



RISK MANAGEMENT

Extract from the 2005 Annual Report

BUSINESS RISKS

The market

The demand for IT solutions and services is influenced by clients' demand, which in turn is affected by the general economic climate, market conditions in the related sectors, the economic cycle and technology developments. During a downturn, existing clients may cancel, reduce or postpone existing contracts and prospective clients may defer entering into new contracts. These potential adverse effects are mitigated by the broad-based spread of Atos Origin's contracts and services. More than 60% of Group revenues are generated under multi-year recurring revenue contracts.

Clients

The Group's top 30 clients generate more than 50% of total Group revenues. The five largest clients in 2005 represented 20% of the Group's total revenues and no single client generated more than 7% of total revenues. This represents only a very modest exposure since all of these clients are large national or multinational groups with a limited risk of insolvency.

Client relationship management is critical to ensure the proper delivery of services, the renewal of contracts and mitigation of the risks of early termination. In this respect, the Group has implemented detailed contract management processes and created a global account management function to oversee client accounts. Global account managers are responsible for the overall quality of services and relationships with global key clients.

The client selection process and risk analysis is fully integrated within the global risk assessment process throughout the life cycle of a project. Credit risks are assessed on an individual basis and, where appropriate, provision is made to take into account likely recovery problems.

Legal risks

The IT services provided to clients are to a large extent essential to clients' commercial activities and IT solutions often play a key role in the development of their business. Any inadequate implementation of sensitive IT systems or any deficiency in the execution of services, either related to delays or unsatisfactory level of services, may increase the risk of contract liability arising.

Systems integration frequently involves products designed and developed by third parties. Those products may be standard or may need to be adapted or specifically developed for customised requirements. Similarly, a client's special demands in terms of functionality may either disrupt the operation of third-party products or cause significant delays or implementation problems, which might result in termination of the contract or penalties being imposed on the Group.

The practice exists in the IT sector by which some contracts are concluded on a fixed-rate basis and some have a results-based formula. In the case of fixed-price contracts a price is negotiated regardless of the costs or difficulties inherent in the project. Extending work beyond the initial estimate may generate operating losses. These may sometimes be exacerbated by the existence of contractual penalties. In such situations, Atos Origin could be exposed to the risk of incurring significant unforeseen costs or penalties on execution of the contract.

The Group seeks to minimise such risks through a rigorous review processes at the bid stage. We have a specific process called AtosTM Rainbow under which contract bids are reviewed and through which we maintain a continuous risk register. The register is used as the basis for taking mitigating action where appropriate and following up on outstanding actions.



Suppliers

Atos Origin relies on a limited number of key suppliers in its business, notably with respect to software used in the design, implementation and running of IT systems. While there are alternative sources for most software and the Group has long-term licences and agreements with a range of qualified suppliers, the failure of such suppliers to continue producing innovative software, or the inability to renew agreements on acceptable terms, could have an adverse effect on Atos Origin's business.

Major risks with key IT suppliers are managed centrally by the Group Purchasing department. This department is responsible for relationships with suppliers, including their identification and selection, contract negotiation and the management and resolution of potential claims and litigations.

Partnerships and subcontractors

Atos Origin relies from time-to-time on partnerships and subcontractors to deliver services in specific contractual situations. The use of third parties is commonplace within the industry but represents a business risk that must be carefully managed by the Group. Partnerships may be formed or subcontractors may be used in areas where the Group does not have specific expertise necessary to fulfil the terms of a particular contract or requires such skills for a limited period of time only, or to comply with local legislation. All requests to enter into partnerships or use subcontractors are initiated locally by the bid team evaluating the proposal. In each case, such requests are reviewed and approved by the main country office initially, and thereafter by the risk management committee, which approves the contractual share of responsibilities and risks between Atos Origin and the third party.

Technology and IT risks

IT system breakdowns could be critical both for the internal operations of the Group and for its clients' needs in relation to the services provided. The Group has implemented specific programmes and procedures to ensure the proper management of IT risks, covering security and back-up systems and effective insurance coverage.

IT production sites and data-centres are specifically subject to high level technical procedures covering physical and IT system access, energy supply breakdown or disruption, fire, regulation of extreme temperature change, data storage and back-up, contingency and disaster recovery plans.

Employees

Dependence on qualified personnel

The success of Atos Origin depends largely on the skills, experience and performance of its staff and key members of its management teams. There is a high level of demand for qualified managers in the IT services markets. The loss of key management could have a detrimental effect on the delivery of services and the financial results of Atos Origin. The Group retains key management by providing challenging job content, exciting careers opportunities and by offering a competitive compensation package. It supports this programme through an efficient personnel organisation and by having a motivated human resources community.

Atos Origin carries out regular succession planning reviews and provides adequate back-up and planning to make certain that scarce skills can be replaced. This ensures, where appropriate, that there are training programmes in place to develop staff to take over key roles. Such training includes the regular rotation of jobs, including international assignments, and is an important element of the staff appraisal system.

Employee attrition

The inability to recruit and retain an adequate number of qualified employees to satisfy demand, or the loss of a significant number of staff could have serious repercussions in terms of the Group's ability to secure and successfully deliver client contracts. In recent market conditions (2002 to 2004), voluntary staff turnover has been low and Atos Origin was forced to reduce staff numbers to match lower demand, particularly within Consulting and Systems Integration. As the market has recovered, staff turnover has risen modestly. Excessive staff turnover in future, or an inability to recruit new staff promptly, could hinder the Group's ability to fulfil its contractual obligations.



The human resources department has established specific programmes to attract and retain the best staff in each area of expertise, developing them through continuous training programmes, competitive performance rewards and by creating a culture and atmosphere in which staff are able to develop their careers. The Group is proposing to shareholders at the forthcoming Annual General Meeting that a new Management Incentive Plan and Employee Share Purchase Plan should be put in place to attract high quality recruits and retain staff. The scheme aims to encourage management and employees to purchase shares in the Company.

Business risk assessment and management

Atos Origin has a robust business risk management approach reinforced during the last two years, based on two essential processes.

Risk management system

The Group operates a risk management system that facilitates the analysis and treatment of business risks throughout the life cycle of a project. This process is integrated with the control and approval process when entering into new contracts. The objective is to ensure that the Group only bids for projects that are capable of being delivered effectively and to provide an early warning system for any project that encounters problems or diverges from its original targets. Specifically, the risk management process:

- identifies potential exposures, including both technical and financial risks that could have an impact during the life cycle of the project:
- evaluates, both qualitatively and quantitatively, the significance and materiality of any such exposures:
- ensures that appropriate and cost-effective risk control or risk mitigation measures are taken to reduce the likelihood and impact of negative outcomes on the project: and
- manages residual exposure through a combination of external risk transfer instruments and internal contingency reserves in order to optimize the use of exposed capital.

Group Risk Management Committee

A Group Risk Management Committee, established in 2004, meets monthly to review the most significant and challenging contracts. The committee is owned jointly by three Board members representing Finance, Managed Operations and Consulting and Systems Integration. Permanent members of the Committee include several vice presidents with responsibilities in risk management. In addition, local risk managers are invited to attend the reviews of contracts owned in their geographic area. Once a year, the Audit Committee reviews in detail all the major contracts at risk, which are followed up either by the service line or the Risk Management Committee.

MARKET RISKS

Liquidity risk, cash flow interest rate risk, currency risk, market value of financial instruments, price risk and credit risk are described within the Financial Report section in the 2005 Annual Report.

Financial risk management

The Group's activities expose it to a variety of financial risks including liquidity risk, cash flow interest rate risk, credit risk and currency risk. Financial risk management is carried out by the Global Treasury Department and involves minimising potential adverse effects on the Group's financial performance.

Liquidity risk

Liquidity risk management involves maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Credit facilities are subject to financial covenants that are carefully controlled by the Global Treasury Department.



Cash flow interest rate risk

Cash flow interest rate risk arises mainly from borrowings. The management of exposure to interest rate risk encompasses two types:

- A price risk on fixed-rate financial assets and liabilities. For example, by contracting a fixed-rate liability, the Group is exposed to potential opportunity losses should interest rates fall. A change in interest rates would impact the market value of fixed-rate financial assets and liabilities. However, this loss of opportunity would not impact financial income and expenses as reported in the Consolidated Income Statement and, as such, future net income of the Company up to maturity of these assets.
- A cash-flow risk on floating-rate financial assets and liabilities should interest rates increase.

The main objective of managing overall interest rate on the Group's debt is to minimise the cost of debt and to protect the Group against fluctuation in interest rates by swapping to fixed rate a portion of the floating-rate financial debt. Authorised derivative instruments used to hedge the debt are swap contracts entered with leading financial institutions.

Credit risk

The Group has no significant concentrations of credit risk. The client selection process and related credit risk analysis is fully integrated within the global risk assessment project conducted throughout the life cycle of a project. Derivative counterparties and cash transactions are limited to high-credit quality financial institutions.

Currency risk

The Group's financial performance is not materially influenced by fluctuations in exchange rate since a significant portion of the business takes place within the euro zone and costs and revenues are generally denominated in the same currency. The main residual exposures are primarily in UK pounds and US dollars.

The Group has established a policy for managing foreign exchange positions resulting from commercial and financial transactions denominated in currencies different from the local currency of the relevant entity. According to this policy, any material exposure must be hedged as soon as it occurs. In order to hedge its foreign exchange rate exposure, the Group uses a variety of financial instruments, mainly forward contracts and foreign currency swaps.

Price risk

The Group has no material exposure to the price of equity securities, nor is it exposed to commodity price risks.

Accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, be approximations. The estimates and assumptions that may result in a significant adjustment to the carrying amounts of assets and liabilities within the next financial statements year are essentially related to:

Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations required the use of estimates that are described in note 11.

Revenue recognition and associated costs on long-term contracts

Revenue recognition and associated costs, including forecast losses on completion are measured according to policy stated above. Total projected contract costs are based on various operational assumptions such as forecast volume or variance in the delivery costs and have a direct influence on the level of revenue and eventual forecast losses on completion that are recognised.



INSURANCE

The Group maintains a variety of insurance policies with reputable international companies, providing it with a level of insurance coverage considered adequate by Management. The total cost of the global insurance programmes in 2005 represented approximately 0.24% of total Group revenue.

The Group maintained largely the same insurance policies in 2005 as in previous years with the only significant change being in the level of professional indemnity insurance coverage, which was increased to EUR 140 million. The Group was able to negotiate the higher limit whilst maintaining similar prices to 2004 since it has a good claims history.

The Group purchases its most important global insurance programmes centrally at 1 January each year. The following main policies and coverage limits were renewed for 2005:

Property damage and business Interruption (EUR 122 million)

Professional Indemnity (EUR 140 million)

During the year, annual inspections of datacentres and other key sites were performed by property loss surveyors, who provided recommendations for loss prevention and control. In 2005, ten such site surveys were carried out. In addition to the above policies there were a variety of other general liability, employee and directors and officers policies maintained for adequate limits, given the risk exposure of the Group. The existing global insurance is considered sufficient to meet the needs of all anticipated contracts and Group risks.

In addition to the globally managed policies described above, various local policies are bought in accordance with local regulations or custom and practice. These include employers' liability insurance in the United Kingdom, workers compensation in the United States of America and employee travel policies in many countries.

Atos Origin's wholly-owned insurance company provides insurance for the first layer of the property and professional indemnity lines. It retains the first EUR 0.5 million of each property claim, subject to a EUR 2 million annual limit, and it retains the first EUR 10 million of claims on the professional indemnity policy. These limits of insurance are not considered material at Group level. Large international insurance companies provide cover for exposures that could have an impact at Group level. Deductible retentions are also used on all policies to keep insurance costs at acceptable levels and to motivate the operations to follow good risk management practice.

CLAIMS AND LITIGATION

The Group continues to have a low level of litigation and claims. This has been achieved partly by self - insurance incentives, but also by the vigorous promotion of service quality and the creation of a fully dedicated Risk Management department in charge of monitoring contract bids and delivery, and providing early warning of potential issues and claims. All claims and potential claims are carefully monitored and managed at every stage. In the last year a number of the larger claims and litigation cases in the Group have been successfully resolved in Atos Origin's favour.

One material dispute was notified in late 2004 in the United Kingdom for alleged non-delivery of a systems integration service. As a consequence, the particular contract was terminated by the client. This matter has been taken to court by Atos Origin and Management has reliable opinions from external lawyers that there is a good defence to the claim and that the termination by the client was wrongful.

Most of the litigation inherited from Sema Group has been successfully resolved. There remain only a small number of material claims and litigation inherited from Sema Group, including one case in the United States. However, the vendor of Sema Group (Schlumberger) has provided representations and warranties covering these cases, including defence costs, in the Sale and Purchase agreement.

A number of other claims and litigation have been identified and reviewed and are being carefully managed. Management considers that it has made adequate provision against all these cases.



At 31 December 2005, provisions recorded by the Group to cover identified litigation and claims amounted to EUR 40 million. To the knowledge of the Company there are no other current or threatened claims, governmental procedures, arbitration or litigation procedures that have had, or are likely to have, a material impact on the profitability or financial status of the Company or the Group.

COUNTRY

Atos Origin operates in approximately 40 countries. Some countries are more exposed than others to political or economic risks that may affect the Group's business and profitability. A substantial proportion of Atos Origin's business is in Western Europe, which is comparatively stable, and the geographic diversity of the Group's operations limits the risks relating to any one country.

MATERIAL CONTRACTS

There is no material contract, other than contracts entered into in the ordinary course of business, to which the issuer or any member of the Group is a party, or entered into by any member of the Group which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of the registration document.