

VALTECH

A French joint stock company (“société anonyme”) with a share capital of EUR 1,301,086.072104

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Nanterre Trade and Companies’ Register: 389 665 167**

**CHAIRMAN’S REPORT ON THE CONDITIONS
IN WHICH THE BOARD OF DIRECTORS’ PROCEEDINGS WERE PREPARED
AND ORGANISED AND ON THE INTERNAL CONTROL PROCEDURES**

Under Article L. 225-37 of the French Commercial Code, the Board of Directors’ Chairman herein reports on (i) the conditions in which the Board’s proceedings were prepared and organised (ii) and the internal control procedures set up by your Company.

This report set outs the conditions in which the Valtech SA Board’s proceedings were prepared and organised during the fiscal year 2006.

This report also sets out the internal controls procedures of the Valtech Group.

**1. PREPARATION AND ORGANISATION OF THE BOARD OF DIRECTORS’
PROCEEDINGS**

Valtech subscribes to the principles of corporate governance applicable to listed companies set forth in the Viénot reports dated July 1995 and July 1999 and in the Bouton report dated September 2002 and in particular to the following points:

- responsibility and integrity of the corporate officers and directors,
- independence of the Board of Directors,
- transparency and disclosure of information,
- respect for the rights of the shareholders.

In its specific legal framework, as recalled in its *Document de Référence* (available at www.valtech.com), Valtech gradually endeavours to implement the recommendations set forth in said reports.

Preparation and organisation of the Board’s proceedings

The Board of Directors discusses and decides on all the decisions relating to the major strategic, economic, social and financial orientations of the company and ensures that the General Management implements them.

The Valtech Group’s policy as regards corporate governance provides that the Chairman of the Board of Directors must obtain the Board of Directors’ authorisation for the purpose of initiating any operations committing the company in a significant way, namely any

- external growth operation,
- transfer of company,
- recruitment of general managers for the group’s subsidiaries.

As at 31 December 2006 the Board of directors included two non-executive directors who do not have any management duties in the company, namely Douglas Land and Jens Heimburger. Mr. Douglas

Land and Mr. Jens Heimburger are able to focus on matters on corporate governance through their active involvement in the Board and specifically the audit and compensation committees.

The Board of Directors' three other members are Jean-Yves Hardy and Olivier Cavrel (founder corporate officers of the group) and Jean-Claude Turri (founder Valtech Axelboss). The detail of the Board's composition is given is further expanded in the *Management Report*.

During the fiscal year 2006, the Board of Directors met six times as follows.

- 5 out of 5 directors attended four meetings, and
- 4 out of 5 directors attended one meeting,
- 3 out of 5 directors attended one meeting.

The average duration of the Board of Directors' meeting is 4 hours.

Each meeting of the Board of Directors is generally preceded by the meeting of one or more Committees of the Board of Directors for the purpose of preparing its deliberations.

The Board of Directors may be assessed according to the following criteria:

- attendance rate at the various board or committee's meetings held during the fiscal year,
- involvement of the Board's members in understanding the Company's conduct of business,
- definition and monitoring of the Company's strategy plan,
- Audit of accounting and financial principles in Valtech SA and its subsidiaries,
- Preparation and enforcement of a fair and reasonable salary policy as regards the Company's main corporate officers.

Duties and operation of the Committees of the Board of Directors

Strategy Committee

The Strategy Committee includes all the members of the Board of Directors and may invite, at the Chairman's initiative, one or several external experts to attend the meeting, depending on the agenda.

The Strategy Committee meets upon the call of the Chairman as often as the Group's interest requires to discuss prospective issues prior to submitting the same to the Board of Directors. During the fiscal year 2006 the committee met on each date of a full board meeting.

Audit Committee

The Audit Committee includes Mr. Douglas Land and Mr. Jens Heimburger.

The Audit Committee met 5 times in 2006. It heard the main persons in charge of the Group Financial function as well as the statutory auditors in order to study with them their respective plans of action and the consequences thereof as well as the half-year and annual accounts and the closing conditions.

Compensation Committee

In 2006, Compensation Committee comprised two members, being the non-executive directors Jens Heimburger and Douglas Land.

The Committee met three times in 2006.

The criteria taken into account to set main corporate officers' compensation remain as in the prior year and were as follows:

- Total remuneration (including bonus) of main corporate officers (Mr. Jean-Yves Hardy, Mr. Jean-Claude Turri, Mr. Olivier Cavrel) to be within the limit of corporate officers' compensation in similar listed companies (remuneration of between EUR 150,000 and 300,000, exclusive of social security contributions), i.e., a bracket between EUR 225,000 and 450,000 in total for a French company.
- Bonus to be assessed upon specific attainment of annual financial results of the group.

2. GENERAL MANAGER'S POWERS

The provisions of article L. 225-51-1 of the French Commercial Code enables the Board of Directors to choose between the Company's General Management carried out, under the Board of Directors' responsibility, either by the Chairman of the Board of Directors or by another individual appointed by the Board of Directors and called General Manager.

Valtech SA decided in 2001 to continue to have the functions of both Chairman of the Board of Directors and General Manager performed by the same individual.

The Articles of Incorporation do not provide for any limitation to the powers of the General Manager or of the Deputy General Managers.

We remind you that Jean-Yves Hardy is Chairman and General Manager of the Company. During 2006 and until March 2007, he has been supported by Olivier Cavrel as Deputy General Manager. In March 2007, Jonathan Poole has been appointed as a new Deputy General Manager.

However, from an operational point of view :

- Jonathan Poole, formerly managing director of Valtech UK, takes over the operational and financial management of the group as group chief executive officer (CEO).
- Lars Bladt, formerly managing director of Valtech Denmark, was appointed as group chief operating officer (COO), under the management of Jonathan Poole.
- Olivier Cavrel moves from his position as group chief operating officer (COO) to become full time chief executive officer (CEO) of Valtech's India operations. He relocated permanently to Bangalore in August 2006.
- Andy Stephens, formerly UK finance director, has taken over as group chief financial officer (CFO).

3. INTERNAL CONTROL PROCEDURES SET UP WITHIN THE VALTECH GROUP

Internal controls are implemented and enforced by the group's financial management, the company's general management and the company's staff and are intended to provide a reasonable assurance as regards the achievement of goals falling within the following classes:

- management of the operations in compliance with the group's internal rules,
- reliability of the financial information,
- compliance with the laws and regulations in force.

The purpose of Valtech's internal control system, which covers all the Group's activities, is to give an overall and reliable view of the latent risks of each operation.

It must be highlighted however that any system of internal controls designed to meet the goals described above cannot achieve said goals with certainty, because of the limits inherent in the operation of any procedure.

3.1 Control environment

With the Valtech Group, a set of organisational rules contribute to the efficiency of the internal controls.

Group financial control: this team, led by the Group Chief Financial Officer is independent of the day to day in-country operations. Based in London, its purpose is to collect, consolidate and analyse the financial results (together with other key performance metrics) for each of the Group's subsidiaries. This team also performs selective internal audit procedures to ensure consistency of submissions and compliance with company policies.

Financial communication: based in Paris and supervised by Jean-Yves Hardy its purpose is to disclose financial information, plan the timetable for disclosures, inform insiders of the periods of prohibition to trade in the Valtech share, disclose the forecasts prepared by the Group with the Board of Directors' consent.

Steering committees (quarterly): each Valtech subsidiary is supervised by one of the directors of Valtech SA through a steering committee including such subsidiaries' operational managers. The purpose of the steering committees is to anticipate and inform about the risks that may be identified in each operation at the level of the Strategy Committee of the Board of Directors and of the financial management.

In addition to the control environment established by the Board of Directors and the Board committees, it is the continuing responsibility of the directors of each subsidiary and their local financial control teams to ensure controls are adequate and enforced and to inform the Board of Directors of any sensitive issues.

All of the above efforts help the Group to maintain an appropriate internal control environment, assessing the efficacy of those controls and promoting continuous improvement. Based on the results of risk assessment, the group financial control team monitors the relevance and the efficiency of the internal control procedures, measuring the reliability and the integrity of the financial and operational information, the efficiency of the operations and compliance with laws, regulations and contracts.

3.2 Internal control procedures relating to the preparation and processing of the accounting and financial information

The internal controls environment impacting the preparation of accounting and financial information is organised around the following key steps:

- monthly reporting, with a monthly full management accounting close;
- re-forecasting on a quarterly basis;
- weekly monitoring of cash flows with monthly forecasting thereof;
- a common framework of accounting policies shared by the entire Group

3.2.1 Unified accounting and management reporting

All of the Group's entities form part of the Group's management and steering cycle, which consists of the following components.

3.2.1.1 Monthly reporting

All the Group's entities provide the following financial information within a period of 10 business days following the end of the month:

- profit and loss account in IFRS format;
- comprehensive list of trade receivables;
- status of inter-company invoicing within the Group; and
- monitoring of 15 key performance indicators.

3.2.1.2 Budget process and Rolling forecast

The Group has recently moved to a quarterly reforecasting process. This enables country management teams to take a more considered and strategic approach to their forecast submissions. The reforecast is submitted shortly ahead of the quarterly meetings of the Board so that the consolidated view may receive due consideration.

3.2.1.3 Weekly monitoring of cash flows

All the Group's entities provide a status of the cash flows (receipts, payments, cash position and utilisation of temporary and long-term facilities) on a weekly basis.

The reconciliation of the accounting information and the forecasts, as well as the monthly analysis at each level of the Group's organisation, contribute to the quality and reliability of the information provided.

3.2.2 Common system of reference and accounting methods within the group

For the preparation process of the estimated and recorded consolidated financial statements, the Group adopted a principle of unification, which entails:

- the homogeneity of the reference system, the accounting methods and the consolidation rules,
- the standardisation of the reporting formats,
- the use of a consolidation computer tool (Frango) shared by the entire Group.

The Group has a unique reference system that standardises all the items of the consolidated reporting in Frango, including any unrecorded liabilities. This reference system is under the responsibility of the Group's financial management that ensures the development and the maintenance thereof. All the Group's consolidated entities have adopted this reference system. It must be highlighted that the Valtech Group prepares its consolidated financial statements according to the IFRS standards.

The consolidation tax returns are prepared according to the local accounting principles and include homogeneity reprocessing in order to comply with the Group's standards.

Instruction notes from the financial management specifying the process and the timetable for each closing are circulated within the Group. Each subsidiary applies said processes and time schedules at its organisation level.

3.2.3 Planning of the closing procedures

- In order to accelerate the provision of timely financial information to the Board, Valtech launched a program to better formalise and plan the monthly close. Subsidiaries submit their results within 10 working days of month end utilising standard templates and in accordance with a timetable published for the full year. These submissions are reviewed, challenged and consolidated by the Group finance team in London in readiness for a monthly Board review.

- The planning of the actions of co-ordination between the Group's various divisions and functions, the improvement of the quality of the forecasts and the growing control of the financial processes, the anticipation and the acceleration of the accounting closing process are essential elements of the Group's financial control environment.

4. IFRS STANDARDS

Valtech's results are prepared in accordance with International Financial Reporting Standards (IFRS) and the Group full transitioned to this method of accounting in 2004. Individual subsidiaries operate in accordance with local Generally Accepted Accounting Principles (GAAP) and any required adjustments to IFRS are implemented by the Group finance team in London.

Jean-Yves Hardy
Chairman of the Board of Directors