

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

ON THE CONDITIONS FOR THE PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD, ON INTERNAL CONTROL PROCEDURES APPLIED BY THE COMPANY AND ON LIMITATIONS PLACED BY THE BOARD ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER

(ARTICLE L 225-37 OF THE COMMERCIAL CODE)

I – CORPORATE GOVERNANCE AND CONDITIONS FOR THE PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD

Cap Gemini is a French joint-stock company (“société anonyme”), whose Board of Directors decided on July 24, 2002 to separate the functions of Chairman and Chief Executive Officer further to the authorization granted to the Board by the Shareholders’ Meeting of April 25, 2002

1.1. The Board of Directors

The Board currently comprises eleven members and two Non-Voting Directors:

- ten of the eleven Directors (and the two Non-Voting Directors) were elected for a term of six years by the Shareholders’ Meeting of May 23, 2000;
- the eleventh Director, Yann Delabrière, was appointed by the Board of Directors on February 25, 2004 to replace Jean-Bernard Lafonta (the representative of Wendel Investissement, formerly CGIP), who had resigned in December 2003 due to the virtual withdrawal of Wendel Investissement as a shareholder of Cap Gemini. This appointment was ratified at the Annual Shareholders’ Meeting of April 29, 2004.

The terms of office of the eleven Directors and the two Non-Voting Directors will expire simultaneously at the end of the Ordinary Shareholders’ Meeting held in April or May 2006 to approve the consolidated financial statements and the Cap Gemini S.A. financial statements for the year ending December 31, 2005.

The principal role of the Board of Directors is to determine the key strategies of the Company and the Group, and to ensure that these strategies are implemented. Particular emphasis is placed on the management of human resources, especially at managerial level, reflecting Cap Gemini’s business as a provider of services.

The Board meets six times a year. Meetings are convened by the Chairman in accordance with a timetable agreed by the Board at the end of the previous year. However, this timetable

may be amended during the year in response to unforeseen circumstances or at the request of more than one Director. During 2004, the Board met once when only 10 Directors were in office (Yann Delabrière having not yet been appointed) and five times when 11 Directors were in office. This represents a total of 65 theoretical attendances for all Directors combined; there were only 5 absences, giving an overall attendance rate of 92.3%.

Within a reasonable period before these meetings, each Director is sent:

- a detailed agenda;
- supporting documentation about items on the agenda calling for specific analysis or prior consideration, to the extent that the relevant information is available and there is no risk that the sending of such documentation will affect the confidentiality of sensitive information up until the day of the Board meeting;
- a summary report comparing the performance of Cap Gemini shares to that of various general and sector indices and that of its main competitors;
- a table giving a breakdown analyst by analyst of the last known consensus.

The Company’s Board of Directors has been applying for some years the main corporate governance rules now recommended as best practice, by:

- preparing, adopting and applying highly detailed internal rules of operation;
- setting up three specialized Board Committees (the Strategy and Investments Committee, the Audit Committee and the Selection and Compensation Committee), each with a clearly defined role;
- linking a substantial portion of Directors’ compensation (in the form of attendance fees) to actual attendance at Board and Committee meetings;
- reviewing the situation of each Director from time to time to assess whether or not he or she qualifies as independent from the Company itself and any of the subsidiaries which it controls.

The Board has also implemented a self-assessment procedure. This involved commissioning one of the two Non-Voting Directors to prepare and send a detailed questionnaire

to each Director, about the composition, operation and efficiency of the Board and its Committees. The questionnaire was split into the following three main sections:

- overall assessment of the directors themselves: competence, complementarity, solidarity, independence, prestige, extent of interest, availability, etc...
- meetings and their effectiveness: number, length and period of notice of meetings, agenda, quality of information, quality of dialogue with management, quality of discussions between Directors, quality of decisions made and strategic options chosen, quality of minutes, assessment of the level of influence of the Board on the decisions taken by management, impact of Committee recommendations on Board decisions, etc.
- finally, a certain number of other issues relating for example to the conditions for possible changes in the composition of the Board and/or its Committees.

The summary of the replies to this questionnaire has not yet been discussed by the Board which has decided to devote a large part of its next meeting to take the action that it sees fit in this respect.

1.2. Internal rules of operation

As provided for in article 16 of the Company's bylaws, internal rules of operation were drafted, discussed and finally adopted by the Board of Directors on July 24, 2002. This decision followed the resolution approved at the General Shareholders' Meeting of April 25, 2002, which authorized the separation of the functions of Chairman and Chief Executive Officer. These internal rules of operation:

- set out or provide additional details on the content and the terms and conditions for the exercise of the respective powers of:
 - the Board of Directors itself,
 - any specialized Committees created by the Board,
 - the Chairman,
 - the Chief Executive Officer.
- determine how roles and responsibilities are allocated between these individuals and bodies and stress in particular that prior approval by the Board of Directors is required for any decision which is of major strategic importance or which is liable to have a material impact on the financial position or commitments of the Company or one of its principal subsidiaries.
- list the main obligations of the "code of ethics" which

Directors of Cap Gemini S.A. undertake to comply with throughout their term of office. These rules stress, for instance, that pursuant to the current legal provisions, members of a Board of Directors may not carry out transactions with regard to the securities of companies in respect of which they have at their disposal, due to their functions, information that is not yet public and recommend that directors:

- should only buy or sell Cap Gemini S.A. shares in the two-month period following interim or full-year results announcements
- should formally undertake not to buy or sell shares in the month preceding said announcements.

1.3. Board Committees

Five years ago (on March 23, 2000), the Board of Directors approved the recommendation of its Chairman to set up three specialized Committees (a Strategy and Investments Committee, an Audit Committee and a Selection and Compensation Committee). Each Committee is tasked with reviewing and preparing Board discussions in its sphere of competence, making proposals to the Board, and providing advice and recommendations to the Board on decisions to be taken.

The initial appointment of Directors and Non-Voting Directors to these three Committees was decided upon by the Board of Directors at its meeting of September 13, 2000. Each Committee elected its own chairman, and has specific internal rules of operation defining the nature and extent of its roles and responsibilities.

1.3.1. Strategy and Investments Committee

This Committee reviews the strategic options that the Group may adopt, calibrates the investment needs associated with each of these options, makes recommendations regarding the choice of option that the management will subsequently implement, assesses potential or necessary alliances, and more generally discusses any issue seen as crucial to the Group's strategic future and ensuring financial stability.

Five Directors currently serve on this Committee:

- Chairman: Jean-René Fourtou
- four members: Paul Hermelin, Serge Kampf, Bruno Roger and Ernest-Antoine Seillière

This Committee met twice during 2004, with a 90% attendance rate (a member being absent at each meeting). It primarily examined the Group's situation in North America,

and explored the various strategic options that could be taken in light of the investments already made, the importance for an IT services and consulting company to have a significant presence in the United States which is at the origin of all the innovations made in this field, and finally measures already taken aimed at renewing with growth and restoring the profitability of this Group Business Unit, which it felt should be continued or even intensified.

1.3.2. Audit Committee

This Committee assesses the appropriateness and the consistency of the accounting policies and methods used in the preparation of the full-year and interim financial statements. It checks the internal reporting and control procedures used to ensure the accuracy of financial information. The Committee also makes assessments of the various engagements conducted by the Statutory Auditors and gives an opinion as to whether they should be reappointed.

Three Directors and one Non-Voting Director currently serve on this committee:

- Chairman: Phil Laskawy
- Members: Yann Delabrière, Pierre Hessler (a Non-Voting Director) and Michel Jalabert.

This Committee met four times in 2004, with a 100% attendance rate (16%). It reviewed the accounting policies used for the consolidated and Cap Gemini S.A. financial statements for the year ended December 31, 2003, and the accounting treatment of significant events which took place during that year. It also reviewed the Group's interim financial statements for the period ended June 30, 2004, gave its opinion on proposals to recapitalize certain subsidiaries, examined the role and objectives of the internal audit team (working practices, scope of intervention and 2004/2005 action plan). Finally, the Committee reviewed the main differences between French generally accepted accounting principles as currently applied by Capgemini and international accounting standards (IAS/IFRS), especially the accounting treatment of the employee benefit represented by the granting of stock options.

1.3.3. Selection and Compensation Committee

This Committee looks into the human resources policy applied by Group companies to managerial posts (executive selection, succession planning, changes in compensation policy, determination of the variable portion of compensation, the granting of stock options, etc.) and makes sure that this policy is both consistent – while respecting local particularities – and in line with individual and collective performance. It is consulted prior to the decision on the appointment or replacement of

Executive Committee members and strategic Business Unit managers. It makes proposals to the Board about the fixed and variable compensation of these individuals and the Chairman and the Chief Executive Officer. Finally, it has an ongoing remit to put forward one or more names of potential candidates for consideration by the Board of Directors if one or more directorships becomes vacant, or if the Board considers it appropriate to request a Shareholders' Meeting to approve an increase in the number of Directors (up to the legal maximum of 18).

The composition of this Committee is currently as follows:

- Chairman: Ruud van Ommeren
- Members: Christian Blanc, Terry Ozan, Geoff Unwin (a Non-Voting Director).

This Committee met four times in 2004, with an attendance rate of 81% (13/16). The Committee dealt with issues relating to the general compensation policy applied by the Group for 2004 as well as determining the variable portion of compensation for 2003 and revising fixed compensation for 2004 for the Chairman and Chief Executive Officer and key Group executives. Half the variable portion is linked to the percentage of achievement of financial targets set (revenues, operating income, central overheads, etc.), and half to the attainment of personal objectives set for each of them.

The Committee reviewed and submitted for final approval by the Board of Directors a list of the beneficiaries of the 4,200,500 stock options granted on April 1 and October 1, 2004 to 1,077 Group managers. With regard to the compensation of the directors themselves, it was proposed that for 2004, the same rules as in 2003 should be used for allocating attendance fees between Directors, Non-Voting Directors and members of the Board Committees and that, in light of the Group's results at year-end, the next Shareholders' Meeting would not be asked to revise the overall ceiling for attendance fees of €500,000 which has not been increased for 5 years, even though this ceiling was set five years ago and in the meantime there have been significant increases in the responsibilities of the Directors, in the amount of preparation time required for meetings, and in the number of meetings held. Finally, the Committee proposed to the Board candidates to replace the outgoing Director Jean-Bernard Lafonta and made suggestions concerning possible changes to the Board's current composition.

1.4. Compensation of Directors

As compensation for their responsibilities, and for time spent attending Board and Committee meetings as well as preparing for these meetings, the Company is authorized to pay

attendance fees to its Directors and Non-Voting Directors (within the overall ceiling of €500,000 a year), which, as stated above, has remained unchanged since it was set by the Ordinary Shareholders' Meeting of May 23, 2000):

- to each Director or Non-Voting Director:
 - a fixed fee of €10,000 in his capacity as Director or Non-Voting Director
 - a fixed fee of €3,500 for membership of one of the Board Committees
 - €2,500 for each attendance at a Board meeting
 - €1,500 for each attendance at a Board Committee meeting.

The "usual" compensation of a Director or Non-Voting Director is therefore approximately €33,000 (and slightly more for members of the Audit Committee as this Committee meets more frequently)

- to the Chairman and Vice-Chairman of the Board: a fixed fee of €25,000 each;
- to the Chairman of each Board Committee: a fixed fee of €10,000.

1.5. Directors' independence

The Selection and Compensation Committee has already conducted two reviews of the personal situation of each of the current members of the Board of Directors, based on:

- the definition of independence provided in the Viénot and Bouton reports on promoting better corporate governance in listed companies: ("a Director is independent when he or she has no relationship of any kind whatsoever with the corporation, its group or the management of either that is such as to color his or her judgment"),
- the independence criteria used in the United States (subject to change as a result of the Sarbanes-Oxley Act) and in other countries where the Group operates,
- finally, those proposed for French companies by the Bouton report.

The Committee concluded from this study, after discussion, that six of the eleven Directors (55%) could be regarded as independent: Christian Blanc, Yann Delabrière, Jean-René Fourtou, Michel Jalabert, Phil Laskawy and Ruud van Ommeren.

Having been informed of these conclusions, the Board of Directors established that it was the sole responsibility of the Board to judge the independence of each Director. The Viénot report actually stipulates that "the Board of Directors may take the view that a Director, despite meeting the aforementioned criteria, should not be deemed to be independent given his or

her specific circumstances or those of his or her company, in the light of its share ownership structure or for any other reason, ... and vice versa." After deliberating on the issues raised, the Board unreservedly and unanimously approved the conclusions that the Committee itself had reached.

II – LIMITATIONS PLACED BY THE BOARD ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER

On the recommendation of Serge Kampf, the then Chairman and Chief Executive Officer of the Company, the Board of Directors decided at its meeting of July 24, 2002, that the functions of Chairman and those of Chief Executive Officer should be separated from then on. Paul Hermelin was appointed as Chief Executive Officer. As mentioned above, the Board's internal rules of operation, adopted on the same day, stipulated the content and methods for performing the functions and attributions of the Board itself, its Chairman and Chief Executive Officer, and established the internal rules of operation for the Board Committees created and organized the allocation of responsibilities between these different bodies.

As regards the role and powers of the Chief Executive Officer, the internal rules of operation stipulate that he must seek and obtain prior approval from the Board of Directors – or from its Chairman acting under delegated powers – for any decision which is of major strategic importance or which is liable to have a material effect on the financial position or commitments of the Company or of one of its principal subsidiaries.

This applies in particular to:

- the approval and updating of the 3-year plan based on the strategy approved by the Board;
- the contracting of strategic alliances;
- significant changes to the structure of the Group or its range of business activities;
- significant internal restructuring operations;
- financial transactions with a material impact on the financial statements of the Company or the Group (in particular the issuance of shares or share equivalents);
- acquisitions or disposals of assets individually worth more than €50 million;
- increases or reductions in the capital of a major subsidiary;
- specific authorizations concerning the granting of guarantees.

III – INTERNAL CONTROL PROCEDURES IMPLEMENTED BY THE COMPANY

These internal control procedures, which were already described at length in last year's Annual Report (pages 31 to 36 of the "2003 Reference Document") – and which will also be dealt with in the following pages of this year's report, appeared at the time to be largely sufficient, and sometimes even overabundant, when it came to protecting the company against any unpleasant surprises at the time of closing its accounts. However, several malfunctions came to light in 2004 (primarily in the United States) that luckily had only minor consequences, but are a clear illustration of the difficulties that are liable to arise from time to time – in a services company with 60 000 staff members over the 5 continents who speak at least 25 different languages (who quite often do not speak French... and sometimes not even English) – in applying everyday and everywhere complex rules that result from the principles of good corporate governance that are not yet universally widespread and of which the significance is sometimes not properly understood, or not properly accepted.

In any event, these malfunctions have led us at the end of 2004 and during the first few months of this year:

- to strengthen certain of these procedures even further (and also to increase the sanctions which would be imposed in the event of an established breach of any of these rules),
- to automate further the treatment (reconciliation and payment) of intercompany transactions,
- to set up a special structure known as the " Group Delivery Complex Project " aimed at providing for stricter risk control by ensuring the ongoing monitoring of complex projects in the process of execution.

More generally, the Group Chief Financial Officer has launched and is personally conducting a program for transformation of some of the Group's administrative and finance functions; known internally as the "Green project", the main thrusts of this program are:

- the introduction of a single information system across the Business Units (integrating – or on the contrary refusing to integrate – certain local particularities whose immaturity resulted from the principle of decentralization adopted),
- greater efficiency in the support functions performed for the Group (better quality at lesser cost),
- the reinforcement of centralized treasury management,
- the transfer of the administrative and accounting

- functions of some subsidiaries to shared service centers,
- finally, the updating of all the Group's "accounting rules and procedures" to reflect the adoption of IFRS.

After these clarifications and amendments have been made, we will now get back to the description made last year of the internal control systems that have often already been in place in the Capgemini Group for several decades.

3.1. Objectives of internal control procedures

The Group's internal control procedures comprise a set of rules, directives and working practices designed to ensure that the activities of the Group and its staff:

- comply with the relevant laws, regulations, standards and internal rules,
- fit in with the Group's traditional values,
- are consistent with the strategies and objectives defined by the corporate decision-making bodies and their representatives, especially as regards risk management,

They are also aimed at ensuring that internal and external communications reflect fairly, and with an appropriate degree of prudence, the exact situation of the group formed by Cap Gemini SA and its subsidiaries.

These procedures relate mainly to main levels within the Group organization:

- The Senior Management has discussed, drafted, approved and distributed a set of rules and procedures (known as the "Blue Book"). Compliance with the Blue Book is mandatory for all employees of all Business Units. This Blue Book restates and explains Capgemini's 7 core values (which were defined over 20 years ago and have not changed since), sketches out the overall security framework within which the Group's activities must be conducted, and finally describes the methods to be followed in order to exercise the necessary degree of control over the risks identified in each of the Group's main functions.
- Business Units supplement or amend the Blue Book, by drawing up detailed internal control procedures which comply with the relevant laws, regulations and customary practices in the country where they operate, in order to exercise control more effectively over risks specific to their local market and culture.

The Group Internal Audit team, which reports directly to the Group's Chairman and its Chief Executive Officer, independently assesses the effectiveness of these internal

control procedures given that, irrespective of how well they are drafted and how rigorously they are applied, these procedures can only provide reasonable assurance, not an absolute guarantee against all risks. The Internal Audit team comprised on average 15 members in 2004 carried out 38 in-depth control engagements over the year in the Group's Business Units and spent in all over 1,000 days performing audit procedures within the Business Units.

3.2. General organization of internal control procedures

The Group's internal control procedures are based on a close-knit executive management structure and clear lines of organization at operational level, which in turn rely on clearly defined processes and methods.

3.2.1. Close-knit executive management structure

A close-knit executive management structure has been set up to model, explain, procure adherence to, apply and control implementation of the strategy defined by the Board of Directors. This structure is built around 5 main bodies:

- The Office of the CEO: this comprises 4 people: the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Group's General Secretary. This Office meets once a week and more often if required, in order to oversee the overall running of the Group.
- The Executive Committee, chaired by the Chief Executive Officer, it consists of 12 members: the 4 persons mentioned above, the managers of each of the 6 Strategic Business Units and two Group Directors (the Strategy and Communications Directors). It meets once a month to discuss an agenda prepared by the Chief Executive Officer and, in the meantime, informal conference calls are used to provide updates on implementation of the measures decided upon at these monthly meetings. The Executive Committee's task is to verify the conditions of implementation of the decisions made, set priorities, evaluate risks and ensure that the organization is capable of meeting both the performance targets set for the fiscal year and the strategic objectives sought by the Group; finally, and if necessary, the Executive Committee will implement actions to remedy immediately any failures to deliver on the commitments made and the objectives set.
- The Operations Committee: this 10-person Committee, which meets weekly (either at face-to-face meetings or by video-conferencing), is chaired by the Chief Operating Officer and consists of the managers of the six Strategic Business Units and three Group Directors responsible for Mar-

keting, Sales & Alliances and Delivery. The Operations Committee is responsible for overseeing on an ongoing basis the running of the Business Units, validating the explanations made of variances as compared to budget or to forecasts made for the following months, making decisions on corrective action to be taken in any or all of these Business Units, etc.

- The Group Finance Department: the primary responsibility of the Chief Financial Officer, this department handles internal information systems, procurement, financial information and corporate development as well as, naturally, the various services covered by the finance function itself, namely:
 - budget and financial control;
 - financial and management reporting;
 - consolidation;
 - setting Group accounting standards;
 - treasury management;
 - tax;
 - financial engineering.
 - The Major Commitments Committee: consisting of six members and chaired by the Chief Executive Officer, this Committee holds meetings twice a month between the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer, the Director of Corporate Development, the Director of International Legal Affairs and the Group's General Secretary. Its task is to review - within the scope of the limitations placed by the Board on the powers of the Chief Executive Officer (see Chapter II above) - major business opportunities, plans for acquisitions or disposals, proposals for strategic alliances and master contracts with clients or suppliers that are under discussion and meet specific criteria. The Committee's decisions are based on a risk analysis and on recommendations presented under the auspices of the Corporate Development function and prepared in conjunction with the managers of the Business Units concerned. It only gives its opinion on the express condition that the International Legal Affairs Department has been involved in the review of the major commitments that would be entered into by the Group and/or one or more of its subsidiaries at the outset of commercial negotiations.
- Finally, five corporate functions report directly to the Chief Executive Officer:
- The Internal Audit Department: This Department reports both to the Chairman and to the Chief Executive Officer and its role is to ensure that the internal control procedures adopted within the Business Units comply with the policies

and rules established at Group level, and to check that they are properly applied. Each of these Business Units is inspected in accordance with a biannual program, which the Chairman or the Chief Executive Officer reserve the right to modify at any time in the light of urgent cases or the appearance of delays in achieving budget commitments;

- The Strategy Department whose main role is to provide its input and documentation for the thought processes carried out with regard to strategy by the Office of the CEO and by the Board Strategy Committee;
- The Communications Department, which is responsible for defining the guiding principles of the Group's communications strategy and ensuring they are implemented by the operating subsidiaries;
- The Capgemini University, which has a threefold role: providing Group staff and managers with the additional training they require (in new technologies, assuming commercial functions, the ability to handle large projects, personal leadership development, etc.), creating – for these 60 000 staff members and managers scattered over five continents – an attractive "meeting point" and for this purpose, hosting a large number of internal Group meetings or working groups cooperating on the same project, and finally – and secondarily – offering the Group's major clients a top-quality training environment and resources;
- The General Secretariat, to which the Departments of Legal Affairs and Human Resources report and which is also responsible for the general services for the two establishments run by the Group in Paris (Tilsitt and Kléber).

3.2.2. Clear lines of organization at operational level

The Group's operations are based on a decentralized model, consisting of six Strategic Business Units (SBUs) with substantial autonomy in their management. Four of these Units are based on a geographical split of the Group's business activities into four main geographical areas: North America, Northern Europe (which also includes the Asia Pacific region), France and the rest of Europe (Iberia, Italy, Germany and Central Europe). The two other Units handle two of the Group's four core businesses: one relating to Outsourcing and the other to Local Professional Services.

Within each of these SBUs, the basic operating entity within this structure is the Business Unit ("BU"). These units, which are kept manageably small so that the manager has close relations with his staff, each have an operating methodology similar to that of a small business, and have management and performance monitoring tools which allow them to remain in front-line contact. The Business Unit manager is res-

ponsible for his Unit meeting measurable targets relating to financial performance (growth, profitability, etc.), business development and the quality of expectation management and the level of satisfaction for the BU's clients. In each country, these Business Units are usually combined into a single legal entity, with the name Capgemini followed by the name of the country: where several legal entities are required due to local, tax or business constraints – or due to historical reasons – their number is systematically reduced to the strict minimum whenever such a reduction can be made.

3.2.3. Clearly defined processes and methods:

The due and proper functioning of the executive management structure of the Group and its Business Units is built on compliance with processes and methods which allow for efficiency and the traceability of decisions taken

3.2.3.1. Formal process for authorizing decisions

The decision-making process applied within the Group is based on rules for the delegation of powers. These rules are regularly updated, comply with the principle of subsidiarity and define three levels of decision-making depending on the issues involved, corresponding to the three layers of Capgemini organization:

- the Business Unit for everything within its area of responsibility,
- the SBU for everything concerning several BUs under its authority,
- finally, the Group (Office of the CEO, Executive Committee, etc.) for everything outside the scope of responsibility of a single SBU.

This process requires prior consultation and the provision of sufficient information to those involved. When recommendations are made to the ultimate decision-maker, they must report on the views of all interested parties and include a fair assessment of the advantages and disadvantages of each of the possible solutions

3.2.3.2. A framework of general policies and procedures

The "Blue Book" sets out the main principles and basic guidelines underpinning the Group's internal control procedures, and covers specific issues relating to the following areas:

- the internal organizational structure,
- human resources management principles and procedures,
- finance function organization and procedures,
- external services procurement organization and controls,
- the Group's information and communication systems,
- knowledge management and sharing,
- production of services in a multinational context,

- project management (sales, technical and financial).

3.2.3.3. A project risk control process

The Group has developed a formal process designed to anticipate and control risks associated with the delivery of information systems projects, from pre-sale to acceptance and payment by the client of the last invoice for the project. This process differentiates between:

- sales management controls,
- technical controls during the project execution phase,
- and financial controls of these same projects.

a) Sales management controls:

Projects are becoming ever more complex, in terms not only of size but also technical specifications, especially in outsourcing (long-term commitments, transfers of staff and/or assets, tailored financial packages). As a result, identifying and measuring the risks involved is essential at all stages in the selling process, not only for new contracts but also for extensions or renewals of existing contracts. This risk analysis is based in particular on:

- a tool for detecting and managing business opportunities making it possible to identify projects worth commercial investment as early on as possible in the sales cycle and consolidate the data relating to these opportunities at international level;
- a methodological approach to each major opportunity detected by the sales network, which involves breaking down each business opportunity into intermediate phases. This approach provides the best means of assessing the pros and cons of submitting a bid, validating the proposed technical solutions, and developing the various aspects (technical, legal and financial) of this bid, etc.;
- the heavy involvement of the legal affairs and risk management teams of the BU concerned in the bid preparation phase and the definition of the measures making it possible to reduce or avoid altogether the risks resulting for example from:
 - the size of the project,
 - the fact that it covers several countries,
 - contractual clauses significantly at variance with Group policies and/or standards;
 - complexity due to specifically tailored financial packages;
 - the need for upfront financial investment,
- the opinion of qualified technicians asked to validate the technical solutions proposed to the client to ensure that they meet the client's demands or requirements and the capacities and abilities of the Business Unit which will be responsible for conducting the project,
- a formal process for decision-making at the required

level (depending on project nature and size).

b) Production control and project quality control process:

Policies for monitoring the performance of contracts have been adopted by the Group and are applied throughout the life of the project to ensure that it continues to run smoothly. Key features include:

- clear definition of the roles and responsibilities of each person for execution and supervision throughout the entire production process, in particular as regards the project leader, client relationship management, billing, and joint oversight arrangements with the client;
- use of proprietary production methodologies on a worldwide basis,
- calling upon the expertise of the Group's Applications Development Centers;
- Group-wide identification of all the "at-risk" projects in the process of execution and implementation of action plans aimed at containing such risks;
- commissioning of independent "quality audits", in order to identify the new risks run where project execution appears to be at variance with forecasts or with the commitments taken;
- measurement of client satisfaction via OTACE (On Time Above Client Expectations) surveys.

c) Project financial control process:

Depending on its size, each Business Unit has one or more project financial controllers, whose tasks include:

- financial monitoring of each project and primarily of project development costs against the initially approved budget. Progress reports and management indicators are built into the monitoring process, which relies mainly on an analysis from time to time of the estimated costs to completion and their accounting impact;
- ongoing control over compliance with contractual commitments, in particular billings and payment milestones.

3.3. – Procedures for the preparation and processing of financial and accounting information

These procedures are used to ensure the application and compliance with Group accounting rules, in respect of preparing budgets and forecasts, financial reporting, consolidation, control and financial presentations.

3.3.1. Financial and accounting structure

The operational control aspects of the Group's finance function are decentralized, with a structure that parallels the

Business Unit structure. However, in order to safeguard the impartiality required in determining accounting results, the financial controllers of the Strategic Business Units report to the Group Chief Financial Officer. The Strategic Business Unit financial controllers are responsible for ensuring that high-quality financial and accounting information is reported on time to the parent company.

Each BU has its own financial controller, who in turn reports to the SBU's financial controller and is responsible for ensuring that the results of the unit's activities are accurately reported in the accounts in accordance and compliance with Group accounting rules and methods. To this effect, these financial controllers also check profit estimates for ongoing projects and assess their accounting impact, make sure that services are billed and paid for, as well as testifying to the quality of the information contained in financial reports and in the accounting schedules used as the basis for preparing the consolidated financial statements.

All these financial controllers apply the Group's accounting procedures and policies (and occasionally contribute to updating them) as collated in a Group manual that summarizes:

- what information must be reported, and how often;
- lines of reporting;
- performance indicators;
- the applicable accounting rules.

3.3.2. Financial processes

In order to exercise effective control over operations, the Group requires Business Units to submit weekly, monthly, half-yearly and annual reports of all budget, forecast, operational and accounting information required in general to oversee the Group:

- budget and forecasting process: The budget is a fundamental management control tool: drawn up between the Company and each of its managers based upon the manager's past performance, the Group's chosen strategic priorities and expected market trends, it sets quantified targets for the Strategic Business Units and their component BUs. The process for preparing this budget is a high spot in the relationship between the different levels of the Group's management and makes it possible to create a substantial link between the variable portion of the compensation paid to operational managers and the attainment of the budget targets that have been set for the BU they manage as well as those of the SBU to which their Business Unit belongs. Finally, a forecast operating statement (for a rolling 7-month period, i.e. the current month

and the next 6 months) is prepared monthly. Variances from the budget are analyzed, so that any corrective action plans that may be needed can be drawn up as quickly as possible.

- Operational reporting and accounting consolidation process: Reporting of information is organized per Business Unit forming an SBU and by business line: it therefore allows revenues and costs to be split either by type or by function, to provide analyses of balance sheet items, and to measure performance indicators against budget (R/B), the last forecasts (R/F), and the same figures for the prior year (R/R'). A monthly reconciliation is performed to ensure that financial information derived from the operational reporting system is consistent with that derived from the consolidation prepared using data from the legal entities in the Group.

At each yearly or half-yearly closing, the scope of consolidation is redefined by the Group Finance Department and validated by the Group Legal Affairs Department. Written instructions are issued providing a timetable for period-end tasks (in particular, the reconciliation of intercompany transaction balances), highlighting current accounting issues requiring specific attention, and describing the control procedures that will be applied to prepare the consolidated financial statements.

The financial consolidation process is based on the reporting of information contained in accounting packages, which must be signed off on each occasion by the person responsible for preparing them. Statements of income, balance sheets and other key management indicators required for subsequent analytical purposes are stored in a single database maintained at Group level and access to this information system is strictly controlled. A monthly management report is prepared jointly for each Strategic Business Unit by the manager and financial controller of the unit. This report is designed to give an explanation of performance figures, forecasts for the next 6 months and actions taken in the event of material variances with budget, and is submitted to each of the four members of the Office of the CEO.

- Financial information controls: The interim and annual financial statements are subject to specific controls regarding financial information and its presentation. These include:
 - a systematic review carried out with the assistance of the International Legal Affairs Department of all material operations and transactions occurring during the period;
 - a procedure to identify, collate and report off-balance

sheet commitments and any other information liable to have significant repercussions on the financial position of the Group or any of the Group's subsidiaries at the end of the period;

- an in-depth review of the tax position of each of the Group's legal entities;
- a detailed analysis of the statement of cash flows.

The controls described above carried out by the Group's Finance Department are supplemented by the information provided by two independent bodies whose controls make it possible to verify the quality of the financial statements: the internal audit team, and the statutory auditors.

- *internal audit*: based on its program covering the Group's Business Units drawn up in agreement with the Group's Chairman and its Chief Executive Office (to which it reports directly), the Internal Audit function is to carry out controls to ensure that procedures relating to the safeguarding of assets, to the valuation of work-in-progress and the actual amount of trade accounts receivable, and to the proper recognition of liabilities are applied in each Business Unit in accordance with the rules and methods established by the Group. In particular, the Internal Audit is asked to pay specific attention to revenue recognition and controls over the percentage of completion of projects, so as to ensure that projects are accounted for on the basis of rigorous, up-to-date technical assessments. The Internal Audit program also includes a review of the procedures and controls operated within the Business Unit under review to ensure the security and validity of transactions and accounting entries.

- *Statutory auditors*: One of the main roles of the statutory auditors consists of performing an ongoing review of internal control procedures with an impact on the quality of the financial statements.

- *Communication of financial information*: this is subject to rigorous internal control, with a particular focus on three key methods used to convey financial information:
 - the Annual Report (and the attached Reference Document);
 - financial press releases;
 - meetings with analysts and investors.

The Annual Report has traditionally played the predominant role in financial communication by the Group since 1975 (this is therefore the 30th time that it has been published). Consequently, its preparation, the drafting of its content, the choice of illustrations its production and its distribution are subject to particular attention on the part of the Office of the CEO and above all its Chairman whose "Letter" is the most highly prized contribution. It is noteworthy that all the

sections included in the Group Annual Report are written internally by staff and managers of the Group: each of them is responsible, in his own specific area of competence, for developing and formatting a chapter of this Annual Report within the scope of a general outline proposed by the Communications Department. Inserted into the Annual Report, the Reference Document combines all the information that must be provided pursuant to all the legal and regulatory requirements and is drawn up under the responsibility of the Group Finance Management. As there are more and more requirements that need to be met, the volume of the Annual Report increases by around 10 pages a year (it is now 123 pages this year compared to 68 five years ago).

Financial press releases are only published after receiving the formal approval of the Board of Directors or the Chairman and they must therefore be submitted to them sufficiently in advance. Except in exceptional circumstances, they are published outside the trading hours of the Paris stock exchange.

Meetings with analysts and investors are subject to specific preparation, and their content is presented to the Board of Directors or the Chairman prior to the meetings. This preparatory work is then used as a framework for comments and explanations provided by the Chief Executive Officer and/or the Chief Financial Officer during the meetings.

3.3.3. Transition to IFRS

The work undertaken for transition to IAS/IFRS and the progress made on this project are described in paragraph 2.3 of the Management Report.

3.3.4. Rules governing share trading

The Group requires all employees to refrain from carrying out any kind of transaction involving Cap Gemini shares during certain periods. Employees are reminded of these prohibitions in writing before the start of each such period.

3.4. Changes in these control procedures in 2005

The changes being made or those that will be made to certain of these control procedures during 2005 have been described at the beginning of this chapter (see page 41) to make it easier for the reader to situate them overall in the context of the various procedures that exist in 2004.

STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH THE FINAL PARAGRAPH OF ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT OF THE CHAIRMAN OF CAP GEMINI SA'S BOARD OF DIRECTORS, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

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.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditors of Cap Gemini S.A. and in accordance with the final paragraph of article L.225-235 of the French Commercial Code, we hereby present our report on the report prepared by the Chairman of the Board of Directors of the Company in accordance with article L.225-37 of the French Commercial Code for the year ended December 31, 2004.

In his report, the Chairman of the Board of Directors is required to comment on the conditions in which the duties of the Board are prepared and organized and the internal control procedures in place within the Company.

Our responsibility is to report to you our observations on the information set out in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial information.

We performed our procedures in accordance with the professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set

out in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial information. These procedures mainly consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of accounting and financial information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the Chairman's report.

Based on these procedures, we have no matters to report on the information concerning the Company's internal control procedures relating to the preparation and processing of accounting and financial information, contained in the report of the Chairman of the Board of Directors, prepared in accordance with the final paragraph of article L.225-37 of the French Commercial Code.

Paris, February 24, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Bernard RASCLE

KPMG Audit

Department of KPMG S.A.

Jean-Luc DECORNOY – Frédéric QUÉLIN
Partner Partner