

Sword Group

Limited company with share capital of € 3,620,310

Registered Office: 9, Avenue Charles de Gaulle

69370 SAINT DIDIER AU MONT D'OR

LYON TRADE AND COMPANIES REGISTRY 438 305 054

MANAGEMENT REPORT PREPARED BY THE BOARD OF DIRECTORS AND PRESENTED TO THE ORDINARY ANNUAL GENERAL SHAREHOLDERS' MEETING OF 27 FEBRUARY 2002

Ladies and Gentlemen,

In accordance with the law and the company's articles of association, we have convened the present Ordinary Annual General Meeting to present our report on the situation and activities of your company during the financial year ended **31 December 2001** and to submit the accounts for the said financial year for your approval.

We will supply you with all details and additional information concerning the documents and attachments required by existing law and which have been made available to you within the legal time limits.

COMPANY'S ACTIVITY

- Situation and activity of the company during the year

Sword Group was registered in the Lyon trade and companies registry (Registre de Commerce et Sociétés) on 2 July 2001. The financial period ended 31 December 2001 therefore comprises only six months of activity.

At the Extraordinary General Meeting of 30 August 2001, all the shareholders of Sword S.A., a limited company with share capital of € 3,412,500 whose registered office is at 9, Avenue Charles de Gaulle 69370 Saint Didier au Mont D'or, registered in the Lyon trade and companies registry under number 433 624 707, contributed all the shares held in Sword S.A. to Sword Group. Accordingly, the capital of Sword Group was increased by € 3,412,470 through the creation of 682,494 new shares with a par value of € 5 as remuneration for said contribution.

Consequently, as from 30 August 2001, Sword Group has owned 99.99% of the capital of Sword S.A.

At the Extraordinary General Meeting of 29 October 2001, it was decided to issue 156,640 free share subscription warrants, each warrant giving the right to one share at a price of € 5 with a € 22.25 issue premium. Preferential subscription rights were cancelled in favour of two

shareholders, Mr Jacques Mottard in respect of 33,568 warrants and the company 21 Centrale Partners acting on behalf of FCPR 21 Développement in respect of 123,072 warrants.

The Board of Directors was given full powers to receive subscriptions and record any capital increase resulting therefrom.

The two shareholders exercised their subscription rights in full on 2 November 2001. The Board Meeting of 31 December 2001 took note that Mr Jacques Mottard had exercised his share subscription rights in full resulting in a capital increase of € 167,840.

The share capital consequently amounts to € 3,620,310 divided into 724,062 shares with a par value of € 5 each.

The company is due to be floated on the Euronext Second Market in March 2002.

The company's activity from 2 July to 31 December 2001 was as follows:

Sword Group has operated as a holding company by including the management staff on its payroll since 1 August 2001.

As from the above date an agreement was reached with the company's subsidiaries under which Sword Group will bill a monthly total of € 45,735, prorata to the staff of each subsidiary.

At consolidated level, we have strengthened our position in each of our technological niches. We have significantly increased the gross value of the order book as well as its relative value in relation to current sales.

Lastly, we expanded our international operations thanks to some of our customers, which involved us in projects in various new countries (Japan, Germany, Panama, etc.).

Expected trends and outlook

* Since 1 January 2002, the company has opted for the tax group status provided for in Article 223 A of the General Tax Code. Sword Group is solely responsible for paying tax on the results of its subsidiaries, i.e. Sword SA, Sword Consulting and Espace Crecy, which will shortly be renamed Sword DDS.

In 2002, Sword Group will continue to operate as a holding company on the same billing basis as in 2001.

Sword Group is scheduled to be floated on the Second Market in the first quarter of 2002 in order to:

1. Raise the capital needed to finance its acquisitions,
2. Enhance its reputation.

Subsidiaries:

(€)	Share capital	Equity other than share capital	Percentage of capital held	Value of shares		Advances granted by the company and not yet repaid
				Gross	Net	
<u>1 - Subsidiaries (more than 50% of capital held)</u>						
SWORD INC 230 Park Avenue Suite 1000 NEW YORK – NY 10169 – USA	1,135	779,314,	100	2,561,143	2,561,143	
SWORD SOUTH PO BOX 9518 PRETORIA 0001 – SOUTH AFRICA	10	65,271	100	106,714	106,714	
SWORD SUISSE 36 place du midi SION VALAIS - SWITZERLAND	168,589	None	100	284,493	284,493	
DDS 1000 Great West Road Brentford Middlesex TW8 9DW - UK	1,647	2,155,729,	97.66	3,417,986	3,417,986	
SWORD SA 9 Avenue Charles de Gaulle 69370 ST DIDIER AU MONT D'OR	3,412,500,	(1,036,908)	100	3,412,470	3,412,485	
<u>2 – Participating interests (10% to 50% of capital held)</u>						
FIRCOSOFT SA	228,674	42,893	1.07	47,808	47,808	5,267
ESPACE CRECY	40,000	(0)	0.04	97	97	
SWORD CONSULTING	76,225	(210,796)	0.02	84	84	31,556

(€)	Surety and guarantees	Sales	Result of financial year ended	Dividends received	Remarks Year-end date
<u>1 – Subsidiaries (more than 50% of the capital held)</u>					
SWORD INC 230 Park Avenue Suite 1000 NEW YORK – NY 10169 – USA		1,136,786	172,883	None	30/06
SWORD SOUTH PO BOX 9518 PRETORIA 0001 – SOUTH AFRICA		65,018	20,296	None	31/12
SWORD SUISSE 36 place du midi SION VALAIS - SWITZERLAND		15,173	61,088	None	31/12
DDS 1000 Great West Road Brentford Middlesex TW8 9DW - UK		6,649,382	1,532,284	None	31/12
SWORD SA 9 Avenue Charles de Gaulle 69370 ST DIDIER AU MONT D'OR	9,146,941	12,725,003	356,480	NEANT	31/12
<u>2 – Participating interests (10% to 50% of the capital held)</u>					
FIRCOSOFT SA		1,461,048,	560,499	None	31/12
ESPACE CRECY	2,76	82,947	(84)	None	30/06
SWORD CONSULTING		3,240,298	234,188	None	31/12

No new shareholdings have been acquired since 1 January 2002.

Significant events during the year

Two significant events, already described above, occurred during the year, i.e. the transfer of shares held in Sword S.A. to Sword Group, and the issue of share subscription warrants.

In addition, in October 2001 Sword Group bought the shares in the following Sword S.A subsidiaries, DDS, Sword Suisse, Sword Inc and Sword Création Informatique, for the following amounts:

- DDS: € 3,400,000
- Sword Suisse: € 284,493
- Sword Inc: € 2,561,143
- Sword Création Informatique: € 106,724

Significant events after the balance sheet date

The company has had tax group status since 1 January 2002.

- Research and Development activity.

None.

RESULTS – ALLOCATION OF EARNINGS

- Results.

The main figures for the year just ended, rounded to the nearest euro, except for the earnings for year, are as follows:

Operating income amounted to	€ 228,678
and comprised:	
. sales	€ 228,675
. other income	€ 3
Operating expenses amounted to	€ 229,445
and comprised:	
. other purchases and external charges	€ 33,274
. taxes, duties and similar charges	€ 2,894
. salaries and wages	€ 146,188
. social security contributions	€ 47,089
Giving an operating loss of.....	€ <767>

Financial results consisted of financial revenues of € 274
and financial charges of € 61,716
resulting in a net financial charge of € 61,442

The pre-tax loss on ordinary activities, consisting of the operating loss after deduction of financial charges,
amounted to € <62 209>

Exceptional items nil
Corporation tax nil

The difference between income and charges for the year yields a loss (rounded to the nearest euro) of € 62,209

- Proposed allocation of earnings.

We propose that you approve the accounts (balance sheet, profit and loss account and notes to the accounts) as presented to you, showing a loss of € 62,209 which we propose to carry forward.

APPROVAL OF CONSOLIDATED ACCOUNTS

The list of consolidated companies is as follows:

Company	year-end date	31 December 2001		Consolidation method
		% controlled	% held	
Sword Group (parent company)	31/12	100%	100%	Full consolidation
Sword SA	31/12	100%	100%	Full consolidation
Sword South Africa	31/12	100%	100%	Full consolidation
Fircosoft	31/12	89.43%	89.43%	Full consolidation
Fircosoft Inc	31/12	100%	89.43%	Full consolidation
Sword Inc	30/06	100%	100%	Full consolidation
Sword Consulting	31/12	100%	100%	Full consolidation
DDS	31/12	97.66 %	97.66 %	Full consolidation
Sword Suisse	31/12	100%	100%	Full consolidation
Espace Crecy	31/12	100%	100%	Full consolidation

In application of Law n° 2001-420 of 15 May 2001 relating to new business regulations requiring the Board of Directors to prepare consolidated accounts for approval by the General Meeting of Shareholders, we present you with the said consolidated accounts:

CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2001

Presentation of the profit and loss account

The main elements of the profit and loss account are provided in the table below along with comparative pro forma figures (2000 and 2001 over 12 months)

	Sword Group consolidated (6 months)		2001 Pro forma (12 months)		2000 Pro forma (12 months)	
	€'000s	%	€'000s	%	€'000s	%
Sales	12,592	100 %	25,418	100 %	16,837	100 %
Operating income	1,999	15.9 %	3,638	14.31 %	1,521	9 %
Consolidated net profit after goodwill amortisation	1,203	9.6 %	2,100	8.26 %	229	1.4 %

Sales

Sales for the six-month period in 2001 are roughly equal to half of annual sales, which in view of the summer holiday period represents organic growth of around 20%.

Growth in pro-forma sales by activity breaks down as follows:

(€m)	Sales 01	Contribution to sales 01	Sales 00	Contribution to sales 00
Change Management	7.6	29.8%	5.01	29.8%
EDM + GIS	9	35.6%	5.85	34.7%
Intellectual Property	3.8	14.8%	3.03	18%
STP	2	8.1%	1.30	7.7%
Consulting	1.1	4.4%	0.81	4.8%
Related activities	1.9	7.3%	0.84	5%
Total	25.4	100%	16.8	100%

The breakdown of sales by activity changed very little from one year to the next.

2001 sales were composed for 85% of sales generated by billable staff, 10% by subcontracted business and 5% from licences.

The strong organic growth recorded in pro-forma sales (+50.9%) was generated by the following factors:

- ✓ A sharp increase in billable staff: the number of billable staff rose by 71.5% in 2001 thanks to an active recruitment policy.
- ✓ A billing policy adapted to Sword's positioning: thanks to its technological skills and significant international presence, the group has a weighted average daily billing of

€ 616, which is higher than the French average. Sword charges higher rates than general IT services companies in the fields in which it offers specific value (Change Management, EDM, GIS, STP and Intellectual Property). The rates charged are nonetheless lower than those charged by major consulting firms such as Cap Gemini, KPMG, Accenture, etc. which allows Sword to remain competitive in relation to these companies.

Operating profit

The operating margin comes out at 14.31% in the pro-forma accounts, lower than the 15.9% recorded in the last six months of 2001 as newly acquired companies had lower margins than the group average when they joined the group. Operating profit recorded strong growth, driven by several factors:

- ✓ The growing weight of international business which generates higher margins than in France; the geographic breakdown of 2001 pro-forma sales was as follows:

	Sales 2001	% of total
UK	8.7	34.6%
France	10.3	40.7%
US	2.6	10%
Export	3.8	14.7%
Total	25.4	100%

- ✓ Improved control over salaries and wages, which dropped from 49.7% of pro-forma sales in 2000 to 48.3% in 2001 thanks to a higher average rate of activity per billable employee, which rose from 73% in 2000 to 81.64% in 2001
- ✓ Low level of provisioning for customer risk (€ 89,000) as Sword's customer base is composed mainly of major companies.
- ✓ Low and tightly controlled fixed costs, due to the relatively large size of projects (average contract is for € 450,000) and rigorous management control.

Net profit

2001 earnings include:

- ✓ interest expenses and foreign exchange losses amounting to € 558,000 (4.4% of sales) relating to net financial debt (short and long term) of € 7.77m at the end of the year.
- ✓ an exceptional charge of € 42,000
- ✓ a lower effective tax rate (11.44% of pre-tax profit) as a result of tax losses carried forward

Consolidated net profit for 2001 amounted to € 1.2m, corresponding to a net margin of 9.56%. At pro-forma level the margin was 8.26% (vs. 1.4% in 2000), due to the lower profitability of companies acquired during the year.

Consolidated balance sheet

The main balance sheet items as at 31 December 2001 are summarised in the table below:

	Sword Group Consolidated balance sheet as at 31 December 2001	
	€'000s	%
Assets		
Fixed assets	17,525	59.84%
Trade receivables	9,682	33.1%
Cash and equivalents	2,077	7.1%
Total assets	29,284	100%
Liabilities		
Shareholders' equity	5,554	19%
Minority interests	517	1.8%
Other equity	3,354	11.5%
Provisions for risks and charges	1,318	4.5%
Debt	9,846	33.6%
Trade payables	8,695	29.6%
Total liabilities	29,284	100%

Fixed assets

Fixed assets comprise:

- ✓ Intangible assets amounting to € 16,657,000 consisting mainly of market share acquired by Sword Group since its creation. This market share is not amortised and is evaluated at the end of each year by an independent assessor
- ✓ Tangible assets amounting to € 683,000 consisting mainly of office furniture and fittings and computer equipment.
- ✓ Long-term investments amounting to € 185,000 corresponding to deposits paid on property leases

Trade receivables

Trade receivables consist for the main part of amounts due from customers and work in progress not yet billed (€8,203,000) and, for € 1,174,000, of advance payments on work not yet completed.

The high level of amounts due from customers and work in progress reflects the strong business activity in the last quarter of 2001, up by 19% over the third quarter of 2001.

Cash and equivalents – debt

Long and medium term debt amounted to € 9,846,000, bearing interest of 3-month euribor + 1.5%. At the beginning of February 2001, the group's financial situation was sound with shareholders' equity and quasi-equity of € 9.4m for net debt of € 7.77m. Following the capital increase arising from the company's IPO in 2002, shareholders' equity will amount to € 24.4m, corresponding to modest gearing (debt to equity ratio) of 32%.

Other equity

Other equity consists of an advance granted by one of the shareholders and which will be capitalised during Sword Group's IPO.

Provisions for risks and charges

Provisions for risks and charges are set aside to cover identified risks on work in progress.

Trade payables

Trade payables consist mainly of amounts owing to staff and tax bodies (€ 4,468,000) and suppliers (€ 3,053,000 relating to purchases of licences and outsourcing).

We propose that you approve the consolidated accounts showing net attributable profit of € 1,203,000.

OUTLOOK FOR 2002

Trends in 2002 are expected to be as follows (excluding acquisitions):

- ✓ Organic growth in sales of 42% based on:
 - ✓ The good visibility afforded by the order book: at the end of December 2001, Sword's order book provided more than eight months of sales visibility. Customers had already signed firm orders worth € 17m. Another € 8.2m worth of contracts had a very strong likelihood of being signed, taking the coverage of sales budgeted for 2002 to nearly 70%.
 - ✓ An increase in billable staff: to achieve its objectives in terms of organic growth, Sword will continue with the active recruitment of production staff. During 2002, the number of billable staff is expected to increase by 40% to 250 (vs. an average of 178 employees in 2001). The average number of staff is expected to increase as follows in 2002:

Staff	2002	2001	Increase
Billable	250	178	+ 40%
Non-billable	40	32	+25%
Total	290	210	+ 38%

- ✓ Stable billing rates
- ✓ Good cost control and the positive contribution from international operations: despite strong business growth, the group is expected to maintain profitability levels thanks to good cost control and the positive impact on the gross margin of its international business

- Non-tax deductible expenses

Note that the accounts for the year ended do not include any non-tax deductible expenses as defined in Article 39-4 of the General Tax Code.

- Five-year financial summary.

In accordance with the provisions of Article 148 of the Decree of 23 March 1967, a table showing the company's results during this first financial year is appended to the present report.

INFORMATION CONCERNING COMPANY DIRECTORS

In accordance with the provisions of Article L. 225-102-1 of the Commercial Code, we provide details of the remuneration and any benefits of any kind paid to each director during the year ended, either by the company or by any company controlled by your company as defined in Article L. 233-16 of the Commercial Code.

The following amounts were paid to directors during 2001:

Mr Jacques Mottard, Chairman of the Board:

- . Gross remuneration paid by the company: € 15,245 over 5 months,
- . Benefits in kind deducted from net amount paid: € 1,525 over 5 months,
- . Remuneration paid by controlled companies: € 3,049 over 1 month,
- . Benefits in kind received from controlled companies: € 305 over 1 month,

Note that this total remuneration concerns only 6 months of activity.

Mr Nicolas Mottard and Mr Barbier, permanent representative of 21 Centrale Partners, received no remuneration or attendance fees in the financial year ended 31 December 2001.

The positions held and functions exercised during the year by the Chairman of the Board and by the Managing Director are listed below:

POSITIONS HELD BY DIRECTORS AND MANAGERS

1 / POSITIONS HELD BY MR JACQUES MOTTARD

Mr Jacques Mottard holds the following positions:

SWORD GROUP

Managing Director

SWORD SA

Managing Director

SWORD CONSULTING

Managing Director

ESPACE CRECY soon to be renamed SWORD DDS

Managing Director

FIRCOSOFT

Board Director

SWORD INC

Board Director

SWORD SUISSE

Managing Director

DDS

Chairman and Director

FIRCOSOFT INC

Chairman and Director

SWORD CREATION INFORMATIQUE

Chairman

EURL LE DAVID

Manager

SCI FI

Manager

2 – POSITIONS HELD BY 21 CENTRALE PARTNERS

The company 21 Centrale Partners holds the following positions:

LE GOUT DE LA VIE

Representative of 21 CP on the Board of Directors

ASTEEL

Representative of 21 CP on the Board of Directors

EMINENCE

Representative of 21 CP on the Supervisory Board

FINATHEM

Representative of 21 CP on the Board of Directors

LE PUBLIC SYSTEME

Representative of 21 CP on the Board of Directors

SWORD GROUP

Representative of 21 CP on the Board of Directors

EGIDE

Representative of 21 CP on the Board of Directors

CARRERE GROUP

Representative of 21 CP on the Supervisory Board

EX-MACHINA

Representative of 21 CP on the Board of Directors

HARMONY

Representative of 21 CP on the Board of Directors

INTRASON

Representative of 21 CP on the Board of Directors

SAFIG

Representative of 21 CP on the Board of Directors

3 – POSITIONS HELD BY MR NICOLAS MOTTARD

Mr Nicolas Mottard holds the following positions:

SWORD GROUP

Board Director

Mr Nicolas Mottard holds no other position in any company.

EMPLOYEE SHARE OWNERSHIP (Article 225-102 of the Commercial Code)

At 31 December 2001, employees of Sword Group owned 6.29% of the capital.

Share subscription warrants

At the Extraordinary General Meeting of 29 October 2001, it was decided to issue 156,640 free share subscription warrants, each warrant giving right to one share at a price of € 5 with a € 22.25 issue premium. Preferential subscription rights were cancelled in favour of two shareholders, Mr Jacques Mottard in respect of 33,568 warrants and the company 21 Centrale Partners in respect of 123,072 warrants.

The Board of Directors was given full powers to receive subscriptions and record any capital increase resulting therefrom.

The two shareholders exercised their subscription rights in full on 2 November 2001. The Board Meeting of 31 December 2001 took note that Mr Jacques Mottard had exercised his share subscription rights in full resulting in a capital increase of € 167,840.

The share capital consequently amounts to € 3,620,310 divided into 724,062 shares with a par value of € 5 each.

AGREEMENTS CONCERNED BY ARTICLE L.225-38 ET SEQ. OF THE COMMERCIAL CODE

We ask you to approve the agreements covered by Article L. 225-38 of the Commercial Code concluded during the year with the authorisation of the Board of Directors.

The Statutory Auditors have been duly informed of these agreements that are described in the auditors' special report.

BOARD OF DIRECTORS AND AUDITORS

None of the terms of office of the Board Directors or Statutory Auditors have expired.

PRIOR COMMITMENTS

We request that you approve the transactions carried out in the name of the company during the period between the signing of the company's Articles of Association and its registration.

AUTHORISATION TO PURCHASE OWN SHARES

Lastly, we ask you to authorise the Board of Directors, subject to the company's shares being admitted to the Euronext Nouveau Marché, to purchase the company's own shares in accordance with Article L. 225-209 *et seq.* of the Commercial Code for the purposes and on the terms and conditions described below:

1. Purposes:

The objectives of the share buy back programme are, in order of priority:

- to regulate the share price by systematically buying against the market;
- to trade in the market for the company's shares by buying or selling depending on market conditions;
- to allocate shares to employees and managers of the company and its group on the conditions and according to the terms provided for by law, notably in the context of profit sharing, share option plans and company savings plans;
- contributing such shares as remuneration or in exchange, notably in the context of acquisitions.

The shares purchased by the company may be sold or transferred by any means whatsoever.

The share buyback programme will not result in the cancellation of any shares held.

2. Limits:

The maximum number of shares that may be acquired under the share buyback programme is **72,406** shares with a par value of € 5 for a total amount of € 362,030.

The company undertakes to keep its direct and indirect holding of its own shares within the limit of 10% of the capital at all times.

3. Purchase conditions:

The company's shares may be purchased on the market or by other means, notably via block purchases. The present decision does not limit the percentage of the share buyback programme that may be carried out through block purchases, and these may cover the entire share buyback programme;

4. Duration and timetable for the share buyback programme:

The programme may be implemented as soon as the company's shares have been admitted to the Euronext Paris Nouveau Marché. The authorisation given under the present resolution shall expire on 27 August 2003.

5. Maximum and minimum price limits:

The maximum purchase price per share shall be equal to **500%** (excluding commissions and charges) of the share's Initial Price on the Euronext Paris Nouveau Marché and the minimum sale price shall be equal to **50%** (excluding commissions and charges) of said price, subject to adjustments in the case of capital transactions such as described below.

In the event of a capital increase through the capitalisation of reserves and allocation of free shares or in the event of a share split or reverse split, the maximum purchase price and minimum sale price will be adjusted by a multiple equal to the relation between the number of shares making up the capital before the transaction and the number of shares after the transaction.

The value of the shares the company may hold as the result of share buybacks may in no case exceed the balance sheet reserves, other than legal reserves.

6. Financing of the share buyback programme:

The share buyback programme will be financed by the company's available cash and, if necessary, by short or medium term borrowing to finance needs that cannot be covered by the available cash.

7. Information concerning the share buyback programme:

The company will inform the financial markets supervisory body (Conseil des Marchés Financiers) of all purchases, sales and transfers effected each month. This information will be published by said body.

Furthermore, the company must inform the stock market regulatory body (Commission des Opérations de Bourse) of the number of shares purchased and the average weighted purchase price for the month and for the entire period from the beginning of the buyback programme.

The Board of Directors will inform the annual Ordinary General Meeting of the transactions carried out under the present authorisation.

We request you to give the Board of Directors full powers, with the possibility of delegating said powers, to place stock market orders, conclude contracts, sign any deeds, carry out all the formalities and declarations required by official bodies and, generally speaking, do everything necessary.

The Board invites you, after hearing the Statutory Auditors' reports, to approve the resolutions submitted to the Meeting.

The Board of Directors