARGIN											
Operating margin	(108)	8	1	46	15	54	(10)	3	(33)	-	**(24)**
%	*(8.0)*	*0.6*	*0.3*	*5.4*	*3.1*	*3.6*	*(3.3)*	*3.2*	-	-	**(0.4)**
OPERATING PROFIT/(LOSS)											
Operating profit/(loss)	(149)	(26)	(15)	(2)	(6)	(10)	(41)	1	(33)	-	**(281)**
Finance cost, net											**(28)**
Other financial income and expense, net											**1**
Income tax expense											**(226)**
Profit/(loss) for the period											**(534)**
Profit/(loss) attributable to equity holders of the parent											**(534)**

(1) Items not allocated correspond to headquarters' expenses.

B) Analysis of depreciation, amortization and expenses with no cash impact

Depreciation, amortization and expenses with no cash impact break down as follows for the year 2005:

in millions of euros	North America	United Kingdom & Ireland	Nordic countries	Benelux countries	Germany & Central Europe	France	Southern Europe	Asia-Pacific	Non allocated	**Total**
Depreciation and amortization expense	(47)	(47)	(8)	(25)	(24)	(25)	(4)	(5)	(1)	(186)
Additions to/reversals from provisions (1)	1	(1)	-	(1)	-	(10)	(1)	1	-	(11)
Unrealized exchange gains and losses	-	-	-	-	-	-	-	-	-	-
TOTAL	**(46)**	**(48)**	**(8)**	**(26)**	**(24)**	**(35)**	**(5)**	**(4)**	**(1)**	**(197)**

(1) This item includes net movements in provisions for doubtful accounts and current and non-current provisions.

Depreciation, amortization and expenses with no cash impact break down as follows for the year 2004:

in millions of euros	North America	United Kingdom & Ireland	Nordic countries	Benelux countries	Germany & Central Europe	France	Southern Europe	Asia-Pacific	Non allocated	**Total**
Depreciation and amortization expense	(49)	(60)	(9)	(28)	(32)	(27)	(5)	(4)	(1)	(215)
Additions to provisions	(2)	(1)	-	(2)	(3)	(3)	(1)	(3)	-	(15)
Unrealized exchange gains and losses	-	-	-	-	-	-	-	-	-	-
TOTAL	**(51)**	**(61)**	**(9)**	**(30)**	**(35)**	**(30)**	**(6)**	**(7)**	**(1)**	**(230)**

C) Analysis of segment assets and liabilities

The location of assets corresponds to the location of the Group's clients, except for those concerning outsourcing centers such as in India.

Segment assets and liabilities broke down as follows at December 31, 2005:

in millions of euros	North America	United Kingdom & Ireland	Nordic countries	Benelux countries	Germany & Central Europe	France	Southern Europe	Asia-Pacific	Non allocated	Elimina-tion	**Total**
Segment assets (external)	685	981	257	899	348	1,348	201	71	178	-	4,968
Inter-segment assets	22	22	9	19	15	65	9	18	36	(215)	-
Total segment assets	**707**	**1,003**	**266**	**918**	**363**	**1,413**	**210**	**89**	**214**	**(215)**	**4,968**
Deferred income tax assets											811
Recoverable income tax											21
Short-term investments											1,805
Derivative instruments (1)											-
TOTAL ASSETS											**7,605**
Segment liabilities (external)	601	901	155	321	165	861	143	38	28	-	3,213
Inter-segment liabilities	41	46	11	32	18	45	10	(1)	10	(212)	-
Total segment liabilities	**642**	**947**	**166**	**353**	**183**	**906**	**153**	**37**	**38**	**(212)**	**3,213**
Total equity											2,992
Deferred income tax liabilities											121
Current income tax liabilities											47
Financial debt and bank overdrafts											1,231
Derivative instruments (1)											1
TOTAL EQUITY AND LIABILITIES											**7,605**

(1) Interest rate hedges (see Note 19 – "Derivative instruments").

Segment assets and liabilities broke down as follows at December 31, 2004:

in millions of euros	North America	United Kingdom & Ireland	Nordic countries	Benelux countries	Germany & Central Europe	France	Southern Europe	Asia-Pacific	Non allocated	Elimination	**Total**
Segment assets (external)	690	1,010	299	814	383	1,210	209	57	158	-	4,830
Inter-segment assets	29	23	6	21	11	35	6	15	21	(167)	-
Total segment assets	**719**	**1,033**	**305**	**835**	**394**	**1,245**	**215**	**72**	**179**	**(167)**	**4,830**
Deferred income tax assets											775
Recoverable income tax											29
Short-term investments											1,001
Derivative instruments (1)											1
TOTAL ASSETS											**6,636**
Segment liabilities (external)	464	731	176	225	200	756	161	34	2	-	2,749
Inter-segment liabilities	36	23	7	23	31	23	8	9	3	(163)	-
Total segment liabilities	**500**	**754**	**183**	**248**	**231**	**779**	**169**	**43**	**5**	**(163)**	**2,749**
Total equity											2,788
Deferred income tax liabilities											95
Current income tax liabilities											56
Financial debt and bank overdrafts											948
Derivative instruments (1)											-
TOTAL EQUITY AND LIABILITIES											**6,636**

(1) Interest rate hedges (see Note 19 – "Derivative instruments").

D) Analysis of acquisitions of intangible assets and property, plant and equipment

Acquisitions of intangible assets and property, plant and equipment can be analyzed as follows:

AT DECEMBER 31 *(in millions of euros)*	**2004**	**2005**
North America	35	38
United Kingdom and Ireland	61	27
Nordic countries	8	8
Benelux countries	20	9
Germany and Central Europe	54	20
France	29	24
Southern Europe	2	8
Asia-Pacific	7	8
TOTAL	**216**	**142**

The acquisition cost of intangible assets and property, plant and equipment set out in the table above (€142 million) is different from the figure provided in the cash flow statement as the cash flow statement does not include transactions with no cash impact such as acquisitions of assets held under finance leases.

II. SEGMENT REPORTING BY BUSINESS SEGMENTS

At December 31, 2005, the Group's services were organized into four businesses:

Consulting Services, which involves helping to enhance the performance of organizations, based on in-depth knowledge of client industries and processes.

Technology Services, which involves integrating IT systems and applications, enabling the planning, design, management and development of IT systems and applications.

Outsourcing Services, which involves the Group taking charge of clients' transformation and outsourcing of support functions and includes a Business Process Outsourcing offering.

Local Professional Services, which involves providing IT assistance and expertise within client companies.

Revenue breaks down as follows by business segment:

	2004		2005	
in millions of euros	**Amount**	**%**	**Amount**	**%**
Consulting Services	1,027	16	918	13
Technology Services	2,163	35	2,307	33
Outsourcing Services	2,034	33	2,611	38
Local Professional Services	1,011	16	1,118	16
TOTAL	**6,235**	**100**	**6,954**	**100**

Operating margin breaks down as follows by business segment:

	2004		2005	
in millions of euros	**Amount**	**%**	**Amount**	**%**
Consulting Services	10	1.1	41	4.5
Technology Services	(44)	(2.0)	118	5.1
Outsourcing Services	(40)	(2.0)	3	0.1
Local Professional Services	83	7.8	102	9.1
Unallocated	(33)	-	(39)	-
TOTAL	**(24)**	**(0.4)**	**225**	**3.2**

NOTE 28~NUMBER OF EMPLOYEES

A) Average number of employees

The breakdown of average headcount across the Group geographic areas is as follows:

	2003		2004		2005	
	Employees	**%**	**Employees**	**%**	**Employees**	**%**
North America	8, 832	18	8, 338	15	7, 381	12
United Kingdom and Ireland	6, 651	14	7, 471	13	8, 668	15
Nordic countries	3, 926	8	3, 652	6	3, 439	6
Benelux countries	8, 098	16	8, 356	15	8, 402	14
Germany and Central Europe	3, 026	6	3, 256	6	3, 487	6
France	12, 905	26	18, 443	32	19, 196	32
Southern Europe	4, 563	9	5, 210	9	5, 246	9
Asia-Pacific	1, 655	3	2, 509	4	3, 762	6
Not allocated	149	-	152	-	153	-
TOTAL	**49 805**	**100**	**57 387**	**100**	**59 734**	**100**

B) Number of employees at December 31

The breakdown of headcount at December 31 across the Group geographic areas is as follows:

AT DECEMBER 31	2003		2004		2005	
	Employees (*)	%	Employees	%	Employees	%
North America	7, 914	14	8, 893	15	6, 351	10
United Kingdom and Ireland	6, 496	12	8, 534	14	8, 826	15
Nordic countries	3, 672	7	3, 485	6	3, 429	6
Benelux countries	8, 540	15	8, 306	14	8, 613	14
Germany and Central Europe	3, 055	5	3, 390	6	3, 732	6
France	18, 301	33	18, 508	31	19, 714	32
Southern Europe	5, 404	10	5, 151	9	5, 591	9
Asia-Pacific	2, 053	4	2, 901	5	4, 628	8
Not allocated	141	-	156	-	152	-
TOTAL	**55 576**	**100**	**59 324**	**100**	**61 036**	**100**

(*) includes Transiciel (7,272 employees), acquired end of 2003.

NOTE 29~SUBSEQUENT EVENTS

On January 16, 2006, TXU Energy Company LLC notified our subsidiary Capgemini Energy LP of a failure to comply with its service obligations as a call center, based on satisfaction surveys conducted of customers referred to in the contracts. The response of Capgemini Energy LP, sent to TXU on February 2, formally contested this allegation and negotiations are currently in progress with a conclusion is expected to be reached shortly. Although TXU has not waived its contractual rights, it has not undertaken any steps to terminate all or part of the contract and it continues to speak positively of its beneficial relations with Capgemini in its various external financial communications, and of significant improvements in results and performance, including in the area of client relationships.

On February 2, 2006, as part of a bid initiated by General Motors (GM), Capgemini America Inc, Capgemini UK Plc, Capgemini Systems GmbH and Capgemini International B.V. jointly signed a five-year contract for over US$500 million covering several projects that are important to GM's shift to the “third-generation” outsourcing program.

On February 14, 2006, Cap Gemini S.A. was summoned to appear before the Paris Commercial Court by Georges Cohen, the former managing director of Transiciel (acquired by the Company in December 2003 through a public exchange offer), who is challenging both the exchange ratio applicable to this offer and the terms and conditions of his departure from the Group. The Group considers that Georges Cohen's claim is fully unfounded and no provision has therefore been raised in this respect in its 2005 consolidated financial statements.

At the Annual Shareholders' Meeting, the Board of Directors will recommend a dividend payment of €0.5 per share for 2005.

NOTE 30~**LIST OF CONSOLIDATED COMPANIES BY COUNTRY**

At December 31, 2005 a total of 108 companies were consolidated by the Group.

Country	Consolidated companies	% interest	Consolidation method
GERMANY	Capgemini Deutschland GmbH	100.0%	FC
	Capgemini Deutschland Holding GmbH	100.0%	FC
	Capgemini Systems GmbH	100.0%	FC
	Software Design and Management AG (Munchen)	100.0%	FC
	Sogeti Deutschland GmbH	100.0%	FC
	Cap Gemini Telecom Media & Networks Deutschland GmbH	100.0%	FC
AUSTRALIA	Capgemini Australia Pty Ltd.	100.0%	FC
	Capgemini Business Services Australia Pty Ltd.	100.0%	FC
AUSTRIA	Capgemini Consulting Österreich AG	100.0%	FC
BELGIUM	Capgemini Belgium N.V./S.A.	100.0%	FC
	Sogeti Belgium S.A.	100.0%	FC
	Sogeti-Transiciel International S.A.	100.0%	FC
CANADA	Capgemini New Brunswick Inc.	100.0%	FC
	Capgemini Nova Scotia Ltd.	100.0%	FC
	Capgemini Canada Inc.	100.0%	FC
	Inergi Inc.	100.0%	FC
	Inergi LP	100.0%	FC
	New Horizons System Solutions LP	100.0%	FC
	New Horizons System Solutions Inc.	100.0%	FC
CHINA	Capgemini (Shanghai) Co. Ltd.	100.0%	FC
	Capgemini Hong Kong Ltd.	100.0%	FC
	Capgemini Data Processing Shenzen Ltd.	100.0%	FC
	Capgemini Business Services (China) Ltd.	100.0%	FC
	OneResource Ltd	100.0%	FC
	Capgemini Business Services (Asia) Ltd.	100.0%	FC
DENMARK	Capgemini Danmark AS	100.0%	FC
SPAIN	Capgemini España, S.L.	100.0%	FC
	Sogeti España S.L.	100.0%	FC
UNITED STATES	BiosGroup Inc.	38.03%	EQ
	BIOS GP Inc.	100.0%	FC
	Capgemini America Inc.	100.0%	FC
	Capgemini Applications Services LLC	100.0%	FC
	Capgemini Kansas City Service Center LLC	100.0%	FC
	Capgemini U.S. Consulting B.V.	100.0%	FC
	Capgemini Holding Inc.	100.0%	FC
	Capgemini U.S. LLC	100.0%	FC
	Capgemini North America Inc.	100.0%	FC
	Capgemini Technologies LLC	100.0%	FC
	Capgemini Government Solutions LLC	100.0%	FC
	Sogeti USA LLC	100.0%	FC
	Capgemini Energy GP LLC	100.0%	FC
	Capgemini Energy Holdings LLC	100.0%	FC
	Capgemini Energy LP	97.1%	FC
FINLAND	Capgemini Finland Oy	100.0%	FC

FC = Fully consolidated; EQ = Accounted for by the equity method.

Country	Consolidated companies	% interest	Consolidation method
FRANCE	Cap Gemini S.A.	Parent company	FC
	Answork	14.8%	EQ
	Capgemini France S.A.S	100.0%	FC
	Capgemini Gouvieux S.A.S	100.0%	FC
	Capgemini Service S.A.S.	100.0%	FC
	Capgemini Université S.A.S	100.0%	FC
	Immobilière Les Fontaines S.A.R.L.	100.0%	FC
	SCI Béhoust	100.0%	FC
	SCI Paris Etoile	100.0%	FC
	Capgemini Consulting S.A.S.	100.0%	FC
	Capgemini Finance et Services S.A.S.	100.0%	FC
	Capgemini Industrie et Distribution S.A.S.	100.0%	FC
	Capgemini Est S.A.S.	100.0%	FC
	Capgemini Ouest S.A.S.	100.0%	FC
	Capgemini Sud S.A.S.	100.0%	FC
	Capgemini Outsourcing Services S.A.S.	100.0%	FC
	Capgemini OS Electric S.A.S.	100.0%	FC
	Cap Gemini Telecom & Media S.A.S	100.0%	FC
	Sogeti-Transiciel S.A.S.	100.0%	FC
	Sogeti-Transiciel Infrastructure Service S.A.S.	100.0%	FC
	Sogeti-Transiciel Application Service S.A.S.	100.0%	FC
	Sogeti-Transiciel Technology S.A.S.	100.0%	FC
	Sogeti-Transiciel Régions S.A.	100.0%	FC
	Sinfor Automation S.A.	100.0%	FC
	Sogeti-Transiciel Services S.A.S.	100.0%	FC
	Retec S.A.	100.0%	FC
	Chryseis Micro et Réseaux E.U.R.L.	100.0%	FC
UNITED KINGDOM	Capgemini UK Plc	100.0%	FC
	CGS Holdings Ltd.	100.0%	FC
	Gemini Consulting Holding Ltd. (UK)	100.0%	FC
	Sogeti UK	100.0%	FC
HUNGARY	Capgemini Magyarorszag Kft	100.0%	FC
INDIA	Capgemini Consulting India Private Ltd.	100.0%	FC
IRELAND	Capgemini Ireland Ltd.	100.0%	FC
ITALY	Capgemini Italia S.p.A.	100.0%	FC
LUXEMBOURG	Sogeti Luxembourg S.A.	100.0%	FC
	Capgemini Reinsurance Company S.A.	100.0%	FC
	Sogeti PSF Luxembourg S.A.	100.0%	FC
MEXICO	Capgemini Mexico S. de R.L. de C.V.	100.0%	FC
NORWAY	Capgemini Norge AS	100.0%	FC

FC = Fully consolidated; EQ = Accounted for by the equity method.

Country	Consolidated companies	% interest	Consolidation method
NETHERLANDS	Capgemini Outsourcing B.V.	100.0%	FC
	Capgemini Interim Management B.V.	100.0%	FC
	Capgemini Nederland B.V.	100.0%	FC
	Capgemini Sourcing B.V.	100.0%	FC
	Capgemini Educational Services B.V.	100.0%	FC
	Capgemini N.V.	100.0%	FC
	Paul Postma Marketing Consultancy B.V.	100.0%	FC
	Capgemini Datacenter Amsterdam B.V.	100.0%	FC
	Sogeti Nederland B.V.	100.0%	FC
	Capgemini International B.V.	100.0%	FC
	Cap Gemini Telecom Media & Networks Nederland B.V.	100.0%	FC
POLAND	Capgemini Polska Sp z.o.o.	100.0%	FC
PORTUGAL	Capgemini Portugal, Serviços de Consultoria e Informatica S.A.	100.0%	FC
CZECH REPUBLIC	Capgemini Czech Republic S.r.o.	100.0%	FC
SERBIA	Capgemini d.o.o (Serbia and Montenegro)	100.0%	FC
SINGAPORE	Capgemini Asia Pacific Pte Ltd.	100.0%	FC
SLOVAKIA	Capgemini Slovensko, s.r.o.	100.0%	FC
SWEDEN	Capgemini AB	100.0%	FC
	Capgemini Sverige AB	100.0%	FC
	Sogeti Sverige AB	100.0%	FC
SWITZERLAND	Capgemini Suisse S.A.	100.0%	FC
	SD&M Schweiz AG	100.0%	FC
	Ad Hoc Management	100.0%	FC
	Sogeti Suisse S.A.	100.0%	FC

FC = Fully consolidated; EQ = Accounted for by the equity method.

NOTE 31~**IMPACT OF THE TRANSITION TO IFRS ON THE 2004 FINANCIAL STATEMENTS**

I. BACKGROUND

In compliance with European Commission Regulation no. 1606/2002 of July 19, 2002 on the application of international accounting standards, the consolidated financial statements of the Capgemini Group for the year ended December 31, 2005 have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), applicable at December 31, 2005, as adopted by the European Union. Capgemini's first published IFRS consolidated financial statements were set out in the Group's Interim Report for the six months ended June 30, 2005. Comparative information was provided for first-half 2004, restated in accordance with the same standards.

For comparison purposes, the Group has prepared financial information for 2004 restated in accordance with IAS/IFRS, including:
- The balance sheet at the transition date (January 1, 2004);
- The Group's financial position at December 31, 2004 and its performance during the year then ended.

The 2004 financial information (restated in accordance with IFRS) concerning the expected impact of IFRS transition was presented in the Capgemini Group's Interim Report for first-half 2005 (see IV – "Main impacts on the consolidated financial statements as a result of adopting IAS/IFRS").
It was prepared by applying to 2004 data the IFRSs/IASs and interpretations that the Capgemini Group expected to be required to apply when preparing the comparative 2004 financial statements to be published with the IFRS financial statements for full-year 2005. The opening balance sheet used to prepare the 2005 consolidated financial statements presented in the 2005 Annual Report, is the same as that presented in the Capgemini Group's Interim Report for first-half 2005.

The 2004 financial information described in the notes has therefore been prepared on the basis of:
- The IFRSs/IASs and related interpretations whose application is compulsory at December 31, 2005;
- The options chosen and exemptions applied by the Group to prepare its first set of IFRS consolidated financial statements for the year ended December 31, 2005.

This information was subject to a review by the Audit Committee and to audit procedures by the Statutory Auditors.

II. STANDARDS AND INTERPRETATIONS APPLIED TO PREPARE THE PRELIMINARY IFRS FINANCIAL INFORMATION

A) Description of the standards applied

See Note 1 – "Accounting policies".

B) Description of accounting treatments applied by the Group on first-time adoption of IFRS

Apart from the treatments applied on first-time adoption, the value of assets and liabilities in the opening balance sheet at January 1, 2004 has been restated retrospectively as if the Group had always applied IAS/IFRS.
As allowed under IFRS 1 – "First-time Adoption of International Financial Reporting Standards", the Group has selected the following accounting treatments for first-time adoption:

Business combinations

The Group has elected not to restate business combinations carried out prior to January 1, 2004, as allowed under IFRS 3 – "Business Combinations".

Actuarial gains and losses on employee benefits

The Group has elected to recognize in provisions for pensions and other post-retirement benefits all cumulative actuarial gains and losses on employee benefits at the date of transition to IFRS. This adjustment had a €9 million negative impact on consolidated equity (after tax) at January 1, 2004.

Cumulative translation adjustments

The Capgemini Group has reclassified under retained earnings the cumulative translation adjustment at January 1, 2004 relating to the conversion of the accounts of foreign subsidiaries. The total amount reclassified was €(236) million. This adjustment had no impact on total opening equity at January 1, 2004. The value of translation adjustments in the IFRS consolidated financial statements has therefore been set to zero as at January 1, 2004. If one of the subsidiaries concerned is subsequently sold, the gain or loss on disposal will not include the impact of any translation adjustments recorded prior to January 1, 2004.

Share-based payment

The Group has applied IFRS 2 – "Share-based Payment", for stock options granted after November 7, 2002 which had not yet vested at January 1, 2005. This restatement had no impact on opening equity. The related expense recorded in the 2004 statement of income amounted to €4 million.

The Group has elected not to use the following exemptions provided for under IFRS 1 – "First-time Adoption of International Financial Reporting Standards":

- Fair value or revaluation as deemed cost;
- Compound financial instruments;
- Assets and liabilities of subsidiaries, associates and joint ventures;
- Designation of previously recognized financial instruments;
- Insurance contracts;
- Decommissioning liabilities included in the cost of property, plant and equipment;
- Leases;
- Fair value measurement of financial assets or financial liabilities at initial recognition.

III. RECONCILIATIONS BETWEEN THE FRENCH GAAP AND IFRS BALANCE SHEETS AND INCOME STATEMENTS

A) Reconciliation between French GAAP and re-formatted IFRS consolidated balance sheets at January 1, 2004 (reclassifications)

ASSETS *in millions of euro*	French GAAP at Jan.1, 2004	Advances received from customers	Accounts and notes receivable	Deferred income taxes	Assets available for sale	Other	French GAAP re-formatted into IFRS format	ASSETS *(in millions of euros)*
Notes (section IV)		*(J)*						
Intangible assets	1,849	-	-	-	-	14	1,863	Intangible assets
Property, plant and equipment	471	-	-	-	(21)	(2)	448	Property, plant and equipment
Financial assets	88	-	-	-	-	-	88	Financial assets
Long-term deferred tax assets	671	-	-	103	-	-	774	Deferred tax assets
	-	-	7	-	-	(1)	6	Non current receivables
Total non-current assets	**3,079**	**-**	**7**	**103**	**(21)**	**11**	**3,179**	**Total non-current assets**
Accounts and notes receivable	1,411	343	(28)	-	-	12	1,738	Accounts and notes receivable
Other receivables	320	-	21	(103)	-	(6)	232	Other receivables
	-	-	-	-	21	-	21	Assets held for sale
Short-term investments	929	-	-	-	-	-	929	Short-term investments
Cash	292	-	-	-	-	-	292	Cash
Total current assets	**2,952**	**343**	**(7)**	**(103)**	**21**	**6**	**3,212**	**Total current assets**
Total assets	**6,031**	**343**	**-**	**-**	**-**	**17**	**6,391**	**Total assets**

EQUITY AND LIABILITIES *in millions of euros*	French GAAP at Jan. 1, 2004	Advances received from customers	Provisions for pensions and other post-retirement benefits	Provisions for other liabilities and charges	Other liabilities	Employee profit sharing reserve	Current income tax liabilities	Deferred income taxes	Other	French GAAP reformatted into IFRS format	EQUITY AND LIABILITIES *(in millions of euros)*
Notes (section IV)		*(J)*									
Share capital	1,049	-	-	-	-	-	-	-	-	1,049	Share capital
Additional paid-in capital	2,220	-	-	-	-	-	-	-	-	2,220	Additional paid-in capital
Retained earnings and other reserves	82	-	-	-	-	-	-	-	-	82	Retained earnings and other reserves
Shareholders' equity	**3,351**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,351**	**Capital and reserves attributable to equity holders**
Long-term debt	722	-	-	-	-	-	-	-	(3)	719	Long-term financial debt
	-	-	-	-	-	-	-	70	-	70	Deferred tax liabilities
	-	-	101	-	-	-	-	-	(1)	100	Provisions for pensions and other post-retirement benefits
Provisions and other long-term liabilities	258	-	(101)	(19)	-	(62)	-	(52)	-	24	Non-current provisions
	-	-	-	-	50	62	-	-	1	113	Other non-current liabilities
Total long-term liabilities	**980**	**-**	**-**	**(19)**	**50**	**-**	**-**	**18**	**(3)**	**1,026**	**Total non-current liabilities**
Short-term debt and bank overdrafts	233	-	-	-	-	-	-	-	3	236	Short-term financial debt and bank overdrafts
Accounts and notes payable	1,384	343	-	-	(50)	(13)	-	-	9	1,673	Accounts and notes payable
	-	-	-	19	-	-	-	-	-	19	Current provisions
	-	-	-	-	-	-	53	-	8	61	Current income tax liabilities
Other payables	83	-	-	-	-	13	(53)	(18)	-	25	Other payables
Total current liabilities	**1,700**	**343**	**-**	**19**	**(50)**	**-**	**-**	**(18)**	**20**	**2,014**	**Total current liabilities**
Total equity and liabilities	**6,031**	**343**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**6,391**	**Total equity and liabilities**

N.B : The columns entitled "Other" in Table A and the other tables below include an aggregate of adjustments which are non-material when taken individually.

B) Reconciliation between re-formatted IFRS and restated IFRS consolidated balance sheets at January 1, 2004 (restatements)

ASSETS *in millions of euros*	French GAAP re-formatted into IFRS format	Revenue recognition	Recognition of outsourcing contract costs	Provisions for pensions and other post-retirement benefits	Carry- back credit	Cancellation of deferred tax discounting	OCEANE bonds	Finance leases	Other	Restated under IFRS Jan. 1, 2004
Notes (section IV)		*(A)*	*(B)*	*(C)*	*(E)*	*(E)*	*(G)*	*(H)*		
Intangible assets	1,863	-	-	-	-	-	-	-	1	1,864
Property, plant and equipment	448	-	-	-	-	-	-	65	1	514
Financial assets	88	-	-	-	-	-	-	-	-	88
Deferred tax assets	774	-	9	7	-	218	-	-	6	1,014
Non current receivables	6	-	-	-	75	-	-	-	1	82
Total non-current assets	**3,179**	**-**	**9**	**7**	**75**	**218**	**-**	**65**	**9**	**3,562**
Accounts and notes receivable	1,738	12	-	-	-	-	-	-	-	1,750
Other receivables	232	-	(29)	-	-	-	(8)	-	2	197
Assets held for sale	21	-	-	-	-	-	-	-	-	21
Short-term investments	929	-	-	-	-	-	-	-	-	929
Cash	292	-	-	-	-	-	-	-	-	292
Total current assets	**3,212**	**12**	**(29)**	**-**	**-**	**-**	**(8)**	**-**	**2**	**3,189**
Total assets	**6,391**	**12**	**(20)**	**7**	**75**	**218**	**(8)**	**65**	**11**	**6,751**
Commitments received	9									

EQUITY AND LIABILITIES *in millions of euros*	French GAAP re-formatted into IFRS format	Revenue recognition	Recognition of outsourcing contract costs	Provisions for pensions and other post-retirement benefits	Carry- back credit	Cancellation of deferred tax discounting	OCEANE bonds	Finance leases	Other	Restated under IFRS Jan. 1, 2004
Notes (section IV)		*(A)*	*(B)*	*(C)*	*(E)*	*(E)*	*(G)*	*(H)*		
Share capital	1,049	-	-	-	-	-	-	-	-	1,049
Additional paid-in capital	2,220	-	-	-	-	-	-	-	-	2,220
Retained earnings and other reserves	82	12	(20)	(279)	-	218	33	(1)	(7)	38
Capital and reserves attributable to equity holders	**3,351**	**12**	**(20)**	**(279)**	**-**	**218**	**33**	**(1)**	**(7)**	**3,307**
Long-term financial debt	719	-	-	-	75	-	(61)	56	1	790
Deferred tax liabilities	70	-	-	-	-	-	20	-	4	94
Provisions for pensions and other post-retirement benefits	100	-	-	285	-	-	-	-	-	385
Non-current provisions	24	-	-	-	-	-	-	-	-	24
Other non current liabilities	113	-	-	-	-	-	-	-	10	123
Total non-current liabilities	**1,026**	**-**	**-**	**285**	**75**	**-**	**(41)**	**56**	**15**	**1,416**
Short-term financial debt and bank overdrafts	236	-	-	-	-	-	-	10	-	246
Accounts and notes payable	1,673	-	-	-	-	-	-	-	-	1,673
Current provisions	19	-	-	1	-	-	-	-	-	20
Current income tax liabilities	61	-	-	-	-	-	-	-	-	61
Other payables	25	-	-	-	-	-	-	-	3	28
Total current liabilities	**2,014**	**-**	**-**	**1**	**-**	**-**	**-**	**10**	**3**	**2,028**
Total equity and liabilities	**6,391**	**12**	**(20)**	**7**	**75**	**218**	**(8)**	**65**	**11**	**6,751**
Commitments given	1,343									

N.B : Off-balance sheet commitments are now disclosed in separate tables (see notes III-I and III-J) rather than at the foot of the balance sheet.

C) Reconciliation between French GAAP and re-formatted IFRS consolidated balance sheets at December 31, 2004 (reclassifications)

ASSETS *in millions of euros*	French GAAP at Dec. 31, 2004	Advances received from customers	Accounts and notes receivable	Deferred taxes	Assets held for sale	Other	French GAAP re-formatted into IFRS format	ASSETS *(in millions of euros)*
Notes (section IV)		*(J)*						
Intangible assets	1,884	-	-	-	-	2	1,886	Intangible assets
Property, plant and equipment	460	-	-	-	(17)	(3)	440	Property, plant and equipment
Financial assets	64	-	-	-	-	-	64	Financial assets
Long-term deferred tax assets	558	-	-	95	-	(5)	648	Deferred tax assets
	-	-	18	-	-	(9)	9	Non current receivables
Total non-current assets	**2,966**	**-**	**18**	**95**	**(17)**	**(15)**	**3,047**	**Total non-current assets**
Accounts and notes receivable	1,316	484	(18)	-	-	23	1,805	Accounts and notes receivable
Other receivables	296	-	-	(95)	-	10	211	Other receivables
	-	-	-	-	17	-	17	Assets held for sale
Short-term investments	1,001	-	-	-	-	-	1,001	Short-term investments
Cash	251	-	-	-	-	-	251	Cash
Total current assets	**2,864**	**484**	**(18)**	**(95)**	**17**	**33**	**3,285**	**Total current assets**
Total assets	**5,830**	**484**	**-**	**-**	**-**	**18**	**6,332**	**Total assets**

EQUITY AND LIABILITIES *in millions of euros*	French GAAP at Dec. 31, 2004	Advances received from customers	Provisions for pensions and other post-retirement benefits	Provisions for liabilities and charges	Other liabilities	Employee profit-sharing reserve	Current income tax liabilities	Deferred taxes	Other	French GAAP re-formatted into IFRS format	EQUITY AND LIABILITIES *(in millions of euros)*
Notes (section IV)		*(J)*									
Share capital	1,051	-	-	-	-	-	-	-	-	1,051	Share capital
Additional paid-in capital	2,226	-	-	-	-	-	-	-	-	2,226	Additional paid-in capital
Retained earnings and other reserves	82	-	-	-	-	-	-	-	-	82	Retained earnings and other reserves
Loss for the year	(359)	-	-	-	-	-	-	-	-	(359)	Profit/(loss) for the period
Shareholders' equity	**3,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,000**	**Capital and reserves attributable to equity holders**
Minority interest	2	-	-	-	-	-	-	-	-	2	Minority interest
Total equity	**3,002**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,002**	**Total equity**
Long-term debt	653	-	-	-	-	-	-	-	1	654	Long-term financial debt
	-	-	-	-	-	-	-	78	(4)	74	Deferred tax liabilities
	-	-	123	-	-	-	-	-	(3)	120	Provisions for pensions and other post-retirement benefits
Provisions and other long-term liabilities	255	-	(123)	(18)	-	(38)	-	(55)	(2)	19	Non-current provisions
	-	-	-	-	78	38	-	-	-	116	Other non-current liabilities
Total long-term liabilities	**908**	**-**	**-**	**(18)**	**78**	**-**	**-**	**23**	**(8)**	**983**	**Total non-current liabilities**
Short-term debt and and bank overdrafts	197	-	-	-	-	-	-	-	(1)	196	Short-term financial debt bank overdrafts
Accounts and notes payable	1,634	484	-	-	(78)	(23)	-	-	23	2,040	Accounts and notes payable
	-	-	-	18	-	-	-	-	4	22	Current provisions
	-	-	-	-	-	-	56	-	-	56	Current income tax liabilities
Other payables	89	-	-	-	-	23	(56)	(23)	-	33	Other payables
Total current liabilities	**1,920**	**484**	**-**	**18**	**(78)**	**-**	**-**	**(23)**	**26**	**2,347**	**Total current liabilities**
Total equity and liabilities	**5,830**	**484**	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**6,332**	**Total equity and liabilities**

D) Reconciliation between re-formatted IFRS and restated IFRS consolidated balance sheets at December 31, 2004 (restatements)

ASSETS *in millions of euros*	French GAAP reformatted into IFRS format	Revenue recognition	Recognition of outsourcing contract costs	Provisions for pensions and other post-retirement benefits	Impairment and amortization of goodwill	Consolidation of Transiciel	Carry-back credit	Cancellation of deferred tax discounting	OCEANE bonds	Finance leases	Put options on minority interests	Other	Restated under IFRS Dec. 31, 2004
Notes (section IV)		*(A)*	*(B)*	*(C)*	*(D)*	*(D)*	*(E)*	*(E)*	*(G)*	*(H)*	*(I)*		
Intangible assets	1,886	-	(4)	-	26	(16)	-	-	-	-	71	-	1,963
Property, plant and equipment	440	-	-	-	-	-	-	-	-	7	-	2	449
Financial assets	64	-	-	-	-	-	-	-	-	-	-	-	64
Deferred tax assets	648	-	9	7	-	-	-	106	-	-	-	5	775
Non current receivables	9	-	-	-	-	-	112	-	-	-	-	3	124
Total non-current assets	**3,047**	**-**	**5**	**7**	**26**	**(16)**	**112**	**106**	**-**	**7**	**71**	**10**	**3,375**
Accounts and notes receivable	1,805	2	7	-	-	-	-	-	-	-	-	-	1,814
Other receivables	211	-	(26)	-	-	-	-	-	(6)	-	-	(1)	178
Assets held for sale	17	-	-	-	-	-	-	-	-	-	-	-	17
Short-term investments	1,001	-	-	-	-	-	-	-	-	-	-	-	1,001
Cash	251	-	-	-	-	-	-	-	-	-	-	-	251
Total current assets	**3,285**	**2**	**(19)**	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**-**	**(1)**	**3,261**
Total assets	**6,332**	**2**	**(14)**	**7**	**26**	**(16)**	**112**	**106**	**(6)**	**7**	**71**	**9**	**6,636**
Commitments received	11												

EQUITY AND LIABILITIES *in millions of euros*	French GAAP re-formatted into IFRS format	Revenue recognition	Recognition of outsourcing contract costs	Provisions for pensions and other post-retirement beneFIts	Impairment and amortization of goodwill	Consolidation of Transiciel	Carry-back credit	Cancellation of deferred tax discounting	Stock options	OCEANE bonds	Finance leases	Put options on minority interests	Other	Restated under IFRS Dec. 31, 2004
Notes (section IV)		*(A)*	*(B)*	*(C)*	*(D)*	*(D)*	*(E)*	*(E)*	*(F)*	*(G)*	*(H)*	*(I)*		
Share capital	1,051	-	-	-	-	-	-	-	-	-	-	-	-	1,051
Additional paid-in capital	2,226	-	-	-	-	-	-	-	-	-	-	-	-	2,226
Retained earnings and other reserves	82	14	(20)	(278)	-	-	-	218	4	33	(1)	-	(7)	45
Profit/(loss) for the period	(359)	(55)	6	(19)	26	(16)	-	(112)	(4)	(5)	1	(2)	5	(534)
Capital and reserves attributable to equity holders	**3,000**	**(41)**	**(14)**	**(297)**	**26**	**(16)**	**-**	**106**	**-**	**28**	**-**	**(2)**	**(2)**	**2,788**
Minority interest	2	-	-	-	-	-	-	-	-	-	-	(2)	-	-
Total equity	**3,002**	**(41)**	**(14)**	**(297)**	**26**	**(16)**	**-**	**106**	**-**	**28**	**-**	**(4)**	**(2)**	**2,788**
Long-term financial debt	654	-	-	-	-	-	112	-	-	(52)	4	51	(1)	768
Deferred tax liabilities	74	-	-	-	-	-	-	-	-	18	-	-	3	95
Provisions for pensions and other post-retirement benefits	120	-	-	306	-	-	-	-	-	-	-	-	-	426
Non-current provisions	19	-	-	-	-	-	-	-	-	-	-	-	-	19
Other non current liabilities	116	-	-	-	-	-	-	-	-	-	-	24	5	145
Total non-current liabilities	**983**	**-**	**-**	**306**	**-**	**-**	**112**	**-**	**-**	**(34)**	**4**	**75**	**7**	**1,453**
Short-term financial debt and bank overdrafts	196	-	-	-	-	-	-	-	-	-	3	-	1	200
Accounts and notes payable	2,040	43	-	-	-	-	-	-	-	-	-	-	(1)	2,082
Current provisions	22	-	-	(2)	-	-	-	-	-	-	-	-	-	20
Current income tax liabilities	56	-	-	-	-	-	-	-	-	-	-	-	-	56
Other payables	33	-	-	-	-	-	-	-	-	-	-	-	4	37
Total current liabilities	**2,347**	**43**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**4**	**2,395**
Total equity and liabilities	**6,332**	**2**	**(14)**	**7**	**26**	**(16)**	**112**	**106**	**-**	**(6)**	**7**	**71**	**9**	**6,636**
Commitments given	1,379													

E) Reconciliation between French GAAP income statement and re-formatted IFRS income statement for the year ended December 31, 2004 (reclassifications)

in millions of euros	French GAAP 2004	Carry-back credit	Foreign exchange gains and losses	Restructuring costs	Discontinued operations	Disposal of Vertex	Goodwill impairment	Other income and expense	French GAAP reformatted into IFRS format 2004
Revenues	6,291	-	-	-	-	-	-	-	6,291
Cost of services rendered	(4,699)	-	-	-	-	-	-	-	(4,699)
Selling expenses	(610)	-	-	-	-	-	-	-	(610)
General and administrative expenses	(924)	(6)	(6)	-	-	-	-	(4)	(940)
Operating margin	**58**	**(6)**	**(6)**	**-**	**-**	**-**	**-**	**(4)**	**42**
Other operating income and expense, net	-	-	-	(220)	6	-	(11)	-	(225)
Operating profit/(loss)	**58**	**(6)**	**(6)**	**(220)**	**6**	**-**	**(11)**	**(4)**	**(183)**
Finance costs	(38)	-	-	-	-	-	-	(1)	(39)
Income from cash and cash equivalents	18	-	-	-	-	-	-	-	18
Finance costs, net	**(20)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(21)**
Other financial income and expenses, net	(4)	-	(1)	-	-	18	-	(3)	10
Other income and expense	(217)	6	7	220	(6)	(18)	-	8	-
Net income before taxes	**(183)**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(194)**
Income tax expense	(125)	-	-	-	-	-	-	-	(125)
Net income before minority interests	**(308)**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(319)**
Minority interest	-	-	-	-	-	-	-	-	-
Net income before amortization of goodwill	**(308)**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(319)**
Goodwill amortization	(51)	-	-	-	-	-	11	-	(40)
Net income (Group share)	**(359)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(359)**

The main presentation change in relation to the income statement concerns the items "Operating margin" and "Operating profit/(loss)". The difference between the two headings is due to the fact that "Operating profit/(loss)" takes into account "Other operating income and expense, net". In accordance with the definition set out in Recommendation no. 2004-R.02 issued by the French National Accounting Board (*"Conseil National de la Comptabilité"*) on October 27, 2004, "Other operating income and expense" may include a very limited number of unusual items which occur infrequently and which represent particularly material amounts (see details at the foot of note F).

F) Reconciliation between re-formatted IFRS income statement and restated IFRS income statement for the year ended December 31, 2004 (restatements)

in millions of euros	French GAAP re-formatted into IFRS format 2004	Revenue recognition	Recognition of outsourcing contract costs	Provisions for pensions and other post-retirement benefits	Goodwill	Consolidation of Transiciel	Carry-back credit	Cancellation of deferred tax discounting	Stock-options	OCEANE bonds	Other	Restated under IFRS 2004
Notes (section IV)		*(A)*	*(B)*	*(C)*	*(D)*	*(D)*	*(E)*	*(E)*	*(F)*	*(G)*		
Revenues	6,291	(56)	-	-	-	-	-	-	-	-	-	6,235
Cost of services rendered	(4,699)	-	6	(11)	(5)	-	-	-	-	-	(3)	(4,712)
Selling expenses	(610)	-	-	(1)	-	-	-	-	-	-	-	(611)
General and administrative expenses	(940)	-	-	(1)	-	-	4	-	-	-	1	(936)
Operating margin	**42**	**(56)**	**6**	**(13)**	**(5)**	**-**	**4**	**-**	**-**	**-**	**(2)**	**(24)**
Other operating income and expense, net (1)	(225)	-	-	-	(8)	(25)	-	-	(4)	-	5	(257)
Operating profit/(loss)	**(183)**	**(56)**	**6**	**(13)**	**(13)**	**(25)**	**4**	**-**	**(4)**	**-**	**3**	**(281)**
Finance costs	(39)	-	-	-	-	-	(4)	-	-	(9)	6	(46)
Income from cash and cash equivalents	18	-	-	-	-	-	-	-	-	-	-	18
Finance costs, net (2)	**(21)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**	**6**	**(28)**
Other financial income and expense, net (3)	10	-	-	(6)	-	-	-	-	-	-	(3)	1
Net income before taxes	**(194)**	**(56)**	**6**	**(19)**	**(13)**	**(25)**	**-**	**-**	**(4)**	**(9)**	**6**	**(308)**
Income tax expense	(125)	1	-	-	(1)	9	-	(112)	-	3	(1)	(226)
Net income before minority interests	**(319)**	**(55)**	**6**	**(19)**	**(14)**	**(16)**	**-**	**(112)**	**(4)**	**(6)**	**5**	**(534)**
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-
Net income before amortization of goodwill	**(319)**	**(55)**	**6**	**(19)**	**(14)**	**(16)**	**-**	**(112)**	**(4)**	**(6)**	**5**	**(534)**
Goodwill amortization	(40)	-	-	-	40	-	-	-	-	-	-	-
Profit/(loss) for the period	**(359)**	**(55)**	**6**	**(19)**	**26**	**(16)**	**-**	**(112)**	**(4)**	**(6)**	**5**	**(534)**

(1) Other operating income and expense, net, primarily includes:
- restructuring costs in an amount of €240 million;
- a €19 million impairment loss recorded in relation to goodwill;
- a €4 million expense relating to stock options granted;
- a €6 million gain on business disposals.

(2) Finance costs, net, primarily include:
- €20 million in interest on "OCEANE 2003" convertible bonds;
- €14 million in interest on finance leases;
- €9 million in interest on other borrowings;
- €18 million in income from short-term investments.

(3) Other financial income and expense, net, primarily includes:
- an €18 million gain on the disposal of Vertex shares,
- €9 million in interest relating to pensions and other post-retirement benefit obligations;
- €4 million in notional interest on borrowings as a result of restating the carry-back tax credit;
- a €3 million expense relating to the recognition of employee profit-sharing obligations at amortized cost in France;
- €1 million in net foreign exchange losses

G) Reconciliation between French GAAP cash flow statement and re-formatted IFRS cash flow statement, for the year ended December 31, 2004 (reclassifications)

in millions of euros	French GAAP 2004	Finance costs, net	Current and deferred taxes	Denetting of financial debt	Goodwill amortization	Advances received from customers	Other	French GAAP re-formatted into IFRS 2004	
Notes (section IV)					*(D)*	*(J)*			
Net income/(loss)	**(359)**	**-**	**-**	**-**	**-**	**-**	**-**	**(359)**	**Profit/(loss) for the year**
		-	-	-	11	-	-	11	Impairment of goodwill
Depreciation, amortization and write-downs of fixed assets	256	-	-	-	(11)	-	-	245	Depreciation, amortization and write-downs of fixed assets
Net addition to provisions (excluding current assets)	13	-	-	-	-	-	(8)	5	Net addition to provisions (excluding current assets)
		-	-	-	-	-	-	-	Unrealized gains and losses on changes in fair value
(Gains)/losses on disposals of assets	(14)	-	-	-	-	-	-	(14)	(Gains)/losses on disposals of assets
Changes in deferred taxes	140	-	(140)	-	-	-	-		
		-	-	-	-	-	-	-	Expense relating to stock options
Other	(1)	1	-	-	-	-	-	-	Other
		21	-	-	-	-	-	21	Finance costs, net
		-	129	-	-	-	-	129	Income tax expense
Cash flows from operations after net interest & income tax	**35**	**22**	**(11)**	**-**	**-**	**-**	**(8)**	**38**	**Cash flows from operations before finance costs, net and income tax (A)**
		-	4	-	-	-	-	4	Income tax paid (B)
Changes in accounts and notes receivable, net	101	-	-	-	-	(149)	17	(31)	Changes in accounts and notes receivable, net
Changes in accounts and notes payable, net	108	-	-	-	-	114	32	254	Changes in accounts and notes payable, net
Changes in other receivables and payables, net	81	-	7	-	-	35	(26)	97	Changes in accounts and notes payable, net
Change in operating working capital	**290**	**-**	**7**	**-**	**-**	**-**	**23**	**320**	**Change in operating working capital (C)**
NET CASH PROVIDED BY OPERATING ACTIVITIES	**325**	**22**	**-**	**-**	**-**	**-**	**15**	**362**	**NET CASH GENERATED FROM OPERATING ACTIVITIES (D=A+B+C)**
Acquisitions of property, plant and equipment and intangible assets	(176)	-	-	-	-	-	1	(175)	Acquisitions of property, plant and equipment and intangible assets
Proceeds from disposals of property, plant and equipment and intangible assets	41	-	-	-	-	-	(18)	23	Proceeds from disposals of property, plant and equipment and intangible assets
	(135)	**-**	**-**	**-**	**-**	**-**	**(17)**	**(152)**	
Acquisitions of financial assets	(73)	-	-	-	-	-	-	(73)	Acquisitions of financial assets
Proceeds from disposals of financial assets	78	-	-	-	-	-	18	96	Proceeds from disposals of financial assets
	5	**-**	**-**	**-**	**-**	**-**	**18**	**23**	
Effect of changes in Group structure	(4)	-	-	-	-	-	-	(4)	Effect of changes in Group structure
NET CASH USED IN INVESTING ACTIVITIES	**(134)**	**-**	**-**	**-**	**-**	**-**	**1**	**(133)**	**NET CASH USED IN INVESTING ACTIVITIES (E)**
Increase in share capital	-	-	-	-	-	-	-	-	Increase in share capital
Net change in borrowings	(152)	-	-	234	-	-	(1)	81	Proceeds from borrowings
		-	-	(234)	-	-	-	(234)	Repayments of borrowings
		(21)	-	-	-	-	-	(21)	Finance costs, net
NET CASH USED BY FINANCING ACTIVITIES	**(152)**	**(21)**	**-**	**-**	**-**	**-**	**(1)**	**(174)**	**NET CASH USED IN FINANCING ACTIVITIES (F)**
CHANGE IN CASH AND CASH EQUIVALENTS	**39**	**1**	**-**	**-**	**-**	**-**	**15**	**55**	**NET CHANGE IN CASH AND CASH EQUIVALENTS (G=D+E+F)**
Effect of exchange rate movements and on cash and cash equivalents	3	(1)	-	-	-	-	(15)	(13)	Effect of exchange rate movements on cash cash equivalents (H)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	**1,190**	**-**	**-**	**-**	**-**	**-**	**-**	**1,190**	**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (I)**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,232**	**-**	**-**	**-**	**-**	**-**	**-**	**1,232**	**CASH AND CASH EQUIVALENTS AT END OF YEAR (G+H+I)**

H) Reconciliation between re-formatted IFRS cash flow statement and restated IFRS cash flow statement, for the year ended December 31, 2004 (restatements)

in millions of euros	French GAAP re-formatted into IFRS format	Revenue recog-nition	Recog-nition of outsour-cing contract costs	Provisions for pen-sions	Finance leases	Cancella-tion of dis-counting of deferred taxes	OCEANE bonds	Carry-back credit	Stock options	Amort-ization of goodwill	Put option on minority interests	Conso-lidation of Transiciel	Non cash items: leases	Other	Restated under IFRS 2004
Notes (section IV)		*(A)*	*(B)*	*(C)*	*(H)*	*(E)*	*(G)*	*(E)*	*(F)*	*(D)*	*(I)*	*(D)*			
Profit/(loss) for the year	**(359)**	**(55)**	**6**	**(19)**	**1**	**(112)**	**(6)**	**-**	**(4)**	**26**	**(2)**	**(16)**	**-**	**6**	**(534)**
Impairment of goodwill	11	-	-	-	-	-	-	-	-	-	-	-	-	8	19
Depreciation, amortization and write-downs of fixed assets	245	-	-	-	2	-	-	-	-	(27)	3	-	-	(10)	213
Net addition to provisions (excluding current assets)	5	-	-	19	-	-	-	-	-	-	-	-	-	-	24
Unrealized gains and losses on changes in fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Gains)/losses on disposals of assets	(14)	-	-	-	-	-	-	-	-	-	-	-	-	-	(14)
Expense relating to stock options	-	-	-	-	-	-	-	-	4	-	-	-	-	-	4
Other	-	-	-	-	-	-	-	-	-	-	(1)	-	-	1	-
Finance costs, net	21	-	-	-	1	-	8	4	-	-	-	-	-	(6)	28
Income tax expense	129	-	-	-	-	112	(2)	-	-	1	-	(9)	-	(5)	226
Cash flows from operations before finance costs, net and income tax (A)	**38**	**(55)**	**6**	**-**	**4**	**-**	**-**	**4**	**-**	**-**	**-**	**(25)**	**-**	**(6)**	**(34)**
Income tax paid (B)	4	-	-	-	-	-	-	-	-	-	-	-	-	-	4
Changes in accounts and notes receivable, net	(31)	8	(8)	-	-	-	-	-	-	-	-	-	-	2	(29)
Changes in accounts and notes payable, net	254	43	-	-	-	-	-	-	-	-	-	-	-	(2)	295
Changes in other receivables and payables, net	97	-	(3)	-	-	-	2	(36)	-	-	-	25	-	(3)	82
Change in operating working capital (C)	**320**	**51**	**(11)**	**-**	**-**	**-**	**2**	**(36)**	**-**	**-**	**-**	**25**	**-**	**(3)**	**348**
NET CASH GENERATED FROM OPERATING ACTIVITIES (D=A+B+C)	**362**	**(4)**	**(5)**	**-**	**4**	**-**	**2**	**(32)**	**-**	**-**	**-**	**-**	**-**	**(9)**	**318**
Acquisitions of property, plant and equipment and intangible assets	(175)	-	5	-	(3)	-	-	-	-	-	-	-	47	1	(125)
Proceeds from disposals of property, plant and equipment and intangible assets	23	-	-	-	1	-	-	-	-	-	-	-	-	-	24
	(152)	**-**	**5**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**1**	**(101)**
Acquisitions of financial assets	(73)	-	-	-	-	-	-	-	-	-	-	-	-	-	(73)
Proceeds from disposals of financial assets	96	-	-	-	-	-	-	-	-	-	-	-	-	-	96
	23	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23**
Effect of changes in Group structure	(4)	-	-	-	(1)	-	-	-	-	-	-	-	-	-	(5)
NET CASH USED IN INVESTING ACTIVITIES (E)	**(133)**	**-**	**5**	**-**	**(3)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**1**	**(83)**
Increase in share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from borrowings	81	-	-	-	-	-	6	-	-	-	-	-	(47)	3	43
Repayments of borrowings	(234)	-	-	-	-	-	-	36	-	-	-	-	-	(1)	(199)
Finance costs, net	(21)	-	-	-	(1)	-	(8)	(4)	-	-	-	-	-	6	(28)
NET CASH USED IN FINANCING ACTIVITIES (F)	**(174)**	**-**	**-**	**-**	**(1)**	**-**	**(2)**	**32**	**-**	**-**	**-**	**-**	**(47)**	**8**	**(184)**
NET CHANGE IN CASH AND CASH EQUIVALENTS (G=D+E+F)	**55**	**(4)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51**
Effect of exchange rate movements on cash and cash equivalents (H)	(13)	4	-	-	-	-	-	-	-	-	-	-	-	-	(9)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (I)	**1,190**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,190**
CASH AND CASH EQUIVALENTS AT END OF YEAR (G+H+I)	**1,232**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,232**

I) Analysis of IFRS transition relating to off-balance sheet commitments at January 1, 2004

OFF-BALANCE SHEET COMMITMENTS *(in millions of euros)*	French GAAP re-formatted into IFRS format	Finance leases	Restated under IFRS Jan. 1, 2004
Notes (section IV)		*(H)*	
Commitments received	9	-	9
Commitments given	1,343	(66)	1,277

J) Analysis of IFRS transition relating to off-balance sheet commitments at December 31, 2004

OFF-BALANCE SHEET COMMITMENTS *(in millions of euros)*	French GAAP re-formatted into IFRS format	Finance leases	Put options on minority interests	Restated under IFRS Dec. 31, 2004
Notes (section IV)		*(H)*	*(I)*	
Commitments received	11	-	-	11
Commitments given	1,379	(8)	(147)	1,224

IV. MAIN IMPACTS ON THE CONSOLIDATED FINANCIAL STATEMENTS AS A RESULT OF ADOPTING IAS/IFRS

A) Revenue recognition

Application of IAS 18 – "Revenue" resulted in a negative pre-tax impact of €56 million on 2004 profit and a positive impact of €12 million on equity at January 1, 2004.

The impact of IAS 18 on the Group's consolidated financial statements was mainly due to the following two effects:

Under French GAAP, revenues from outsourcing contracts were recognized based on the terms of the contract. Under IAS 18, revenues are recognized as the services are rendered. This new accounting treatment led to a €47 million decrease in 2004 revenues on the outsourcing contract signed with the U.S.-based companies TXU Energy Company LLC and TXU Electric Delivery Company (formerly named Oncor Electric Delivery Company).

Revenue recognition based on the percentage-of-completion method previously used by the Group under French GAAP for systems integration and consulting led to contract overruns being recognized more rapidly than recommended under IAS 18. As a result of adopting this standard, work-in-progress (services rendered but not yet invoiced) increased by €12 million at January 1, 2004, and €3 million at December 31, 2004, with corresponding adjustments to equity. The related impact on 2004 revenue was a negative €9 million.

B) Recognition of outsourcing contract costs

Under French GAAP, certain costs incurred in the initial phase of outsourcing contracts (transaction costs and/or costs of transformation) were either (i) expensed as incurred, (ii) capitalized and recognized over the term of the contract, with revenue recognized on a straight-line basis over the same period, or (iii) recognized as an expense and matched by revenue in accordance with the terms and conditions of the related contract. Under IFRS, a portion of these costs may be deferred when the costs relate directly to the specific contract, relate to activity on the future contract and/or will generate future economic benefits, and are recoverable.

Under French GAAP, according to the matching of revenue with expenses principle, operating costs for certain outsourcing contracts were deferred over the life of the contract. The amount of deferred costs was adjusted periodically based on forecast profit over the life of the contract. Conversely, under IFRS, operating costs may no longer be deferred and must be expensed as incurred.

These two differences resulted in a decrease in opening equity of €20 million corresponding to the neutralization of prepaid expenses at January 1, 2004, and a €6 million increase in profit related mainly to changes in 2004 prepaid expenses and the capitalization of the costs relating to the TXU contract, which were previously recognized as an expense but matched by the recognition of revenue under French GAAP (see A) above - Revenue recognition).

C) Employee benefits - pension obligations

The Group operates the following two types of pension plans:

Defined contribution plans

Defined contribution plans have been set up in the majority of European countries where the Group has operations – including France, Benelux, Germany and Central Europe, the Nordic countries, Italy, Spain and Portugal – as well as in the United States and the Asia-Pacific region.
These plans are funded by contributions paid to authorized agencies, which are booked as an expense. There are no differences between French GAAP and IFRS concerning

the accounting treatment of defined contribution plans.

Defined benefit plans
The Group operates both funded and unfunded defined benefit plans and records the related provision as a liability in the balance sheet under "Provisions for pensions and other post-retirement benefits". Funded defined benefit plans are in place in the United States, Canada, the United Kingdom, Ireland, Germany, Switzerland and France. Unfunded defined benefit plans mainly concern France, Italy, Germany and Central Europe, the Nordic countries and North America.

In the French GAAP accounts, the method used for calculating provisions for pensions and other post-retirement benefits was based on the regulations and practices in force in the countries in which the Group operates. The related liability mainly represented a portion of the difference between the projected benefit obligation and the fair value of any plan assets.

Measurement and recognition rules for pension obligations under IAS 19 – "Employee Benefits", do not differ significantly from those applied in accordance with the above-mentioned local regulations and practices, except in the case of the United Kingdom. Under UK accounting rule SSAP 24, pension obligations were discounted based on the expected long-term rate of return on plan assets. In relation to Capgemini's UK plan, this return was set at 8% for equity-invested assets at December 31, 2003. Under IAS 19, the present value of pension obligations is determined by discounting the estimated future cash outflows using interest rates of corporate bonds, representing 5.5% at end-2003. In addition, under SSAP 24, any deficit arising where the fair value of plan assets was lower than the projected benefit obligation was not immediately recognized in the balance sheet but amortized through additional contribution payments, based on the expected average remaining working lives of employees. IAS 19, however, requires this deficit to be recorded under provisions. The differences between these two accounting treatments led the Group to book an additional €267 million provision for pensions and other post-retirement benefits at January 1, 2004, which was deducted from equity.

Furthermore, using the option available on first-time adoption of IFRS, the Capgemini Group has recognized cumulative unrealized actuarial gains and losses in equity, which explains most of the residual impact at January 1, 2004. This recognition resulted in a €14 million increase in provisions for pensions and other post-retirement benefits (primarily corresponding to North America) and a €9 million reduction in equity at January 1, 2004.

Overall, application of IAS 19 – "Employee Benefits", and IFRS 1 – "First-time Adoption of International Financial Reporting Standards", led to:

- a €286 million increase in provisions for pensions and other post-retirement benefits and a €7 million increase in deferred tax assets, representing a net €279 million decrease in equity at January 1, 2004.
- an additional expense of €19 million for the year ended December 31, 2004, primarily reflecting the difference between the rates used for discounting pension obligations in the United Kingdom before and after adopting IFRS (see above).

D) Goodwill
Goodwill represents the difference between the cost of shares in a consolidated company and the Group's equity in the fair value of the underlying net assets at the date it acquired control of the company, which is generally the acquisition date.

Under French GAAP, goodwill was amortized on a straight-line basis over a period not exceeding forty years. An impairment loss was recorded when events or circumstances indicated that the net book value of goodwill was higher than its value in use on an other-than-temporary basis. Value in use was calculated using the discounted cash flows method.
Under IFRS 3 – "Business Combinations", goodwill is no longer amortized. Instead, it has to be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment testing consists of comparing the carrying amount of the goodwill with its recoverable amount (corresponding to the higher of an asset's fair value less costs to sell and its value in use). Value in use is determined based on discounting future cash flows.
French GAAP allowed an enterprise to record negative goodwill as a liability in the balance sheet and to write it back to the income statement on a straight-line basis over a period not exceeding forty years, if the acquirer's interest in the net fair value of the acquiree's identifiable assets and liabilities exceeded the cost of the acquisition. IFRS 3, however, requires this excess to be recognized immediately as a gain in the income statement.

In application of IFRS 1 – "First-time Adoption of International Financial Reporting Standards", amortization carried in the balance sheet at January 1, 2004 has been deducted from the gross value of the goodwill recognized. This reclassification, which neutralized the goodwill amortization previously recognized, did not impact equity.
In the IFRS accounts, negative goodwill has been reversed against equity, resulting in a €5 million increase in opening

equity in the IFRS balance sheet at January 1, 2004.
Impairment tests required under IFRS 1 were carried out at January 1, 2004 and did not give rise to any additional goodwill impairment losses at that date.

Application of IFRS 3 – "Business Combinations", primarily resulted in the following impacts on the 2004 income statement:
- Cancellation of goodwill amortization of €40 million recognized under French GAAP;
- Recognition of an €8 million impairment loss on goodwill no longer amortized under IFRS, further to impairment testing at December 31, 2004;
- Recognition of €5 million in amortization relating to intangible assets acquired in 2004. In the French GAAP accounts, these assets were classified as goodwill and amortized over the term of the related contract. Under IFRS, as said assets can be identified separately from goodwill they have been recorded as intangible assets and continue to be amortized over the term of the contract. The goodwill amortization expense previously recorded has been reclassified as an operating expense in the IFRS financial statements;
- Recognition of restructuring costs totalling €16 million net of taxes. Whereas under French GAAP the Group was able to record under goodwill a fair value adjustment arising in 2004 relating to Transiciel (acquired in December 2003), in accordance with IFRS 3, this adjustment now has to be recognized directly in the income statement.

E) Taxes

a) Deferred taxes

Deferred taxes are recorded to take into account temporary differences between the carrying amount of certain assets and liabilities and their tax basis, and tax loss carry-forwards that the Group considers recoverable.

b) Deferred tax assets arising from the acquisition of Ernst & Young consulting business in North America and deferred tax assets on tax loss carry-forwards recognized in France further to the reorganization of the Group's North American operations.

As the Group is able to amortize the difference between the price of the Ernst & Young consulting business acquired in North America and the tax basis of the assets and liabilities acquired, over a period of fifteen years for tax purposes, the related deferred taxes recorded on the acquisition were determined based on a forecast of the taxable earnings of the North American business over a fifteen-year period. These earnings were subject to visibility parameters whereby probable recoveries were covered by provisions calculated at a rate of 35% as from the sixth year and increased to 70% in the thirteenth year.
At December 31, 2004, in light of its underperforming operations in the United States, particularly in 2004, the Group decided to take account of potential tax savings over a limited period of five years.

Given that tax losses can be carried forward indefinitely and in view of the Group's forecast taxable results in France, deferred tax assets recognized in France following the restructuring of the Group's North American operations in 2002 were calculated based on a period limited to 15 years, using the same visibility parameters as initially applied for the United States business as explained above.

c) Discounting deferred taxes

In the French GAAP accounts, deferred taxes were discounted when the impact of discounting was material and the timing of their utilization could be reasonably estimated. Under IAS 12 – "Income Taxes", deferred taxes may not be discounted. This difference in accounting treatment resulted in a revaluation of net deferred tax assets, with a corresponding adjustment to equity at January 1, 2004, as well as the cancellation in the 2004 income statement of the annual impact of discounting deferred taxes.

At January 1, 2004, the cancellation of the discounting effect led to a €218 million increase in deferred tax assets, which can be analyzed as follows:

- A €104 million increase from €248 million to €352 million in relation to the net deferred tax assets recognized in the U.S. at the time of the acquisition of the Ernst & Young consulting business.

- A €114 million increase from €421 million to €535 million, for the net deferred tax assets recognized in France following the restructuring of the Group's North American operations.

At December 31, 2004, the cancellation of the discounting effect led to a €106 million increase in deferred tax assets, breaking down as follows:

- An €18 million increase from €102 million to €120 million in relation to the net deferred tax assets recognized in the U.S. at the time of the acquisition of the Ernst & Young consulting business.

- An €88 million increase from €434 million to €522 million, for the net deferred tax assets recognized in France following the restructuring of the Group's North American operations.

IFRS restatements concerning the discounting effect also led to the cancellation in the income statement of a deferred tax benefit in the amount of €112 million, breaking down as €86 million relating to the U.S. and €26 million relating to France.

d) Sale of carry-back tax credits

On June 26, 2003 and June 28, 2004, Cap Gemini S.A. sold to a credit institution for €74 million and €33 million respectively, a tax receivable of €90 million and an additional tax receivable of €39 million due from the French Treasury resulting from the election to carry back the French tax loss generated in 2002. Under the sale agreements, Capgemini S.A. undertook to compensate the buyer for any difference between the amount of the credit sold and the amount effectively recoverable from the French Treasury. This undertaking expires on June 30, 2011.

Under French GAAP, sales of carry-back credits were recorded as sales with a guarantee. Under IFRS, this type of sale is treated as a guaranteed financing transaction. Further to an analysis of the risks and rewards related to these carry-back credits, they have been taken back onto the consolidated balance sheet at present value, with a corresponding adjustment to financial debt. As the carry-back credits correspond to long-term tax credits, they are not included when calculating net cash and cash equivalents, which in turn causes a decrease in the notional amount of net cash and cash equivalents. The related financial debt and carry-back credits should be derecognized in 2011, when the effective amount of payments due by the French Treasury in 2008 and 2009 to the buyer of the carry-back credits is known.

The carry-back credits and financial debt have been recorded at amortized cost in the consolidated balance sheet at January 1, 2004 and December 31, 2004 in amounts of €75 million and €112 million respectively, determined in accordance with the effective interest method. Until 2008 and 2009, the related notional income will be recorded as operating income with a corresponding increase in the carry-back credits. This recognition of income will be offset by notional interest expense recorded under finance costs, with a corresponding increase in financial debt.

F) Share-based payment: stock options

The Group has launched several stock option plans which allow a certain number of Group employees to purchase shares issued for this purpose, based on conditions relating to length of service and performance. The stock option plans entitle the grantees to purchase Capgemini shares for a period of five years at an exercise price set at the date of grant.

Under French GAAP, the Group did not record any related expense when the options were granted. Where the Group issued new shares on exercise of the options, the difference between the par value and the exercise price was recorded under additional paid-in capital.

IFRS measurement and recognition rules relating to stock options are described in IFRS 2 – “Share-based Payment”. In accordance with this standard, stock options are measured at fair value at the date of grant, with fair value corresponding to the amount of the benefit granted to the employee. The Group uses the Black & Scholes option pricing model for measuring fair value, whereby calculations are performed based on criteria such as the exercise price of the options, the life of the options, the share price at the date of grant, the inherent volatility of the share price, and risk-free interest rates.

The fair value of the options granted is recognized in “Other operating income and expense, net” over the vesting period, with a corresponding impact in equity.

In accordance with IFRS 1 – “First-time Adoption of International Financial Reporting Standards”, only stock options granted after November 7, 2002 with a vesting date after January 1, 2005, are measured and recognized in “Other operating expense”. Recognition and measurement of stock options granted prior to November 7, 2002 is not required.
Application of IFRS 2 had no impact on the Group’s opening IFRS equity, but it did have a €4 million negative impact on the 2004 income statement.

G) “OCEANE” bonds

On June 24, 2003, Cap Gemini S.A. issued bonds convertible and/or exchangeable into new or existing shares (“OCEANE 2003”), maturing on January 1, 2010. The effective issue and settlement date of the bonds was July 2, 2003. The terms and conditions of this issue are set out in the information memorandum approved by the AMF under the reference number n°03-607 on April 24, 2003.

In the French GAAP accounts, the bond issue was recorded under long-term financial debt at face value, representing €460 million. Interest expense for the year corresponded to actual interest paid on an annual basis, at the applicable fixed rate of 2.5%.

Under IAS 32 – “Financial Instruments: Disclosure and Presentation”, and IAS 39 – “Financial Instruments: Recognition and Measurement”, the following accounting treatment applies:

The liability recognized in relation to the bond issue is measured at the fair value of the bonds at the date the bond issue was set up. It is calculated by discounting the future cash outflows based on the market interest rate applicable to the Group at the date of subscription. Any issue costs are also deducted from the fair value of the bond issue.

For subsequent reporting periods, the liability is measured at amortized cost, calculated using the effective interest method. Under this method, the interest expense recorded in the income statement does not correspond to the interest actually paid but rather to the amount of the theoretical interest expense that arises as a result of applying the effective interest rate to the carrying amount of the bonds. Applying the effective interest rate enables future cash flows to reflect the fair value of the liability component of the bonds (after deducting debt issuance costs).

The difference between the nominal value of the bonds and the fair value of the liability component as calculated above is recorded under equity.

Accounting for the "OCEANE" bonds at the date of transition to IFRS
The "OCEANE 2003" bonds were issued at an interest rate that was lower than the market rate (2.5% compared with 4.8%, respectively). Consequently, under IFRS, the original fair value of the liability component of the bond issue amounts to €395 million, after taking into account the relevant portion of debt issuance costs (€8 million for the whole "OCEANE 2003" bond issue), representing a €65 million reduction compared with the amount recorded in accordance with French GAAP.

The equity component has been recorded under equity in an amount of €57 million (after deducting the relevant portion of the debt issuance costs). The net impact on opening equity at January 1, 2004 of calculating the liability component at amortized cost was a negative €4 million before tax.

Movements during the year ended December 31, 2004
Based on an effective interest rate of 4.8% (5.1% taking into account bond issuance costs), the annual interest expense for 2004 on the "OCEANE" bonds came to €20 million, versus actual interest paid in the amount of €11 million. The income statement impact of applying IAS 39 – "Financial Instruments: Recognition and Measurement", for 2004 corresponded to an additional pre-tax expense of €9 million.

The impact on equity over the life of the bonds is neutral, as the additional expense recognized for notional interest offsets the initial impact on opening equity.

H) Finance leases

Under French GAAP, certain fixed assets were acquired under finance leases that transferred substantially all the risks and rewards incident to ownership of the asset to the Group. In these cases, the value of the leased item was restated as an asset and the present value of the obligation as a financial liability. The asset was depreciated over its economic life in accordance with Group policy and the obligation was amortized over the lease term.

The same accounting treatment is applicable to finance leases under IAS 17 – "Leases". However, the analysis carried out on the transition to IFRS identified certain leases – primarily relating to outsourcing contracts – which should be treated as finance leases rather than operating leases. These leases have been restated in the 2004 French GAAP balance sheet, and retrospectively restated in the opening IFRS balance sheet at January 1, 2004, in an amount of €65 million.

I) Put options on minority interests

The 10-year outsourcing contract signed with TXU Energy Company LLC and TXU Electric Delivery Company (formerly named Oncor Electric Delivery Company) provides for a put option in favour of the TXU group in relation to its 2.9% interest in Capgemini Energy LP and certain related assets (essentially the IT platform owned by the TXU group and used by Capgemini Energy LP for the term of the contract), for an amount of US $200 million subject to certain adjustments. This option is exercisable by the TXU group during the 10 years following the end of the contract and would bring the ownership of the Group in Capgemini Energy LP from 97.1% to 100%.

Under French GAAP, this option corresponded to an off-balance sheet commitment (see Note 21 – "Commitments received from and given to third parties" in the 2004 Reference Document). However, IAS 32 – "Financial Instruments": Disclosure and Presentation provides for recognition of a financial debt in the balance sheet.

Under IFRS the Group is considered to own 100% of the company Capgemini Energy LP at the acquisition date and the put option in favour of the TXU group is deemed exercised at that date. Therefore in the IFRS balance sheet a goodwill is recognized for €6 million and identifiable assets and liabilities of Capgemini Energy LP are recorded at fair value: intangible assets for €65 million, another long term debt for €24 million and a financial debt for €51 million.

J) Reclassification of advances received from customers

Under French GAAP, the Group presented accounts and notes receivable net of advances received from customers. Details of these two items were then disclosed in a specific note (see Note 12 of the 2004 Reference Document entitled "Accounts and notes receivable (net)"). The Group used this form of presentation to reflect the specific accounting treatment applied to long-term contracts which make up the bulk of the Group's business. As this presentation did not comply with IAS 1 – "Presentation of Financial Statements", advances received from customers have been restated in the IFRS balance sheet and reclassified under liabilities.