

# ANNUAL REPORT/REFERENCE DOCUMENT

## 2003 FINANCIAL YEAR

### **Registration with the Autorité des Marchés Financiers**

In accordance with rule No. 95-01, the Autorité des Marchés Financiers (AMF) registered this annual report on 22/03/2004 under the number R-04-036. It may be used to support a financial operation only if it is accompanied by a memorandum approved by the Autorité des Marchés Financiers.

This annual report was drafted by the issuer and is legally binding for its signatories. This registration, which was carried out after examination of the relevance and consistency of the information given on the company's situation, does not necessarily authenticate the accounting and financial elements it contains.

### **Warning**

"The Autorité des Marchés Financiers would like to draw the public's attention to the fact that approximately 40% of the company's pro forma turnover for 2003 is produced on a fixed price basis. Nevertheless, the company considers that it is managing the risk as described in paragraph 3.2.4."

## CONTENTS

|   |            |
|---|------------|
| <b>1. PERSON IN CHARGE OF THE ANNUAL REPORT AND STATEMENTS</b>                                    |            |
| 1.1. Person in charge of the annual report  | 3          |
| 1.2. Statement by the person in charge of the annual report                                       | 3          |
| 1.3. Individuals in charge of the statement of accounts   | 3          |
| 1.4. Statement by the auditors  | 4          |
| 1.5. Individuals in charge of financial information   | 6          |
| <b>2. GENERAL INFORMATION ON THE COMPANY AND ITS CAPITAL</b>                                      |            |
| 2.1. General information on the issuer  | 7          |
| 2.2. General information on capital stock   | 13         |
| 2.3. Dividend distribution policy   | 19         |
| 2.4. The issuer's share market  | 19         |
| <b>3. INFORMATION ON SWORD GROUP'S ACTIVITIES, RECENT DEVELOPMENTS AND OUTLOOK FOR THE FUTURE</b> |            |
| 3.1. Presentation of the company's activities   | 20         |
| 3.2. Analysis of the company's risks  | 44         |
| 3.3. Investment policy  | 49         |
| 3.4. Recent developments  | 52         |
| 3.5. Strategy and outlook for the future  | 52         |
| 3.6. Extraordinary events and litigation  | 57         |
| 3.7. Glossary   | 58         |
| <b>4. NET WORTH – FINANCIAL SITUATION – RESULTS</b>   |            |
| 4.1. Consolidated financial statements  | 59         |
| 4.2. Corporate financial statements   | 87         |
| 4.3. Management report on the financial year ending 31 December 2003                              | 102        |
| 4.4. Report by the Board of Directors on stock options  | 123        |
| 4.5. General reports and special reports by the auditors  | 124        |
| 4.6. Auditors' fees   | 131        |
| <b>5. ADMINISTRATION - MANAGEMENT</b>   |            |
| 5.1 Chairman's Report, in accordance with Article L 225-37 of the Commercial Code                 | 132        |
| 5.2 Report by the auditors on the Chairman's Report   | 141        |
| 5.3 Management participation  | 142        |
| 5.4 Operations agreed with members of the administrative and directors' board                     | 142        |
| 5.5 Loans and guarantees granted or set up for administrative boards                              | 142        |
| 5.6 Employee participation  | 142        |
| <b>Annexe</b>   |            |
| <b>Timetable of publications and other SWORD GROUP financial events over 2004/2005</b>            | <b>143</b> |

## Chapter 1

### 1. PERSON IN CHARGE OF THE ANNUAL REPORT AND STATEMENTS

#### 1.1. Person in charge of the annual report

**Name and position of the person in charge:**

Mr Jacques Mottard, Chairman of SWORD GROUP Board of Directors.

#### 1.2. Statement by the person in charge of the annual report

"To my knowledge, the information provided in this document is accurate; it contains all the information required for investors to form an opinion on the net worth, activities, results and outlook of SWORD GROUP. There are no omissions that would significantly alter its scope".

The Chairman of the Board of Directors

Jacques Mottard

22 March 2004

#### 1.3. Individuals in charge of the statement of accounts

##### (A) Incumbents

**(1) Deloitte Touche Tohmatsu SA,**

**Head Office: 185, avenue Charles de Gaulle, 92200 Neuilly-sur-Seine.**

Date appointed: 29 June 2001.

Date mandate expires: the mandate will expire after the Shareholders' General Meeting called to approve the statements of accounts for the financial year ending on 31 December 2006.

**(2) Cabinet Figerec,**

**Head Office: 21 rue Bossuet - 69006 LYON.**

Date appointed: 29 October 2001.

Date mandate expires: the mandate will expire after the Shareholders' General Meeting called to approve the statements of accounts for the financial year ending on 31 December 2006.

##### (B) Assistants

**(1) BEAS,**

**Head Office: 7/9, Villa Houssay, 92200 Neuilly-sur-Seine.**

Date appointed: 29 June 2001.

Date mandate expires: the mandate will expire after the Shareholders' General Meeting called to approve the statements of accounts for the financial year ending on 31 December 2006.

**(2) Mr Paul Mollin,**

**Address: 14, rue Claude Fouilloux, 69450 Saint-Cyr-au-Mont-d'Or**

Date appointed: 29 October 2001.

Date mandate expires: the mandate will expire after the Shareholders' General Meeting called to approve the statements of accounts for the financial year ending on 31 December 2006.

## **1.4. Statement by the auditors**

### **OPINION OF THE AUDITORS**

#### **ON THE ANNUAL REPORT**

#### **FOR THE FINANCIAL YEAR 2003**

As auditors of SWORD GROUP and in accordance with COB Regulation 95-01, we have verified the information provided in this annual report relating to the company's financial situation and historic statements, in accordance with the auditing practices that apply in France.

This annual report was drawn up under the responsibility of Mr Jacques Mottard, Chairman of the SWORD GROUP Board of Directors. Our task is to issue an opinion on the honesty of the information it contains regarding the company's financial situation and accounts.

In accordance with French auditing practice, our due diligence consisted in assessing the sincerity of the information relating to the company's financial situation and accounts, and in verifying their consistency with the statements that have been reported. It also consisted in reviewing the other information contained in the annual report, in order to identify any significant inconsistencies with the information relating to the company's financial situation and accounts, and in pointing out any manifestly incorrect information we may have found based on our general knowledge of the company, acquired within the scope of our task. Because this report consists of isolated projected data resulting from a structured calculation process, the examination took into account the assumptions made by the company's management and the figures they generated as a result of these assumptions.

We audited the annual statements and consolidated financial statements for the financial year ending 31 December 2001 (6 months), 31 December 2002 and 31 December 2003 settled by the Board of Directors in accordance with French auditing practices, and approved them with no reservations or remarks.

On the basis of such due diligence, we have no remarks to make concerning the accuracy of the financial and accounting information presented in this annual report.

In accordance with the provisions of Article L 225-235, para. 2 of the Code of Commerce in respect of the substantiation of our opinion, given for the first time for this financial year, our report on the consolidated accounts for the financial year ending 31 December 2003 mentions the following point:

"As part of its external growth, the Company is acquiring units in the market within its area of technical competence. These acquisitions are either direct purchases of businesses, or indirect by acquiring control of competitors.

The manner in which assets are treated on the balance sheet and the valuation at the end of the period (validation of loss of value) of these intangible assets that have not been amortised, are described in note 1.7 of the Annexe to the consolidated accounts.

As part of our audit of the consolidated accounts on 31 December 2003, we have deemed, among the accounts that are subject to significant accounting appraisal and that require proof of our evaluation, that this includes market share.

We have relied, in the evaluation of this market share, on the conclusions of the independent expert commissioned by the Company, at the end of each financial year, to make an evaluation of its various assets. In this matter, and in accordance with professional standards in France in respect of accounting evaluations, we have assessed the data, examined the hypotheses that underpinned the expert's evaluations, and have monitored the calculation process. We have compared the accounting valuations of previous periods with corresponding performance, have examined Management's approval procedures for these valuations, and have reviewed events subsequent to the end of year. The valuation of these assets necessarily relies on hypotheses which are, by their very nature, uncertain, with actual performance sometimes varying considerably from the provisional data employed.

This work is part of the due diligence required to prepare our opinion on the SWORD GROUP's consolidated accounts in general, and do not change the opinion expressed above".

In accordance with the provisions of Article L 225-235, para. 1 of the Commercial Code in respect of the substantiation of our opinion, given for the first time for this financial year, our report on the annual accounts for the financial year ending 31 December 2003 mentions the following point:

"As is stated in note 1.3 in the Annexe to the annual accounts, the stocktaking value of the equity shares is based principally upon the valuation of intangible assets.

As part of our audit of the annual accounts to 31 December 2003, we have deemed, among the accounts that are subject to significant accounting appraisal and that require proof of our evaluation, that this includes the equity shares.

We have relied, in the evaluation of these equity shares, on the conclusions of the independent expert commissioned by the Company, at the end of each financial year, to make an evaluation of the intangible assets of the various SWORD GROUP subsidiaries. In this matter, and in accordance with professional standards in France in respect of accounting evaluations, we have assessed the data, examined the hypotheses that underpinned this evaluation, and have monitored the calculation process. We have compared the accounting valuations of previous periods with corresponding performance, have examined Management's approval procedures for these valuations, and have reviewed events subsequent to the end of year. The valuation of these assets necessarily rests on hypotheses that are, by their very nature, uncertain, with actual performance sometimes varying considerably from the provisional data employed.

This work is part of the due diligence required to prepare our opinion on the SWORD GROUP's annual accounts in general, and does not change the opinion expressed above".

Lyon and Villeurbanne, 3 March 2004

The Auditors

**FIGEREC**

**Deloitte Touche Tohmatsu**

Georges Bonnepart

Alain Descoins

### **1.5. Individuals in charge of financial information**

**Jacques Mottard**

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## Chapter 2

### 2. GENERAL INFORMATION ON THE COMPANY AND ITS CAPITAL

#### **2.1. General information on the issuer**

##### **2.1.1. Company name**

SWORD GROUP.

##### **2.1.2. Head Office**

9, avenue Charles de Gaulle - 69370 Saint-Didier-au-Mont-d'Or.

##### **2.1.3. Legal form and applicable law**

Public limited company with a board of directors governed by French law and subject to the Commercial Code and to French law No 67-236 of 23 March 1967 relating to commercial companies.

##### **2.1.4. Date of establishment and lifetime of the company**

SWORD GROUP was established as a holding company on 22 June 2001 in the form of a public limited company and for a duration of 99 years expiring on 21 June 2100. On 30 August 2001, 144 shareholders of the company SWORD SA, formed on 17 November 2000, contributed shares to SWORD GROUP.

##### **2.1.5. Business objective (Article 2 of the by-laws)**

The company's objectives are:

- the acquisition of stakes in all companies, firms or groups, be they French or foreign, that have been or are to be formed, through any means available, in particular through the contribution, subscription or purchase of shares or stakes, or through mergers or the purchase of assets, etc.
- any financial, real estate or movable property transactions relating directly or indirectly to the objective stated above or which may favour the accomplishment of the objective,
- the company may provide administrative services of a consultative nature or carry out any other research, development and supervisory activities, in addition to service provision, consultative and production activities in the field of information systems.

It may act directly or indirectly and carry out all these operations on its own behalf or on the behalf of third parties, with any other person or company, either by itself or in association with company groupings or associations, and it may do so in any form. It may also gain control of stakes and contributions in all companies or business deals, whatever their nature.

##### **2.1.6. Commercial and Corporate Register and APE Code**

438 305 054 RCS Lyon.

APE Code: 741 J.

##### **2.1.7. Consultation of legal documents**

At the company's head office.

##### **2.1.8. Company financial year (Article 6 of the by-laws)**

From 1 January to 31 December each year.

## **2.1.9. Special statutory clauses**

### **2.1.9.1. Form of the shares (extract from Article 10 of the by-laws)**

Shares can be either registered shares or bearer shares depending on the choice made by the holder. These are registered in an account subject to the terms and conditions stipulated by the legal and regulatory provisions in force.

### **2.1.9.2. Allocation of profit (extract from Article 24 of the by-laws)**

The following must be deducted from profits for the financial year that may have been diminished by subsequent losses:

- at least five percent to build up legal reserves, a deduction that will cease to be mandatory when said reserves will have reached a sum equal to one tenth of total capital, but which will resume if for any reason this amount is no longer attained,
- and any sums to be placed in reserves in accordance with the law.

The remaining balance, to which posted profits are added, constitutes the distributable profit that is at the disposal of the shareholder meeting. This may be distributed in full or partially to shareholders in the form of dividends, allocated to all reserve or capital depreciation accounts, or carried forward once again, depending on the advice of the board of directors.

### **2.1.9.3. Shareholders' meetings (extracts from Article 19 of the by-laws)**

#### **Calling meetings**

Each year, shareholders meet at the ordinary shareholder meeting, at the date, time and place indicated on the meeting notice, within six months of the end of the financial year, subject to the extension of this time limit by order of the chairman of the commercial tribunal ruling on the request.

Ordinary shareholder meetings may be called extraordinarily at any time of the year.

The form of the meeting and the required notice period are set by the law. The meeting notice must indicate the location of the meeting, which may be held at head office or at any other location, and its agenda.

#### **Agenda**

The agenda is set by the person calling the meeting. It may contain proposals by one or more shareholders or by the Works Council under the terms set by the law.

If it has not been possible for the meeting to deliberate regularly, through failure to attain the quorum, a second meeting is called in the same form as the first and the meeting notice will recall the date of the first meeting.

#### **Admission to the meetings - Powers**

1 – All shareholders have the right to participate in the shareholders' meetings and deliberations, personally or by proxy, regardless of the number of shares they hold, once they have proved their identity and from the moment their shares are fully paid up and registered to an account in their name at least five days prior to the date of the meeting.

2 – All shareholders may vote by proxy using a form that can be obtained by post under the terms stipulated in the meeting notice.

3 – A shareholder may also be represented under the terms set out by the regulations in force, on condition that their representative is a shareholder himself. He may also be represented by his spouse.

4 – The right to participate in the meetings, or to be represented at the meetings, is dependent either on the shareholder registering shares in an account with the company, or, in the case of bearer shares registered to their own account, on the shareholder handing over certificates issued by an authorised broker confirming that the shares will be unavailable up until the date of the meeting. These formalities must be completed at least five days prior to the meeting being held.

However, the board of directors may reduce or remove these time limits.

#### **Terms and conditions that apply to the right to vote – Majority quorum**

1 – The quorum is calculated from the total number of shares that go to constitute the capital stock, not including any shares for which the right to vote has been withdrawn through the provisions of the law. In the case of proxy voting, only forms that have been duly completed and which carry an attestation confirming that the shares have been deposited in trust, and which are received by the company at least three days prior to the date of the meeting, will be taken into account in the calculation of the quorum.

2 – Deliberation by the ordinary shareholder meeting will only be valid at the first meeting if the shareholders who are present, represented or have submitted a proxy vote possess at least one quarter of all shares that grant the holder the right to vote. At the second meeting, no quorum is required. Deliberation by the extraordinary shareholder meeting will only be valid if the shareholders who are present, represented or have submitted a proxy vote possess at least one third, at the first meeting, and one quarter, at the second meeting, of all shares that allow the holders to vote. Should this last quorum not be attained, the second meeting may be adjourned to a later date, two months at most after the date the meeting had originally been called for. In the event that capital is increased through the incorporation of reserves, profits or share premiums, the meeting shall give a ruling under the terms and conditions for quorums at ordinary meetings.

3 – In shareholder meetings, each member at the meeting has as many votes as they possess or represent shares, without restriction other than those provided by the law. However, all registered shares that are entirely paid-up and which can be proven to have been registered under the name of the same shareholder for at least two years, will give the holder double the voting rights of other shares, in view of



the proportion of capital they represent. In the event of an increase in capital through the incorporation of reserves or the exchange of shares as a result of stock grouping or splits, the double voting right is awarded to the new holders of registered shares, subject to them keeping these shares in registered form from the date they are allocated, with this double voting right being awarded after expiry of a period of two years from the date they are purchased as registered shares, the form in which they were originally allocated. Should the company be merged or split, this will have no effect on the double voting right, which will still apply within the beneficiary company if the double voting right has been added to its by-laws.

#### **2.1.9.4. Beneficial ownership (extract from Article 10 of the by-laws)**

Any shareholder, acting alone or jointly, who comes into possession of or ceases to hold a number of shares representing more than a twentieth, a tenth, a fifth, a third, a half or two-thirds of all capital or voting rights or shares that would give access to the company's capital in the long-run, is legally obliged to declare the fact. When the number or distribution of voting rights does not agree with the number or distribution of shares, the aforementioned thresholds are calculated using voting rights.

The declaration must indicate the date the threshold was passed, the number of shares owned by the declaring party that give access to capital in the long-run and the voting rights that are linked to them. Should a shareholder fail to fulfil the obligation defined in this article, a legal penalty that removes their right to vote will be applied upon request by one or more shareholders, to be recorded in the shareholder meeting report, on condition that they hold at least 5% of the capital and/or voting rights. The right to vote is removed from all shares that exceeded the proportion that should have been declared, for all shareholder meetings held up until the expiry of a two-year period after the date the corrective declaration was made.

#### **2.1.9.5. Identification of shareholders (extract from Article 10 of the by-laws)**

At any time, and under the terms defined in the legal and regulatory provisions in force, the company may ask the organisation placed in charge of clearing stocks for the name (or, in the case of a legal entity, the name of the entity), the nationality and the address of holders of stocks that grant the holder the right to vote at its shareholder meetings, immediately or in the long-run, as well as the quantity of stocks held by each of them and, if applicable, the restrictions that can be applied to these stocks.

#### **2.1.9.6. Right to vote (extract from Article 19 of the by-laws)**

In shareholder meetings, each member at the meeting has as many votes as they possess or represent shares, without restriction other than those provided by the law. However, all registered shares that are entirely paid-up and which can be proven to have been registered in the name of the same shareholder for at least two years, will give the holder twice as many votes as are awarded for other shares, in view of the quota of capital they represent (double voting rights brought in by the combined shareholder meeting of 27 February 2002). In the event of an increase in capital through the incorporation of reserves or the exchange of shares as a result of stock grouping or splits, the double voting right is awarded to the new holders of registered shares, subject to them keeping these shares in registered form from the date they are allocated, with this double voting right being awarded after expiry of a period of two years from the date they are purchased as registered shares, the form in which they were originally allocated. Should the company be merged or split, this will have no effect on the double voting right, which will still apply within the beneficiary company if the double voting right has been added to its by-laws. No registered shares will be allocated gratuitously and no provisions exist in the by-laws in the event of a change of form, through conversion into bearer shares or as a result of a transfer.

**2.1.9.7. Payment of dividends and interim dividends (extract from Article 25 of the by-laws)**

Dividends are paid in cash on the date and at the location set at the shareholder meeting or, failing this, by the board of directors nine months at the latest after the end of the financial year.

Before the statements for the financial year are approved, the board of directors can distribute one or more interim dividends, subject to the legal terms and conditions in force. The shareholder meeting ruling on the statements for the financial year will have the facility to grant each shareholder the option of receiving dividend payments either in cash or in shares, for all or part of the dividends distributed. Should it decide to do so, the shareholder meeting may use the reserves that are at its disposal to pay a dividend on shares. In this case, the items the corresponding withdrawals will be made from must be expressly indicated.

If shareholders wish to receive their dividend in the form of shares, they must make a request to this effect no more than three months after the date of the shareholder meeting. Any dividends that have not been collected within five years of payment being made will be forfeited in accordance with the law.

**2.1.10. Acquisition by the company of its own shares****Legal framework**

Within the framework of share repurchasing, as created by law No 98-546 dated 2 July 1998 which has various economic and financial provisions, the SWORD GROUP has involved itself in the possibility of acquiring its own shares.

The combined shareholder meeting of 27 February 2002 has authorised the company to purchase a maximum of 72,406 shares, which corresponds to 8.55% of the company's capital. This programme, which fell due on 27 August 2003, was included in the prospectus for admission of the company's shares to the Paris Nouveau Marché, which was allocated COB reference No R-03-067.

The new share repurchasing programme was the subject of a prospectus that received AMF reference No. 03-1099 on 10 December 2003.

On 29 December 2003, the combined general meeting authorised the Board of Directors to implement the programme.

No new programme will be presented at the next general meeting.

**Objectives**

In order of priority, the company intends to use this authorisation to:

- (i) stabilise the price of its shares by systematically counteracting trends in the market;
- (ii) carry out any transaction in respect of any form of employee shareholding in the Company or within the group, as provided in law;
- (iii) intervene in the company's share market, by buying or selling depending on the market's situation;
- (iv) give shares as payment or in exchange in order to increase the number of financial transactions conducted and to promote the growth of the company;
- (v) facilitate any distribution of dividends or reserves by the return of the Company's shares;
- (vi) cancel the repurchase of its own shares.

It is specified that the first 13,000 shares to be repurchased will be applied equally to the first two objectives stated above.

**Repurchasing terms**

The maximum share that the SWORD GROUP proposes acquiring is 2% of the Company's capital, which on 31 December 2003 represented 24,644 shares.

Taking into account the 12,633 shares already held directly by the SWORD GROUP (which on 31 December 2003 represented 1.03% of the capital), the theoretical maximum number of shares that the SWORD GROUP could repurchase in order to complete its programme is 12,011 shares (which is 0.97% of the capital on 31 December 2003).

The overall total of repurchased shares shall not exceed €2,710,840.

The company intends to be able to make use of the authorised programme together with the shares already held, and undertakes to at no time exceed, directly or indirectly, the legal limit of 10%.

In accordance with Article L 225-210 of the Commercial Code, the value of the programme may not exceed the value of the company's reserves apart from the legal reserve.

As part of this repurchasing programme, shares may be repurchased by any means except for the purchase of options to buy, and in particular by action on the stock exchange or by otherwise purchasing block shares.

These repurchases and sales of shares can take place at a time of public offering, in accordance with prevailing stock exchange regulations.

The part of the programme implemented through the acquisition of block shares can reach 2% of the SWORD GROUP's capital, across the entire programme.

### Maximum and minimum sale price

The maximum unit purchase price is set at €110, and the minimum unit sales price is set at €20, each exclusive of commissions and expenses. The maximum sum that can be committed for the repurchasing of actual shares must not exceed €2,710,840.

### Duration of the repurchasing programme

This programme was the subject of a prospectus for share repurchasing that received AMF reference No 03-1099 on 10 December 2003. The repurchase of shares must take place, as the case may be, within the eighteen (18) months following the Combined General Meeting of 29 December 2003, being 29 June 2005 at the latest.

It should be recalled that in accordance with the provisions of Article L 225-209 of the Commercial Code, the acquired shares can only be cancelled up to a limit of 2% of the capital for a 24-month rolling period.

### Terms of funding for the repurchasing programme

The repurchasing programme will be financed by the company's available cash funds and, if necessary, by resorting to borrowing should additional requirements exceed the company's cash funds.

### Financial impact of the programme

A calculation of the impact of the repurchasing programme on the accounts of the SWORD GROUP has been made for informational purposes, based on the consolidated accounts at 31/12/2003, based upon the following assumptions:

- number of shares repurchased: 24,644 (representing 2% of the capital)
- average unit repurchase price: €79.85 (average December 2003)
- financial charges at 3%.

Based upon the above, the maximum, theoretical impact of the shares repurchasing programme will be as follows:

|   | Consolidated statements as at 31/12/2003 | Purchasing of 2% of equity capital | Pro forma after purchasing of 2% of equity capital | Impact of the repurchasing programme in % |
|---|--|------------------------------------|--|---|
| Group's share of equity capital (in thousands of euros) | 30,162                                   | 1,968                              | 28,194   | - 6.5%                                    |
| Consolidated equity capital (in thousands of euros)     | 31,504                                   | 1,968                              | 29,533   | - 6.2%                                    |
| Net financial debt (in thousands of euros)              | 6,975                                    | 1,968                              | 8,943  | + 28.2%                                   |
| Group's share of net result (in thousands of euros)     | 4,893                                    | - 38                               | 4,855  | - 0.78 %                                  |
| Weighted average number of shares outstanding           | 1,232,243                                | - 24,644                           | 1,207,599  | -2%                                       |
| Net earnings per share (in euros)                       | 3.97                                     |                                    | 4.02   | 1.30%                                     |

### Tax regimes for purchasing

#### - For the transferee

The SWORD GROUP's repurchase of its own shares with a view to cancelling them has no effect upon the taxable results. The valuation of the shares fixed, as applicable, between the dates of repurchase and their cancellation, does not create any surplus from a taxation point of view.

In addition, this operation does not render it liable to equalisation tax.

Only a repurchase of its own shares by SWORD GROUP without subsequent cancellation will have an effect upon the taxable result, insofar as the shares will be eventually transferred for a price other than the repurchase price.

#### - For the transferor

The tax regime for capital gains applies to share repurchasing transactions.

Profits achieved by a business are subject to the capital gains tax regime for businesses (Article 39 duodecies of the general tax code).

Profits achieved by an individual acting privately are subject to the regime provided in Article 150-OA of the general tax code. According to this regime, capital gains are currently only taxable at a rate of 16% (26% with social security contributions) if the total sum of the transfers carried out by the shareholder whose shares have been repurchased exceeds €15,000 per year.

#### **Intentions of the individuals who control the company**

No person, whether singly or jointly, holds control of the company.

#### **Use of the repurchasing programme**

Up until 31/12/2003, as part of the shares repurchasing programme, the number of shares sold or purchased by the company for its own account, excluding a liquidity agreement, was as follows:

|  |        |
|--|--------|
| Number of shares held by the company on 31/12/2002         | 12,363 |
| Number of shares acquired in 2003                          | 5,674  |
| Number of shares transferred from the liquidity agreement  | 3,238  |
| Number of shares sold in 2003                              | 8,642  |
| Number of shares wholly owned by the company on 31/12/2003 | 12,633 |

#### **2.1.11 Liquidity agreement**

On 28 February 2002, the company signed a liquidity agreement with the stockbroker Gilbert Dupont. This agreement was halted on 15/10/2003 and SWORD recovered 3,238 shares on that occasion. A new liquidity agreement was signed on 15/10/2003.

During 2003 and as part of this exchange agreement, the stockbroker Gilbert Dupont purchased 6,099 shares (average price: €32.35) and resold 8,944 shares (average price: €30.85). On 31/12/2003, the balance of SWORD GROUP shares in the contract was 70, with 65% of this amount being returned to the company.

## 2.2. General information on capital stock

### 2.2.1 Capital stock on 31 December 2002

The company's total fully paid-up capital adds up to €6,161,215, divided into 1,232,243 shares with a face value of €5.

#### 2.2.1.1 Capital to be paid-up

None.

#### 2.2.2. Authorised capital not yet issued

The Combined Shareholders' General Meeting of 27 February 2002 delegated the authority required to issue shares and all securities, with or without the waiving of pre-emptive subscription rights (PSR), in France or abroad and in one or more stages, to the Board of Directors. This provides immediate or long-term access to the company's shares, up to a maximum face value of €5,000,000, it being understood that the maximum value of securities representing sums receivable from the company cannot exceed €100,000,000.

This authorisation is valid for a period of 26 months, that is until 27 April 2004.

| Nature of the delegation | Nature of the operation  | Shares to issue  | Authorised capital increase amount |
|--------------------------|--|--|------------------------------------|
| Full delegation          | Capital increase, PSR maintained   | Capital shares or debt securities giving access to capital | €5,000,000 (*)                     |
| Full delegation          | Capital increase, PSR waived   | Capital shares or debt securities giving access to capital | €5,000,000 (*)                     |
| Full delegation          | Capital increase solely for employees of the group who subscribe to a CSP (company savings plan) | Shares   | €54,300                            |

(\*)these amounts are not cumulative.

The issuance of the new shares made available to the public, as part of the process for listing the company's shares on the Nouveau Marché d'Euronext Paris SA, is posted to the sum of these authorisations. The balance of these authorisations after the capital increase coinciding with listing on the stock market stands at €3,704,900.

The Board of Directors will propose to the Combined General Meeting on 26 April 2004 to renew the authorisations (cf. management report – paragraph 4.3 – section 22).

### 2.2.3. Shares that are not representative of capital

None.

### 2.2.4. Other shares giving access to capital

#### 2.2.4.1. SWORD GROUP

No other shares purchase plan or subscription option has been set up by the SWORD GROUP since its creation.

#### 2.2.4.2. SWORD SA

##### 2.2.4.2.1 Options granted to employees of SWORD SA or of one of the group's companies

Within the scope of Articles L 225-177 to L 225-185 of the Commercial Code and under the terms of Article L 225-180 of said code, SWORD SA's Extraordinary General Meeting of 15 December 2000 authorised the Board of Directors to grant options to employees of the company, or of a company in the group, in one or more stages, giving them the right to subscribe to the company's shares. The maximum number of options granted as a result of said authorisation may not exceed 33,500 shares of a face value of €5, in view of the fact that, at any time, the number of shares that can be subscribed to through the options programme in force and which are not yet exercised may not exceed 5% of capital stock.

This authorisation, conferred for a period of 5 years beginning 15 December, implies that beneficiaries of these stock options expressly renounce their pre-emptive subscription rights for shares that may be issued whenever stock options are exercised.

The subscription price per share is determined as follows:

- for options granted up to the closing for the first consolidated financial statements, that is on 31 December 2001, the subscription price shall be fixed at a face value of €5 per share. Indeed, the company was registered on the Lyon Commercial and Corporate Register on 21 November 2000 and has not been subject to a capital increase or any sort of valuation in view of the fact that it was only recently

set up – for any options granted by the Board of Directors after 31 December 2001, the subscription price is set according to the following formula:

The arithmetic mean of the following elements:

- 20 times the operating profit after deduction of employee equity interests minus net debt,
- 2 years turnover minus debt.

For options granted by the Board in the three months prior to SWORD's quotation on the stock exchange, the subscription price was set as per the above rules and could under no circumstances be less than 20% below the opening quotation price on the exchange.

For the allotment of options by the Board after SWORD's entry onto the stock exchange, the subscription price set according to the above rules could not be less than 80% of the average quoted prices.

Options can only be taken up after a freezing period of 2 years from the date of their grant by the Board of Directors and over a period of three years.

Based upon the authority accorded it by the aforementioned Meeting, the Board of Directors at its meeting on 17 January 2001 allocated share options (Plan Number 1). A board meeting of 7 June modified Plan No 1 and allocated new options (Plan Number 2):

|  | PLAN No.1  |       | PLAN No.2  |  |
|--|------------|-------|------------|--|
| <i>Date of the meeting</i>   | 15/12/2000 |       | 15/12/2000 |  |
| Date of the Board Meeting  | 17/01/2001 |       | 07/06/2001 |  |
| Total number of OPSAs allocated  | 15,700     |       |            |  |
| Total number of OPSAs cancelled (employee resignations)                          | 3,800      |       |            |  |
| Of which were allocated to the proxies   | 0          |       | 0          |  |
| Start date for exercising OPSAs  | 17/01/2003 |       | 7/06/2003  |  |
| Expiry date  | 17/01/2006 |       | 7/06/2006  |  |
| Price of OPSAs in euros  | €5         |       | €5         |  |
| Total number of OPSAs exercised on 31/12/2003                                    | 1,500      |       |            |  |
| Total number of options remaining  | 10,400     |       |            |  |
| OPSAs allocated to the 10 non-proxy employees with the highest number of options | NUMBER     | PRICE | PLAN No.   |  |
| Yorick Astier  | 2,000      | €5    | 2          |  |
| Stephen Harvey   | 750        | €5    | 1          |  |
| Marc Morgan  | 750        | €5    | 2          |  |
| Michel Rasson  | 750        | €5    | 2          |  |
| Marc Wolff   | 750        | €5    | 2          |  |
| The other employees have 150 shares  |            |       |            |  |

**Based upon the number of existing options at 31/12/2003, their exercise will involve the issue of 10,400 shares.**

#### 2.2.4.2.2. Repurchasing by SWORD GROUP of shares issued as a result of stock options being exercised

In order to preserve the rights of allottees, it has been decided that the latter may sell their SWORD SA shares when the time comes.

Thus, SWORD GROUP has sent written agreement to each allottee stating that, if the shareholder makes such a request less than three months after the end of the period of unavailability provided in the Programme Rules, the GROUP will acquire any new SWORD SA shares issued as a result of the exercising of stock options, on the sole condition that SWORD GROUP has been floated on the stock exchange.

The price at which SWORD GROUP will acquire SWORD SA shares will be set to the unit value of SWORD GROUP shares, calculated as the mean of their unit price during the twenty days of stock market trading preceding the repurchasing operation.

**2.2.5 Table of changes to SWORD GROUP capital**

| Dates      | Nature of the operations                       | Face value of shares (€) | Capital increase (€) | Paid-in capital or contribution (€) | Number of shares issued | Number of shares after operation | Total capital after operation (€) |
|------------|--|--------------------------|----------------------|-------------------------------------|-------------------------|----------------------------------|-----------------------------------|
| 22-06-2001 | Company established                            | 5                        | 40,000               | -                                   | 8,000                   | 8,000                            | 40,000                            |
| 30-08-2001 | Capital increase (1)                           | 5                        | 3,412,470            | -                                   | 682,494                 | 690,494                          | 3,452,470                         |
| 31-12-2001 | Stock warrant programme (2)                    | 5                        | 167,840              | 746,888                             | 33,568                  | 724,062                          | 3,620,310                         |
| 27-02-2002 | Stock warrant programme (2)                    | 5                        | 615,360              | 2,738,352                           | 123,072                 | 847,134                          | 4,235,670                         |
| 12-03-2002 | Capital increase for the FCPR 21 Développement | 5                        | 630,445              | 4,665,293                           | 126,089                 | 973,223                          | 4,866,115                         |
| 12-03-2002 | Capital increase in cash                       | 5                        | 1,295,100            | 9,583,740                           | 259,020                 | 1,232,243                        | 6,161,215                         |

There have been no changes to capital since 12/03/2002.

(1) This capital increase follows the contribution of shares by shareholders of SWORD SA to SWORD GROUP.

For the requirements of the contribution, the value of SWORD SA shares was assessed at face value, that is €5. The contribution of 682,494 SWORD SA shares has thus been valued at €3,412,470.

Based on his findings, the contribution auditor concluded in his report that a total estimated value of €3,412,470 for contributions is not an overvaluation. He is also of the opinion that the net assets contributed are at least equal to the total capital increase of the company benefiting from the contribution.

Indeed, the contribution auditor considered that, because the companies SWORD SA and SWORD GROUP had been recently established, their value should be calculated on the basis of the face value of the shares.

Consolidated results for SWORD GROUP for the financial year 2001, as well as the outlook appearing in paragraph 4.11. "Development Plan" of the Stock Market floatation prospectus, provide an explanation for the gap observed between the value of €5 determined during the contribution operation mentioned above, and the price of €42 put forward to the market within the scope of floatation on the Stock Market.

(2) Through the extraordinary shareholder meeting of 15 December 2000, SWORD SA proceeded to issue stock warrants to two of its shareholders, Jacques Mottard and 21 Centrale Partners.

In consideration for this issuance, Jacques Mottard and 21 Centrale Partners respectively proceeded to carry out prepayment of a total sum of €4,268,440 to a current account, which will be unavailable for a period of five years unless the stock warrants are exercised (cf. § 4).

On 2 June 2001, the holding company SWORD GROUP was established in its operational configuration. The aim was to make the group's organisational structure clearer, with one or more subsidiaries per country. The Group was established through the contribution of SWORD SA shares to SWORD GROUP by all SWORD SA shareholders. Foreign subsidiaries of SWORD SA (DDS, SWORD SUISSE, SWORD Inc. and SWORD South Africa) were sold to SWORD GROUP for their acquisition price.

In order to reconstitute the environment for SWORD GROUP that was initially created around SWORD SA in its capacity as head of the group, it has been agreed that the operations adopted for this purpose and relating to the Stock Warrants would be transposed onto SWORD GROUP. In this way, bonds issued by SWORD SA in December 2000 were cancelled and reissued in identical form at SWORD GROUP on 29 October 2001, together with an agreement on the part of beneficiaries to keep possession of the shares.

In addition, amounts receivable by SWORD SA from Mr Jacques Mottard and 21 Centrale Partners for the prepayment into the current account were transferred to SWORD GROUP in consideration for entry into SWORD GROUP's books of prepayment into the current account of an identical sum to that appearing in the accounts of SWORD SA.

Mr Jacques Mottard exercised his Stock Warrants on 31 December 2001 by paying a sum of €914,728 in settlement of the current account. The current account prepayment balance was brought down to zero.

21 Centrale Partners, acting on behalf of the FCPR 21 Développement, exercised its Stock Warrant on 27 February 2002 by paying a sum of €3,353,712 in settlement of the current account. The current account prepayment balance was brought down to 34,990.40€.

Date of the meeting: 15 December 2000 – Total number of shares available for subscription: 156,640

Of which: number of shares available for subscription by members of the management committee: 33,568

Number of managers concerned: 1 – Exercising price: €5 – Start date for exercising stock warrants: 01-05-2001

Expiry date: 15-12-2005 – Number of shares subscribed to on 28 February 2002: 156,640

Number of stock warrants still to be subscribed to: 0

**2.2.6. Changes in the distribution of SWORD GROUP capital on 31 December 2003 (%) – part 1**

| Forename-Surname  | Situation on 22/06/2001 |              |                    | Situation on 30/08/2001 (1) |              |                    | Situation on 31/12/2001 (2) |              |                    | Situation au 27/02/2002 (2) |              |                    |
|---|-------------------------|--------------|--------------------|-----------------------------|--------------|--------------------|-----------------------------|--------------|--------------------|-----------------------------|--------------|--------------------|
|   | Number of shares        | % of capital | % of voting rights | Number of shares            | % of capital | % of voting rights | Number of shares            | % of capital | % of voting rights | Number of shares            | % of capital | % of voting rights |
| <b>Jacques Mottard</b>                                    | 5,039                   | 62.99        | 62.99              | 359,496                     | 52.06        | 52.06              | 393,064                     | 54.29        | 54.29              | 392,764                     | 46.36        | 46.36              |
| <b>21 Centrale Partners and the FCPR 21 Développement</b> | 1,840                   | 23           | 23                 | 154,290                     | 22.34        | 22.34              | 154,290                     | 21.30        | 21.30              | 277,362                     | 32.74        | 32.74              |
| <b>Françoise Fillot</b>                                   | 280                     | 3.5          | 3.5                | 21,279                      | 3.08         | 3.08               | 21,279                      | 2.94         | 2.94               | 21,279                      | 2.51         | 2.51               |
| <b>Christian Tapia</b>                                    | 280                     | 3.5          | 3.5                | 21,279                      | 3.08         | 3.08               | 21,279                      | 2.94         | 2.94               | 21,279                      | 2.51         | 2.51               |
| <b>Treasury stock</b>                                     | -                       | -            | -                  | -                           | -            | -                  | -                           | -            | -                  | -                           | -            | -                  |
| <b>Employees and miscellaneous shareholders</b>           | 561                     | 7            | 7                  | 134,150                     | 19.43        | 19.43              | 134,150                     | 18.53        | 18.53              | 134,450                     | 15.87        | 15.87              |
| <b>Treasury shares</b>                                    | -                       | -            | -                  | -                           | -            | -                  | -                           | -            | -                  | -                           | -            | -                  |
| <b>Free Float</b>   | -                       | -            | -                  | -                           | -            | -                  | -                           | -            | -                  | -                           | -            | -                  |
| <b>TOTAL</b>  | <b>8,000</b>            | <b>100</b>   | <b>100</b>         | <b>690,494</b>              | <b>100</b>   | <b>100</b>         | <b>724,062</b>              | <b>100</b>   | <b>100</b>         | <b>847,134</b>              | <b>100</b>   | <b>100</b>         |

(1) Capital increase

(2) Stock warrant programme



**2.2.6. Changes in the distribution of SWORD GROUP capital on 31 December 2003 (%) – part 2**

| Forename-Surname  | Situation on 11/03/2002 (3) |              |                    | Situation on 12/03/2002 (4) |              |                    | Situation on 31/12/2002 |              |                    |
|---|-----------------------------|--------------|--------------------|-----------------------------|--------------|--------------------|-------------------------|--------------|--------------------|
|   | Number of shares            | % of capital | % of voting rights | Number of shares            | % of capital | % of voting rights | Number of shares        | % of capital | % of voting rights |
| <b>Jacques Mottard</b>                                    | 392,764                     | 40.36        | 40.36              | 392,764                     | 31.87        | 31.87              | 392,764                 | 31.87        | 31.87              |
| <b>21 Centrale Partners and the FCPR 21 Développement</b> | 403,451                     | 41.46        | 41.46              | 403,451                     | 32.74        | 32.74              | 403,451                 | 32.74        | 32.74              |
| <b>Françoise Fillot</b>                                   | 21,279                      | 2.19         | 2.19               | 21,279                      | 1.73         | 1.73               | 21,279                  | 1.73         | 1.73               |
| <b>Christian Tapia</b>                                    | 21,279                      | 2.19         | 2.19               | 21,279                      | 1.73         | 1.73               | 21,279                  | 1.73         | 1.73               |
| <b>Treasury stock</b>                                     | -                           | -            | -                  | 11,775                      | 0.96         | 0.96               | 12,363                  | 1            | 1                  |
| <b>Employees and miscellaneous shareholders</b>           | 134,450                     | 13.81        | 13.81              | 104,810                     | 8.51         | 8.51               | 104,810                 | 8.51         | 8.51               |
| <b>Treasury shares</b>                                    | -                           | -            | -                  | -                           | -            | -                  | -                       | -            | -                  |
| <b>Free Float</b>   | -                           | -            | -                  | 276,885                     | 22.47        | 22.47              | 276,297                 | 22.42        | 22.42              |
| <b>TOTAL</b>  | <b>973,223</b>              | <b>100</b>   | <b>100</b>         | <b>1,232,243</b>            | <b>100</b>   | <b>100</b>         | <b>1,232,243</b>        | <b>100</b>   | <b>100</b>         |

(3) FCPR 21 Développement reserved capital increase

(4) Capital increase in cash – listing on the stock exchange

**2.2.6. Changes in the distribution of SWORD GROUP capital on 31 December 2003 (en %) – part 3**

| Forename-Surname  | Situation on 31/12/2003 |              |                    |
|---|-------------------------|--------------|--------------------|
|   | Number of shares        | % of capital | % of voting rights |
| Jacques Mottard   | 368,764                 | 29.93        | 30.24              |
| <b>21 Centrale Partners and the FCPR 21 Développement</b> | 403,451                 | 32.74        | 33.08              |
| Françoise Fillot  | 21,279                  | 1.73         | 1.74               |
| Christian Tapia   | 19,638                  | 1.59         | 1.61               |
| Treasury stock  | 12,633                  | 1.03         | 0                  |
| Employees and miscellaneous shareholders                  | 69,995                  | 5.68         | 5.74               |
| Treasury shares   | -                       | -            | -                  |
| Free Float  | 336,483                 | 27.30        | 27.59              |
| <b>TOTAL</b>  | <b>1,232,243</b>        | <b>100</b>   | <b>100</b>         |

To the company's knowledge, no other shareholders have direct, indirect or joint control over 5% or more of capital or voting rights.

**2.2.7 Control of the company**

Jacques Mottard has control, whether directly or indirectly, of 29.93% of capital stock and 30.24% of voting rights.

**21 CP Centrale Partners holds direct or indirect control of 32.74% of capital stock and 33.08% of voting rights.**

To the company's knowledge, no other shareholders have direct, indirect or joint control over 5% or more of capital or voting rights.

**Together, the members of the Board of Directors (Jacques Mottard and 21 CP Centrale Partners) hold 62.67% of capital stock and 63.32% of voting rights. The members of the General directorate committee (Jacques Mottard, Françoise Fillot and Christian Tapia) have control of 33.25% of capital stock and 33.59% of voting rights.**

Since its listing on the stock exchange, no identifiable bearer security has been carried out.

**2.2.8. Shareholder agreements**

None.

**2.2.9. Securities pledged for the company's shares**

No securities are pledged for SWORD GROUP shares.

Securities have been pledged for the three businesses initially acquired from Decan (IDL, IDP and SWP), and for FIRCOSOFT shares to Credit Agricole, to the Banque Rhône-Alpes and to the Lyonnaise de Banque banks within the scope of the FRF 60 million (€9,146,941) loan obtained from these establishments. This loan will expire on 1 December 2007.

**2.3 Dividend distribution policy**

The company will pursue a dividend distribution policy linked both to profits for the year in question and to the expected development of the group and its profitability.

For the financial year 2003, a dividend of €0.90 per share will be distributed, subject to agreement by the shareholder meeting of 26 April 2004.

For the financial year 2002, a dividend of €0.75 per share was distributed.

For the financial year 2001, no dividend was issued.

The dividends and interim dividends that have been paid but not collected will be forfeited in favour of the State five years after the date of payment (Art. 2277 of the Civil Code).

**2.4 The issuer's share market**

SWORD GROUP has been listed on the Nouveau Marché d'EuroNext Paris since 13 March 2002.

The company became a member of the Next Economy segment on 12 March 2002.

On 22 November 2002, SWORD GROUP entered the SBF 250.

SWORD GROUP shares are not listed on any other market.

**On 19/02/2004, the company's capital added up to €98,579,440.**

**Changes in the average monthly price and the average monthly volume in 2003**

In €

| <b>MONTH</b>   | <b>Monthly average<br/>(closing price)</b> | <b>Highest price</b> | <b>Lowest price</b> | <b>Average volume</b> |
|----------------|--|----------------------|---------------------|-----------------------|
| JANUARY 2003   | 24.19                                      | 26.80                | 20.00               | 434                   |
| FEBRUARY 2003  | 24.64                                      | 26.00                | 22.04               | 274                   |
| MARCH 2003     | 28.64                                      | 30.47                | 25.90               | 1,006                 |
| APRIL 2003     | 31.78                                      | 36.50                | 28.00               | 845                   |
| MAY 2003       | 39.21                                      | 41.50                | 36.51               | 1,701                 |
| JUNE 2003      | 41.06                                      | 44.80                | 38.20               | 843                   |
| JULY 2003      | 43.34                                      | 44.00                | 40.00               | 822                   |
| AUGUST 2003    | 42.15                                      | 44.10                | 40.30               | 348                   |
| SEPTEMBER 2003 | 49.25                                      | 53.40                | 40.50               | 2,233                 |
| OCTOBER 2003   | 59.66                                      | 65.10                | 52.00               | 779                   |
| NOVEMBER 2003  | 67.02                                      | 71.20                | 62.10               | 968                   |
| DECEMBER 2003  | 79.85                                      | 88.55                | 67.10               | 1,054                 |

### 3. INFORMATION ON SWORD GROUP'S ACTIVITIES, RECENT DEVELOPMENTS AND OUTLOOK FOR THE FUTURE

#### 3.1 Presentation of the company's activities

| In thousands of euros                        | 31/12/2003<br>(consolidated) | 31/12/2002<br>(consolidated) |
|--|------------------------------|------------------------------|
| <b>Income statement</b>                      |                              |                              |
| Consolidated net turnover                    | 55,544                       | 33,441                       |
| Operating profit                             | 8,920                        | 5,486                        |
| Financial result                             | - 504                        | - 793                        |
| Income from ordinary operations (before tax) | 8,417                        | 4,693                        |
| Overall consolidated net earnings            | 5,091                        | 3,778                        |
| Group's share of net earnings                | 4,893                        | 3,662                        |
| <b>Balance sheet</b>                         |                              |                              |
| Fixed assets (net)                           | 36,941                       | 32,986                       |
| Accounts receivable                          | 20,666                       | 16,536                       |
| Cash flow                                    | 7,562                        | 5,645                        |
| Permanent capital                            | 31,505                       | 28,302                       |
| Provisions for risks and expenses            | 1,104                        | 1,358                        |
| Financial debt                               | 14,537                       | 8,037                        |
| Accounts payable                             | 18,024                       | 17,472                       |
| <b>Debt/equity capital ratio</b>             | 23.1 %                       | 9 %                          |

| Activity     | No. of<br>employees/activity<br>2003 <sup>(1)</sup> | No. of<br>employees/activity<br>2002 <sup>(1)</sup> |
|--------------|---|---|
| ECM          | 331   | 164   |
| Consulting   | 84  | 77  |
| Security     | 20  | 14  |
| <b>TOTAL</b> | <b>435</b>  | <b>255</b>  |

<sup>(1)</sup> Subcontracted staff not included.

NB The company does not communicate data for value creation.

### 3.1.1 PROFILE

#### 3.1.1.1 Positioning

SWORD GROUP is an IT services company specialising in three technological niches and operating **internationally** (78% of the pro forma turnover for 2003 was generated abroad). It forms solid partnerships with several large groups (see chapter 3.1.5 Solid Partnerships).

SWORD GROUP's service offer is built around:

- **a Consulting division**, incorporating:

- a) In-house consulting, particularly in the fields of logistics and electronic banking
- b) Consulting on change management

- **an ECM division (E-Content Management)** incorporating in an entirely integrated manner, Electronic Document Management (EDM), Geographic Information Systems (GIS), Data Management and Web Content Management (WCM)

- **a Security division**, incorporating in addition to Straight Through Processing, Anti-Money Laundering (AML) and the security of financial transfers.

The SWORD GROUP has the capacity to work in all lines of business, from consulting to systems integration, in addition to providing Total Management Attention (TMA). These strengths ensure the loyalty of its key accounts customers (cf. chapter "3.1.7.1. SWORD GROUP's ten largest customers"). Its industrial approach to tailor-made services allows it to maximise its technological expertise using software components (cf. chapter "3.1.6 SWORD GROUP: an industrial approach to tailor-made services").

#### 3.1.1.2. Origins

The history of SWORD GROUP is rooted in that of the Decan group.

Indeed, it was Mr Jacques Mottard, founder and current Chairman and CEO of SWORD GROUP, who founded the IT services company Decan in 1990. Thanks to him, the company became an international group listed on the Second Marché.

After Decan was bought out by Metamor Worldwide, and following the buy-out of Metamor Worldwide by Psinet in March 2000, Jacques Mottard decided to withdraw as Chairman of Decan in October 2000.

With the success of Decan under his belt, Mr Jacques Mottard founded Sword SA on 17 November 2000.

Its activities began on 1 December 2000, relying on the takeover of certain Decan subsidiaries and businesses chosen for their technical specificities.

Thus, the Decan Group and its subsidiaries sold assets representing approximately 14% of its turnover (income statement on 30 June 2000) to SWORD SA, which was controlled by the former head of Decan, Mr Jacques Mottard:

- The Decan Group sold SWORD SA its 81.33% stake in FircoSoft (and its American subsidiary, Fircosoft Inc.), which specialises in secure payment and payment automation via the Swift network; Decan CS sold SWORD SA its stake in the following companies:

- SWORD Création Informatique (100 %), a South African company specialising in intellectual property (IP), often referred to as SWORD South Africa,
- Decan Inc. (100 %), an American company that provides Electronic Document Management (EDM) for the United Nations (UN), later renamed SWORD Inc.;

- Decan CS sold SWORD SA 3 commercial segments: IDL and IDP, organisations specialising in Electronic Document Management (EDM) and Geographical Information Systems (GIS) and SWP (trademark and patent management).

The acquisition of subsidiaries and businesses from Decan was financed by a €9 million bank loan obtained from Crédit Agricole, Banque Rhône-Alpes and Lyonnaise de Banque, with the remaining sum being contributed personally by Jacques Mottard and the FCPR 21 Développement.

On 1 April 2001, SWORD SA acquired two companies that enabled it to widen its area of activity and its geographical deployment:

- DDS, renamed DDS EUROPE LIMITED, based in London and specialising in change management consulting services,
- Profiler, renamed SWORD CONSULTING, specialising in card payment systems and logistics consulting.

On 13 March 2002, SWORD GROUP was floated on the Nouveau Marché at the Paris Stock Exchange, in the Next Economy section.

On 1 April 2002, SWORD acquired the company TEXT SOLUTIONS, which is based in London and owns TEXT SYSTEM. The company TEXT SYSTEM, renamed SWORD ECM, specialises in change management. Because it originally managed equity interests, TEXT SOLUTIONS does not generate any turnover.

On 1 December 2002, SWORD acquired the company CRONOS TECHNOLOGIES, renamed SWORD TECHNOLOGIES, which is based in Luxembourg and Brussels and specialises in data management.

On 3 December 2003, SWORD acquired the “professional services” activities of ZEN & ART, based in New York, which specialises in handling major banking accounts.

On 15 December 2003, the Paris Commercial Court accepted SWORD’s offer to acquire FI SYSTEM BELGIUM, the parent company of ASCII, at 70%; based in Brussels, it specialises in Web Content Management (WCM).

### Key figures for acquisitions

|                          | ZEN & ART<br>31/12/2002<br>K€<br>(12 months) | ZEN & ART<br>31/12/2003<br>K€<br>(12 months) | FI SYSTEM<br>Belgium<br>31/12/2002<br>K€<br>(12<br>months) | FI SYSTEM<br>Belgium<br>31/12/2003<br>K€<br>(12<br>months) | ASCII<br>31/12/2002<br>K€<br>(12<br>months) | ASCII<br>31/12/2003<br>K€<br>(12<br>months) |
|--------------------------|--|--|--|--|---|---|
| Turnover                 | 6,005  | 6,239  | 374  | -  | 4,308                                       | 4,835                                       |
| Operating profit         | 468  | 479  | 146  | - 29   | 432   | 128   |
| Gross operating surplus  | 468  | 479  | 153  | - 25   | 576   | 278   |
| Net income               | 468  | 500  | 86   | - 2 926  | 271   | 73  |
| Workforce <sup>(1)</sup> | 50   | 78   | 0  | 0  | 62  | 75  |

<sup>(1)</sup> including subcontracted staff

In 2003, ZEN & Art activities accounted for 9.45% of pro forma turnover and 5.09% of pro forma operating profit.

In 2003, ASCII activities accounted for 7.32% of pro forma turnover and 1.36% of pro forma operating profit.



The table below shows the date of entry into the group of each SWORD GROUP subsidiary mentioned in the organisational chart, the nature of its business, as well as its turnover and net income in 2003.

| Subsidiary                         | Date of entry | Business   | 2003 turnover | 2003 net income |
|------------------------------------|---------------|------------|---------------|-----------------|
| SWORD Inc                          | 01-12-2000    | ECM        | €1,488,000    | - €59,000       |
| SWORD Création Informatique        | 01-12-2000    | ECM        | €8,000        | - €9,000        |
| SWORD SA                           | 01-12-2000    | ECM        | €19,529,000   | €2,010,000      |
| FircoSoft                          | 01-12-2000    | Security   | €1,698,000    | €264,000        |
| FircoSoft Inc                      | 01-12-2000    | Security   | €193,000      | €11,000         |
| DDS EUROPE LIMITED                 | 01-04-2001    | Consulting | €4,288,000    | €236,000        |
| SWORD Consulting                   | 01-04-2001    | Consulting | €3,651,000    | €578,000        |
| SWORD DDS France (ex-Espace Crécy) | 01-07-2001    | -          | €362,000      | €61,000         |
| SWORD SUISSE                       | 01-04-2001    | ECM        | €1,108,000    | €61,000         |
| SWORD ECM                          | 01-04-2002    | ECM        | €3,277,000    | €531,000        |
| SWORD Technologies                 | 01-12-2002    | ECM        | €21,699,000   | €2,317,000      |
| SWORD SAS                          | 01-04-2003    | -          | -             | - €3,000        |
| SWORD Security                     | 01-03-2003    | Security   | -             | - €11,000       |
| SWORD South Africa                 | 01-11-2003    | ECM        | -             | - €30,000       |

Details of minority interests in FircoSoft, a subsidiary that is not wholly or almost wholly owned by SWORD SA or SWORD GROUP:

**FIRCOSOFT capital breakdown:**

|              | Number of shares | Percentage      |
|--------------|------------------|-----------------|
| SWORD SA     | 13,255           | 88.37 %         |
| C. Tapia     | 173              | 1.15%           |
| J. Mottard   | 5                | 0.03 %          |
| J. Losco     | 85               | 0.57 %          |
| SWORD GROUP  | 1,477            | 9.85 %          |
| F. Fillot    | 5                | 0.03 %          |
| <b>TOTAL</b> | <b>15,000</b>    | <b>100,00 %</b> |

SWORD GROUP's subsidiaries hold economic assets relating to their area of expertise which is set out below:

**SWORD SA:**

Expertise: GIS

Expertise: EDM, particularly trademarks and patents

Expertise: ECM, particularly Documentum, Management and GIS

**FIRCOSOFT:**

Expertise: STP

Expertise: AML

**DDS Europe Limited:**

Expertise: Change Management



**SWORD Consulting:**

Expertise: Consulting, particularly Change Management and electronic banking

**SWORD ECM:**

Expertise: ECM, particularly Electronic Document Management and Business Intelligence

**SWORD Technologies:**

Expertise: ECM, particularly Electronic Document Management and Business Intelligence

Agreements between SWORD GROUP and its subsidiaries:

- SWORD GROUP assists the subsidiary with its sales policy
- SWORD GROUP carries out a number of actions intended to promote the subsidiary and to jointly analyse the impact of its image.
- SWORD GROUP is able to contribute to the setting out of its subsidiary's overall strategy.
- SWORD GROUP possesses a management control and organisation service for its subsidiaries.

The annual amount billed by SWORD GROUP to its subsidiaries within the scope of the assistance agreement is €2,026,557.69.

NB Regarding the agreements relating to SWORD GROUP and its subsidiaries, no new agreement has been drawn up since 31/12/2003.

| <b>POSITION</b>        | <b>DURATION OF MANDATE</b> | <b>COMPANY</b>                 | <b>EXPIRY DATE<br/>(Shareholder Meeting approves the statements for the last exercise)</b> |
|------------------------|----------------------------|--------------------------------|--|
| <b>JACQUES Mottard</b> |                            |                                |  |
| Chairman and CEO       | 3 years                    | SWORD GROUP                    | 31/12/2003   |
| Chairman and CEO       | 6 years                    | SWORD SA                       | 31/12/2008   |
| Chairman               | unlimited                  | DDS EUROPE LIMITED             | Unlimited period   |
| Chairman               | unlimited                  | SWORD INC                      | Unlimited period   |
| Chairman               |                            | SWORD CREATION INFORMATIQUE SA |  |
| President              | 1 year                     | SWORD SUISSE                   | 31/12/2003   |
| President              | 6 years                    | SWORD TECHNOLOGIES             | 31/12/2008   |

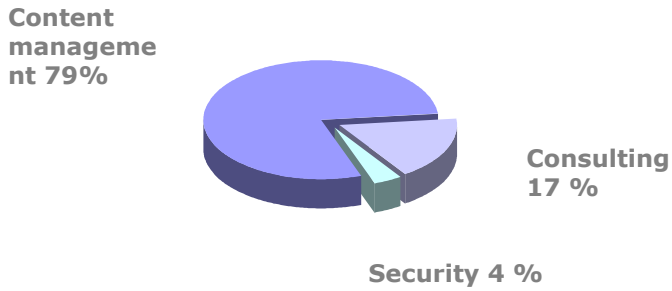
**3.1.3. THE SERVICES OFFERED BY SWORD**

To define SWORD GROUP in terms of activities, services, clientele and geographical positioning, we will begin by providing figures for 2003 pro forma turnover according to these various criteria.

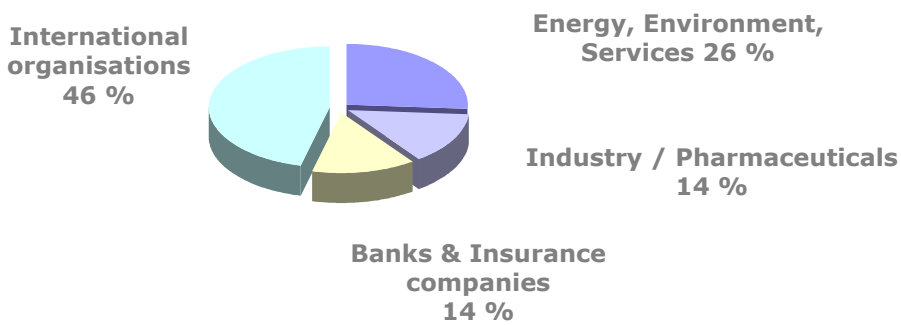
We will then describe the three technological niches in which the group is positioned on the market.

### 3. 1.3.1. Breakdown of 2003 pro forma turnover

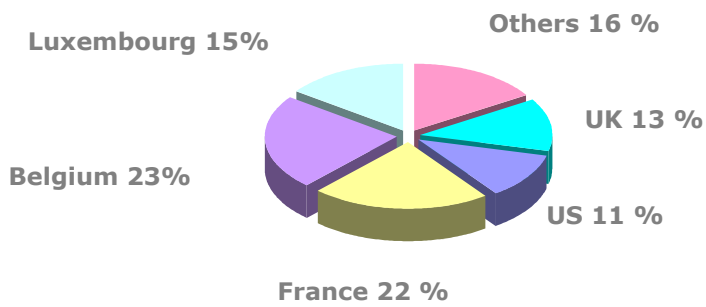
#### 3.1.3.1.1. By activity



#### 3.1.3.1.2. By type of customer



#### 3.1.3.1.3. By geographic location



### 3.1.3.2. Leader in technology niches

Ever since it was set up, SWORD GROUP has positioned itself in niche technological markets, developing its range of services in order to remain at the forefront of technological know-how. These very complementary services gradually became interwoven, naturally reorganising themselves around the following categories:

- Consulting
- Enterprise Content Management (ECM)
- Security

#### A/ Consulting

**Consulting services are offered by two SWORD GROUP subsidiaries:**

- Consulting, by **SWORD Consulting**, the group's consulting subsidiary, based in Paris, which specialises in consulting for specific sectors (electronic banking, logistics, banking and industry),
- Change Management, by **DDS Europe Ltd**, based in London, and specialising since 1990 in change management brought about by the deployment of major ERP (Enterprise Resource Planning) projects.

#### 1) Consulting

**The originality of SWORD's approach to consulting may be found in its "sector-oriented" approach, which allows it to propose solutions that have emerged from the client's own organisational and human context. Thus the state-of-the-art skills of the consultants are organised by sector:**

- **Electronic banking**, inter-bank and private: development of inter-banking systems, electronic money, EMV, security of payments over the Internet, compliance of electronic payment terminals, smart cards, etc.
- **Banking and finance**: new, automatic handling systems (exchange of check images, other means of payment), international cash management, IAS standards, risk management, consumer credit, etc.
- **Logistics and Manufacturing Performance**: production management, supply chain, optimisation of logistical costs, distribution and transportation, TPM etc.
- **Industry**: marketing (CRM), sales (activation of sales networks), customer service, engineering, knowledge management.

**A large number of projects at Renault and PSA attest to our consulting skills in logistics and manufacturing. As part of a global project to optimise production sites and their supply, Renault awarded SWORD the organisation and management of the processes and techniques for the routing of auto parts required by the production site. Renault also awarded SWORD a preliminary consulting project to use e-learning for the training of its sales network. PSA asked us to assist in the international deployment of the TPM (Total Productive Maintenance) methodology and in the training of management. ARCELOR, a major European steel manufacturer, has called on our skills to structure its Knowledge Management (KM) project.**

SWORD's know-how in electronic banking has been used by GIE Cartes Bancaires and in the EMV project, in order to extend CB5 specifications, the follow-up of the EMV pilot projects, and the integration of the EMV 2000 specifications into payment and withdrawals reference manuals.

Likewise, the Post Office awarded SWORD a pilot and feasibility study for installing new ATM services.

The Credit Mutuel de Bretagne requested SWORD's services for the certification and guidance of EMV versions for withdrawals.

On the retail banking side, BNP Paribas called on SWORD to define and design the handling of checks for major corporations (definition of services and processes).

Natexis Banques Populaires selected SWORD to analyse and guide the implementation of new IAS standards for different credit applications.

SWORD also offers expertise in Customer Relationship Management (CRM) on assistance services for client platforms, which has been used to help BNP Paribas.

## 2) Change Management

Integrating an ERP package into a company's IT system requires its internal procedures to be adapted to the new software environment. In order that the ERP system increases the business's efficiency, new procedures must be defined in advance, and through training, staff will be able to understand and apply them.

Since 1990, DDS, a subsidiary of the SWORD GROUP, has offered consulting on change management, and has set up training solutions for major multinationals.

**Change management consulting** services break down into various aspects:

- determining the planning and management of a training project,
- change management programmes,
- analysis of training needs,
- development of training content, translations and targeting,
- training in the logistics and management of courses,
- training in the provision of courses,
- support to users in the early phases.

In terms of **training solutions**, SWORD DDS offers simple, effective, targeted and re-usable programmes, which help render meaningful the information provided to participants, whatever the management area, the market or the language. It usually involves e-learning. In particular, SWORD GROUP offers On-Demand, a sophisticated software product intended to immediately enhance the performance of ERP users by guiding them step by step through the execution of their tasks.

SWORD GROUP has a team of translators, linguists and multi-lingual consultants to translate training material into the users' mother tongues, and to adapt the training content to the study methods suited to each culture (the Global Media product).

Beyond its total acquaintance with SAP, SWORD GROUP's added value lies in it being international: this way it can offer multinational companies standardised training solution for its users that are then adapted to the working habits of each country.

This know-how can best be illustrated by work for a multinational telecommunications operator and for a major pharmaceuticals manufacturer. Having defined management procedures together with the companies' managements, SWORD consultants lead the installation and deployment: on-line help, multilingual documentation, training of the trainers, training of end users, etc.

## B/ Enterprise Content Management

Enterprise Content Management (ECM) provides a concrete response to the challenges related to the management of a company's "knowledge capital". In other words, it provides the possibility to store, distribute, use and access in real time, and eventually in natural language, a company's document and knowledge base.

### 1) Document Management

SWORD GROUP's expertise today provides comprehensive skills in every aspect of Electronic Document Management (EDM) and various business domain applications.

#### a) EDM Architecture

SWORD's range of services is based on skills acquired in over a decade in document engineering and more recently in N-tier architectures. Our teams specialise in the following areas:

- acquisition (digitalisation, OCR/ICR, document categorisation, etc);
- legally mandated and operational archiving;
- electronic file management;
- technical documentation management;
- business process re-engineering (BPR), workflow;
- computerised documentation (orders, invoices, etc.);
- forms management;
- integration of ECM applications with other elements of an IT system;
- portals, Web servers and document bases;
- desktop publishing;
- documentation structured in accordance with SGML/XML standards.

SWORD is involved at every stage of document architecture creation: audit, consulting, assessment, integration and implementation of solutions, recovery, and third-party applications maintenance.

As part of this activity, SWORD GROUP has the advantage of special agreements with software publishers such as **Documentum** and **Filenet**, whose software is integrated into its global solutions.

If EDM is an activity in its own right, it also provides real added value in other IT areas. As an example we can mention CRM (Customer Relationship Management), where EDM adds another dimension by facilitating the use of digital contracts, postal mail, etc. Similarly, with ERP products such as SAP, we enhance functionalities by providing transparent access to "document images", ensuring significant improvement in processing performance.

For example, SWORD GROUP created an electronic documentation management system for Cetelem for the **safe archiving of client files**. This system facilitates the storage of client account statements with a high degree of security, as well as allowing enquiries by its customer service agents using a dedicated Intranet application. In the future, other items such as mail and checks should be handled by this system.

## b) Business domain applications

Business applications were born of the marriage between best-practice business processes and EDM. In practical terms, they represent the combination of a business domain, a Workflow engine, a database and various software components within an EDM architecture. The entire package represents considerable added value.

Here are several business applications in which SWORD GROUP specialises:

- **Pharmaceuticals:** In order to sell a drug it has to go through a pre-market approval process, which is long and complex. By installing customised applications, SWORD teams assist manufacturers to guarantee completion of the process and compliance with international regulations while minimising elapsed time.
- **Banking and Telecommunications:** New standards give electronic documents a legal standing. SWORD installs dedicated systems that guarantee safekeeping, tamper-resistance and compliance with such standards.
- **Intellectual Property:** IT systems to manage and protect trademarks, patents, designs and utility models.

When there is investment in a particular business area, it is possible to obtain re-usable business components, which accelerate all the implementation phases of an IT system. Some examples from the field of IP and the components that SWORD makes available to its clients are:

**Ptolemy** ®, a complete management processing system for an IP office. This software manages the life cycle of IP rights: examination, challenge, registration, renewal, fees, maintenance and transfer of rights, and generation of correspondence with clients. It facilitates, among other things, monitoring of tasks to be carried out; and dates that must be watched during the life cycle of a brand, patent, design or model; automatic generation of the official gazette, as well as statistics and reports. The system components are developed using Internet/Intranet technologies, facilitating the online Web deployment of these services.

**Ascepto** ®, a system developed to carry out, in a single operation, priority searches on words and descriptions. An exhaustive lexical search can be made: Ascepto manages all lexical similarity parameters (anagrams, prefixes, suffixes, word structure, etc). Comparisons can be made in fifteen languages and it is entirely programmable by the client. The system uses various databases (national trademarks, international listings, EU marks, international names, etc). This product can be integrated into the Office suite of programmes or with a Ptolemy solution.

**Internice**, a multilingual classification tool for lists of products and services (known as the classification of "Nice").

As an example, SWORD GROUP carried out the total software automation of the Office for the Standardisation of the Internal Market, located in Alicante, Spain. The system handles the normal administration of a government department, and consists of an EDM system and an application for search and translation that operates in 11 languages. In February 2004, the Norwegian Patent Office started using specialised versions of Ptolemy and Ascepto, which cover all the Office's activities and which serve 300 users as well as connections by Internet.

## 2) Geographic Information Systems (GIS)

This activity involves the coupling of **cartography with IT systems**.

Geographical information is playing an increasingly important role in the IT systems of both private and public sector organisations. This is seen in localisation systems offered by mobile telephone operators, navigation systems, fleet management systems, property management systems, location-based marketing systems, earth management systems and agricultural aids, as well as environmental and

In this area, SWORD GROUP offers services in strategic and operational consulting, solution engineering, system integration, and third-party applications maintenance.

SWORD GROUP is acknowledged as a major player in this field. Its know-how is based on over ten years experience, which has led to an in-depth understanding of the businesses that use GIS: local government, national and urban planning and land rights, transportation, telecommunications, logistics, estate management, location-based marketing, economic research data and statistics.

In addition, SWORD's skills in new information and communication technologies allow its teams to offer services with increased added value.

Pursuing its industrial approach, SWORD GROUP has developed a range of integrated software modules that cover the requirements of design, management and distribution of geographical information:

- Cosig.administration, the system administrator's tool, which defines maps, system users and their rights;
- Cosig.certification is an automatic module that ensures data integrity when new data is integrated;
- Cosig.modeling is a GIS modeling tool;
- Cosig.editor facilitates the management and consultation of every type of data within the system (geographic and allotment data, plans, documents, photos, videos etc);
- Cosig.e-net is an Internet/Intranet application that facilitates looking up data from geographic databases;
- Cosig.property provides land management functions using two technologies: traditional client/server and Intranet. These applications are true management tools for land data coupled with cartographic and multimedia technologies;
- Cosig.supervision provides real time cartography functions. It fulfills the supervisory and localisation requirements for a host of information: fleet vehicles, railway wagons or trains.

The year 2003 was marked by the installation of powerful, innovative solutions on a national scale in the fields of management of agricultural aids as well as economic intelligence.

The addition of a cartographic dimension to their IT systems meets the ever-growing requirements of our clients to better know the environment in which they are operating (clients, competition, business activities, etc). This approach manifests itself as the integration of GIS with other IT components, such as CRM, ERP CAO and BI.

### **3) Business Intelligence (BI)**

Another of SWORD's areas of expertise is the management of structured data within open environments for the implementation of Business Intelligence solutions.

Basing itself on such software products as Oracle, BEA, Microsoft, SAS, Business Objects, etc, SWORD develops customised IT systems that meet the various requirements of an organisation. The use of standard components and technologies let SWORD keep costs of development and system maintenance down, while ensuring independence in terms of technology, and accordingly a greater ability to adapt to clients' requirements.

SWORD is able to handle all phases of such projects: from requirements analysis to the training of end-users, by way of architecture validation and system implementation.

In order to make a company stronger within its market, SWORD supports its clients in the development of a data management strategy. In the current market, which is characterised by ever-growing competition and an ongoing need for information, companies must equip themselves with powerful BI systems to facilitate the collection of data and ensure its fullest use.

Our Business Intelligence product encompasses consulting, technical assistance, engineering, change management, training and applications maintenance.

There are various parts to the services:

- Total Business Intelligence project management;
- Solution level expertise;
- Installing Data Warehouses (ETL, Storage etc.);
- Statistical analysis;
- Enterprise Performance Management;
- Analytical CRM.

SWORD has a team of highly motivated experts with more than 10 years experience, who provide our clients with high added value and a rapid return on investment.

Beyond its complete acquaintance with the Business Intelligence field, SWORD's added value lies in its expertise of "results driven" project management, which has made it the leader in management contracts for major institutions.

In the private sector, in addition to our technical skills, we bring a professional expertise acquired over a wide range of projects that we have carried out.

The following are a few examples of projects we have undertaken on behalf of the European Commission:

- On behalf of Eurostat, we have a team assisting the client in the analysis and presentation of European data with a view to giving direction to EU policies. Another team is designing decision architecture and is assisting in the implementation and use of such tools as BO and SAS.
- An ongoing contract for the Euratom Safeguards Office's ACCESS project, for all developments regarding the management of nuclear waste in future member states. This is a contract for 5,000 man days.
- A framework contract from OLAF for all development and maintenance of "anti-fraud" applications within European institutions.
- A framework contract from Taxud Directorate's Demco project, for development and corrective maintenance of the systems linked to DG TAXUD's 9 IT systems. This is a contract for 8,000 man days.
- An External Service Provider contract with the IT Directorate for 5 years. Lot 7 "BI and Data Warehouse": this covers data warehousing and all developments connected to Business Intelligence.

And outside of the European Commission, such projects as:

- A framework contract with Euroscreen for the BI management of all research data in the screening of molecules.
- A standing order with Crédit Agricole Indosuez Luxembourg for the deployment of a BI system, as well as maintenance of all aspects of records, account management and deposits.
- An ongoing contract with Eurocontrol in Brussels for the deployment and maintenance of a BI system and Business Objects.

#### **4) Web Content Management (WCM)**

Faced with the dramatic increase in published information, it has become essential to implement powerful, "industrial" systems to facilitate its use and availability in the shortest time possible. The underlying documents are different in type and origin: industrial (technical instructions, quality manuals), legal and financial, administrative, marketing, commercial, publications (encyclopedias, dictionaries, catalogues).

SWORD's expertise in the field of Web Content Management ensures it is able to handle, based upon the integration of industry-standard tools, the key elements in content management, in particular:

- Editing
  - Many authors (experts, engineers, marketing managers, etc)
  - Multiple language management
- Storage
  - Information research
  - Data restoration
  - System centralisation and administration.
- Validation
  - Security management and validation of published content (life cycle).
- Formatting and assembly
  - Handling of all format types (images, text, audio, video, etc)
- Publication
  - Updating data,
  - Customising access to information,
  - Remote access via Internet sites, an Intranet or portals.

The market solutions integrated by SWORD facilitate the implementation of specific solutions that answer the critical problem of the increase in volume of published information, making it available in a "customised" fashion to the widest audience possible.

As an example, the SWORD GROUP designed and implemented for Michelin a multi-lingual content management system to handle the paper and the electronic publication of its red and green Guide Books.

We can also refer to the many projects carried out and in progress for institutions such as the European Commission and the European Parliament, as well as for multinational companies.

## C/ Security

Computer security takes many forms. Since 1992 SWORD has focused on security linked to data quality, in order to spare companies the costly effects of non-quality. The technologies that SWORD installs meet three requirements mainly associated with the banking sector: the fight against money laundering and anti-terrorism, automatic repair of payment messages and control over remote access.

### 1) The fight against money laundering and the anti-terrorist war (use of governmental embargo lists, such as OFAC, SDN, BoE, EU etc)

The US Office of Foreign Asset Control (OFAC) publishes a list containing thousands of entries (persons and organisations, vessels), with which the American Government forbids banks or subsidiaries located in the USA to be in contact. Payment orders to the accounts of these parties must be blocked, or suffer the risk of high penalties (fines and seizure of funds). The difficulties increase with the number of messages that need to be monitored and with the frequency with which the list changes.

Following 9/11 this requirement became internationalised. Western countries followed by the rest of the world have passed laws that require banks to block the funds that finance terrorism, as well as to upgrade and structure the fight against money laundering.

The SWORD GROUP's FircoSoft has designed a software package, OFAC-Agent, which automatically intercepts messages of those on the embargo lists (countries, companies, individuals, vessels). This programme accepts every sort of electronic message (payment, securities certificates, letters of credit, telex, etc) and can determine within a fraction of a second the names, companies, addresses or bank codes of the message that appear on the list.

**More than 60 clients** over more than **350 sites** in more than **15 countries** use this solution daily. It is these customers who have made it known worldwide. OFAC-Agent was nominated No 1 for major institutions by *Celent Communications*, in its survey published in July 2003. This sort of tool, particularly in today's climate, can also spawn many developments in the security field, not least in aviation.

### 2) "Straight Through Processing"

"Straight Through Processing" (STP) is the **automatic repair and reconstruction of messages** (Swift and other formats). In messaging systems for payments and securities, the poor quality of data transmitted (approximated coding; missing accounts, banking information or names; not formatted; missing routing information, etc) makes automatic processing of the information difficult, and requires manual handling of repetitive and costly errors.

Thanks to STP, these messaging systems need no longer worry about badly structured or incomplete data, and can operate as though the messages were perfectly intact. The automatic correction of messages replaces manual error handling, which considerably reduces the cost of processing.

STP has thus become a major objective in banking and finance, since it creates real economies while improving customer service.

In this field, the SWORD GROUP offers a basic software package, "STP-Engine", together with specialised modules that can be easily integrated into existing messaging systems. These programmes are the fruit of basic, in-depth research in the field of artificial intelligence, particular in respect of natural language and neural networks.

- **STP-Engine®**. STP-Engine is a programme that accepts a complete message as input, and outputs within a fraction of a second a message that can be processed automatically. This involves either changing the message in accordance with grammatical rules, or enhancing and repairing it by using the rules of the profession and by referring to reference dictionaries.

- **Firco modules for targeted repair**. This family of modules was designed to repair fields in messages (Swift, FedWire, EdiFact or other formats), as well as to improve the rate of automatic processing. Each module uses a dictionary that links names and codes. A utility application manages updates.

### 3) Remote access control

SWORD Security operates mainly in the field of securing Internet access and banking transactions.

SWORD Security offers a range of modules for authenticating user ID's over the internet. Among the solutions offered, we would highlight:

#### Secure Login

The Secure Login solution is based on the "Wireless Login" (W-Login), which authenticates a user through



his or her mobile (GSM) telephone with a standard SIM card.

W-Login operates in two ways:

- Authentication using a One-Time Password
- Authentication using an electronic signature

These two modes are based on the same product and let a company develop over time and change technology without having to change the access technology.

For electronic signatures, advanced technologies that employ both private and public keys are used to guarantee the authenticity of a signature.

This solution is particularly relevant for businesses that wish to secure access to their internal networks (Intranets), for banks who need to secure payment transactions (Private Internet Banking), as well as for wireless network operators who offer paying access to virtual private and public networks (VPNs) using public access “hot spots”.

For the banking industry, W-Login is a new and innovative solution. It lets a bank offer transactions over the Internet that are completely secure, while at the same time obtaining a competitive advantage by reducing both costs and the complexities of existing solutions. W-Login is entirely independent of any workstation, and affords clients total mobility by facilitating every transaction in complete security at any Internet access point.

Advantages of W-Login:

- The highest security available
- Low cost in terms of organisation and maintenance
- Easy to use, no client installation, no training
- No confidential data is sent over any network
- Separation of data and authentication networks
- Electronic signature or one-time password with the same product
- Electronic signature by a private key in the GSM SIM card
- Authentication of access to site as well as of transactions

### **Electronic Signature**

The W-eSign solution is based on the same technology as W-Login, and facilitates the electronic signature of an XML document. This is particularly useful for on-line documents and forms, such as attendance sheets or other documents that require signature or approval.

Solutions based on W-Login and W-eSign provide functional optimisation and significant cost reductions for those organisations that implement them.

### 3.1.4. SWORD GROUP WORKS WITH CUSTOMERS ON SEVERAL LEVELS

#### 3.1.4.1. Consulting

As a general trend, SWORD GROUP assists the key accounts of banks, industry and services in the definition and implementation of strategies that will allow them to adapt to an economic climate that is experiencing constant change and which is more competitive and complex than ever.

Its range of services can be divided into two main categories:

- consulting for management (a service that revolves around organisational issues),
- consulting for project management teams (which revolves around information systems).

Its main consulting services are:

- services concerning organisational issues: strategic studies, business plans, master plans, organisation audits, redefinition of company processes (change management);
- services concerning information systems:
  - organisational studies (process formalisation),
  - needs and feasibility studies,
  - project steering (coordination, planning, monitoring, reporting, management charts, etc.),
  - drafting of functional specifications,
  - revenue plans, deployment,
  - change control (communication actions, training-action, redefinition of job profiles, etc.).

Here are a few examples that illustrate this description:

- a financial company belonging to a large automotive group entrusted SWORD GROUP with the operational management of a process automation project to address the expiry of vehicle fleet hire contracts, in accordance with the commercial terms and conditions negotiated;
- vehicle distribution models are changing: the concentration of networks, the probable opening of the vehicle market to new firms, multibrand strategies, etc. In order to distinguish themselves, manufacturers must improve the productivity of their sales structures and expand their range of services beyond the sale of vehicles. It is with this in mind that SWORD GROUP steps in to steer projects in the fields of marketing, customer relations, sales force management, financing and distribution logistics.
- a large oil group entrusted SWORD GROUP with the creation and implementation of the human resource and technical organisation required to train all its SAP users;
- - the community of French banks entrusted SWORD GROUP with the general organisation of the component deployment plan for the new French card payment system, within the scope of the project to implement a new international smart card.

#### 3.1.4.2. Application Management

Application management (or AM) involves **taking over responsibility for an entire area of a company's information system**. This activity caters for the requirements expressed by many international groups in terms of outsourcing part of their information technology, in the aim of reducing maintenance costs and improving the service.

This outsourcing process can include several tasks:

- the design and creation of new computer applications,
- the upgrading of existing applications,
- the maintenance of existing applications.

Customer contracts are more often than not multi-annual and allow genuine partnerships to be formed between SWORD and its customers that go well beyond traditional customer/supplier relationships.

This type of service then leads to integration services for large projects. As an example, one SWORD GROUP team provides corrective, adaptive and progressive maintenance for the different documentary applications developed for the United Nations (UN).

This strategy comes into effect downstream from large projects and does not require a separate sales approach.

### **3.1.4.3. Development of turnkey IT applications**

This service involves designing and developing information system architectures. This is an implicit component of all IT service providers, whether it concerns infrastructure elements or the setting up of new technologies.

Thanks to their technological and methodological know-how, SWORD GROUP's consultants participate in this development at all levels of the company's business processes. Within the scope of these services, SWORD GROUP uses a quality repository (Isopro), which enables it to cater for the requirements of IT contractors in terms of flexibility, time-to-market and economic competitiveness, while maintaining a certain level of quality and obeying time constraints.

All business processes are covered: from standard company management functions such as sales, marketing, purchasing, finance, accounting, human resources, communication and production, to the technical purposes of the information system.

In the telecommunications field, SWORD GROUP is assisting CEGETEL with the development of its "Customer communication" IS: a customer file on the website that delegates the administration of management functions to end customers, including electronic invoices and the issuance of different commercial documents.

### **3.1.4.4. Systems and component integration**

Companies must adapt their strategy according to the constant changes in the economic climate and must at the same time rapidly transform their information system.

The complexity of these systems slows down their capacity to adapt, especially as the systems and applications from which they are constituted are increasingly heterogeneous: proprietary applications, integrated management software packages, customer relationship management (CRM) software packages and specialist software packages (EDM for example).

Within this context, the services offered by SWORD GROUP involve installing application software on top of customers' existing computer architectures. This software is built around software packages that are available on the market, around SWORD components or around software that is developed from start to finish.

SWORD GROUP provides these services using an **industrial approach** that is based mainly on the reuse of **software components**; it has positioned itself as a high-added value provider in its different technological niches in order to accompany its customers on this evolutionary step.

As an example, a national industrial property office that wishes to overhaul its information system will be calling upon SWORD GROUP to partially or completely redesign its information system depending on its organisational choices, the international protocols in force and the state of its current information system. In this case, SWORD GROUP's solution will involve taking charge of a multiphase global project supported by its quality assurance and project management methodology, Isopro.

### 3.1.5. SOLID PARTNERSHIPS

SWORD GROUP works with several partners, in several functional configurations:

- **"certified partner"**: these are partners who decide to work with SWORD GROUP when they share common interests in a project or customer. There is a certain level of commitment in terms of loyalty and making information available: each partner is a co-contractor in the project, and each one is responsible for their own part. Thus, IBM-Lotus and Microsoft can be said to be partners of this type: they sell their equipment and software, and subcontract certain tasks to SWORD GROUP;
- **"integrator"**: SWORD GROUP integrates the partner's product, for example the Documentum and Filenet software applications, which are used in the EDM activity; the customer receives a joint commercial proposal; the sale of the licence is invoiced by SWORD GROUP (For Filenet for example) or by the product supplier, depending on the case in hand; the impact of this invoicing on SWORD GROUP's turnover is around 5%;
- **"commercial agreement"**: the partner agrees to supply SWORD GROUP with information on the modifications made to its products and on its new products, in order for SWORD GROUP to adapt any of its software components that make use of the partner's technology (for example: Swift);
- **"integration of SWORD GROUP components"**: these partners are IT service companies who play a role in certain key accounts; these companies sell on SWORD services and integrate its components into their global projects; this is the case for Steria Suisse and Misys who offer global solutions within the scope of Swift projects and make use of SWORD GROUP's STP components.

The table below lists SWORD GROUP's main partners and the type of partnership that binds them:

|                  |                                       |
|------------------|---------------------------------------|
| Microsoft        | certified partner                     |
| IBM-Lotus        | certified partner                     |
| Documentum       | integrator                            |
| Filenet          | integrator                            |
| Swift            | commercial agreement                  |
| Steria Suisse    | integration of SWORD GROUP components |
| Misys            | integration of SWORD GROUP components |
| APIC             | integrator                            |
| Claritas         | integrator                            |
| ESRI             | integrator                            |
| Selligent        | integrator                            |
| Global knowledge | commercial agreement                  |
| Itesoft          | integrator                            |
| Exstream         | integrator                            |
| Business Object  | certified partner                     |
| Oracle           | certified partner                     |
| Sas              | certified partner                     |
| Kofax            | integrator                            |
| Verity           | integrator                            |
| Captiva          | certified partner                     |
| Sealed Media     | certified partner                     |
| Headway          | reseller                              |
| Dicom            | reseller                              |

There is no dependence on these partners, as SWORD GROUP software does not rely upon the versions of software packages hired from its partners.

### 3.1.6. SWORD GROUP: AN INDUSTRIAL APPROACH TO TAILOR-MADE SERVICES

#### 3.1.6.1. SWORD GROUP's software components

SWORD GROUP is an IT services company that retains the know-how gained from each new project, by developing software components that can be reused in future projects (Cosig range for GIS, Acsepto, Ptolemy and Internice for intellectual property, Firco, Ofac-agent and STP engine for STP, etc.).

However, this does not make SWORD GROUP a software publisher, because these components are not sold as software packages or as licences. Components are integrated into the overall service.

This **"software component"** approach allows markets to be won because it demonstrates SWORD GROUP's expertise.

These software components represent development costs of 28 man-years.

#### 3.1.6.2. Technologies mastered by SWORD GROUP

SWORD GROUP works with all the traditional technologies from IT engineering companies:

- standard programming languages: C, C++, Java, Cobol, L4G, etc.
- standard operating systems: Unix, Windows, AS400, Mainframe, etc.
- standard office tools,

- The different platforms available on the market in the fields of development (J2EE architecture: Websphere, Weblogic, free software), integration (EAI, XML) and services (.net).

Within the scope of its change management activity, SWORD GROUP is fully proficient in integrated software, SAP in particular, but also in other ERP's (Peoplesoft, etc.).

For its document management activity, SWORD GROUP works with the Lotus Notes, Documentum and Filenet applications, which it integrates into its solutions.

More generally speaking, SWORD GROUP's engineers are multi-disciplined. They are able on one hand to quickly adapt to a particular technical environment and, on the other, to switch between niches.

### **3.1.7. ANALYSIS OF THE COMMERCIAL ENVIRONMENT**

#### **3.1.7.1. SWORD GROUP's ten largest customers**

SWORD GROUP's ten key customers account for 38% of pro forma turnover in 2003, knowing that each customer represents less than 8% of the total turnover.

The first 31 customers represent 90% of the pro forma 2003 turnover.

| <b>Customer companies</b> |
|---------------------------|
| Becton Dickinson          |
| BNP Paribas               |
| Cegetel                   |
| DG AGRI (UE)              |
| DG PRESSE (UE)            |
| DG TAXUD (UE)             |
| EDF GDF                   |
| Eurostat                  |
| Exxon Mobil               |
| Royal Sun Alliance        |

#### **3.1.7.2. Customer characteristics**

The customer invoicing method can be broken down into fixed price (60%) and time and material (40%). Time and material is essentially used for consulting projects.

The risk attached to fixed price invoicing is limited.

The customer loyalty rate is 100%.

Over the years 2000 to 2003, the rate of non-payment was nil, as our clientele consisted entirely of key accounts.

The payment time stipulated in the company's terms and conditions of sale is 60 days end of month. In practice, this is closer to 75 days.

The order book is full: at the end of December 2003, it represented 8.85 months worth of pro forma turnover for 2003. The proportion of recurring turnover is more than 30% and varies depending on the activity and the customer. The customers that generate the most recurring turnover are International Organisations.

### 3.1.7.3. The market and competition

#### 3.1.7.3.1. The market

As of 31/12/2002, there were 29,500 Software and services companies in France (including manufacturer services, training and IT temporary work), employing 285,000 people. The total turnover that was generated by the sector was €29.1 billion for 2002.

According to the Syntec, IT services and software publishers companies employing 10 people or more represented a workforce of 200,000 people and a turnover of €20.7 billion for 2002.

The table below, which was produced by SYNTEC INFORMATIQUE (sector information published on 23 October 2003) shows the change forecast for each type of Software and Services activity:

| Activity   | % 2003/<br>2002 | H1 2004<br>trend | Weight in % |
|--|-----------------|------------------|-------------|
| <b>Management and information systems consulting</b> | - 10 to - 12    |                  | 6.5%        |
| <b>Engineering</b>                                   |                 |                  |             |
| Project and integration                              | - 7 to - 9      | ↗                | 15.5%       |
| Development - Technical assistance                   | - 8 to - 10     | →                | 13.5%       |
| Technology consulting                                | - 3 to - 5      | →                | 12.5%       |
| <b>Infomanagement</b>                                |                 |                  |             |
| AM   | + 8 to + 10     |                  | 5.0%        |
| Infomanagement (not including AM)                    | + 6 to + 8      |                  | 20.0%       |
| <b>Software and software packages</b>                |                 |                  |             |
| Software tools                                       | +3 to + 5       |                  | 7.0%        |
| Application software                                 | - 5 to - 7      |                  | 13.0%       |
| <b>Miscellaneous and training</b>                    | - 10 to - 12    |                  | 7.0%        |
| <b>TOTAL</b>   | - 3 to - 5      | ↗                | 100.0%      |

According to SWORD GROUP, these figures are more representative of the market formed by companies that provide more general IT services, and we maintain our reservations over this assessment. Indeed, the greater the degree of specialisation, the higher the growth of the market.

#### 3.1.7.3.2. Competition

Our competitors are large consulting firms and large IT services companies such as Cap Gemini, Atos and Accenture, as well as general IT services companies such as Unilog, Sopra and small specialised services companies:

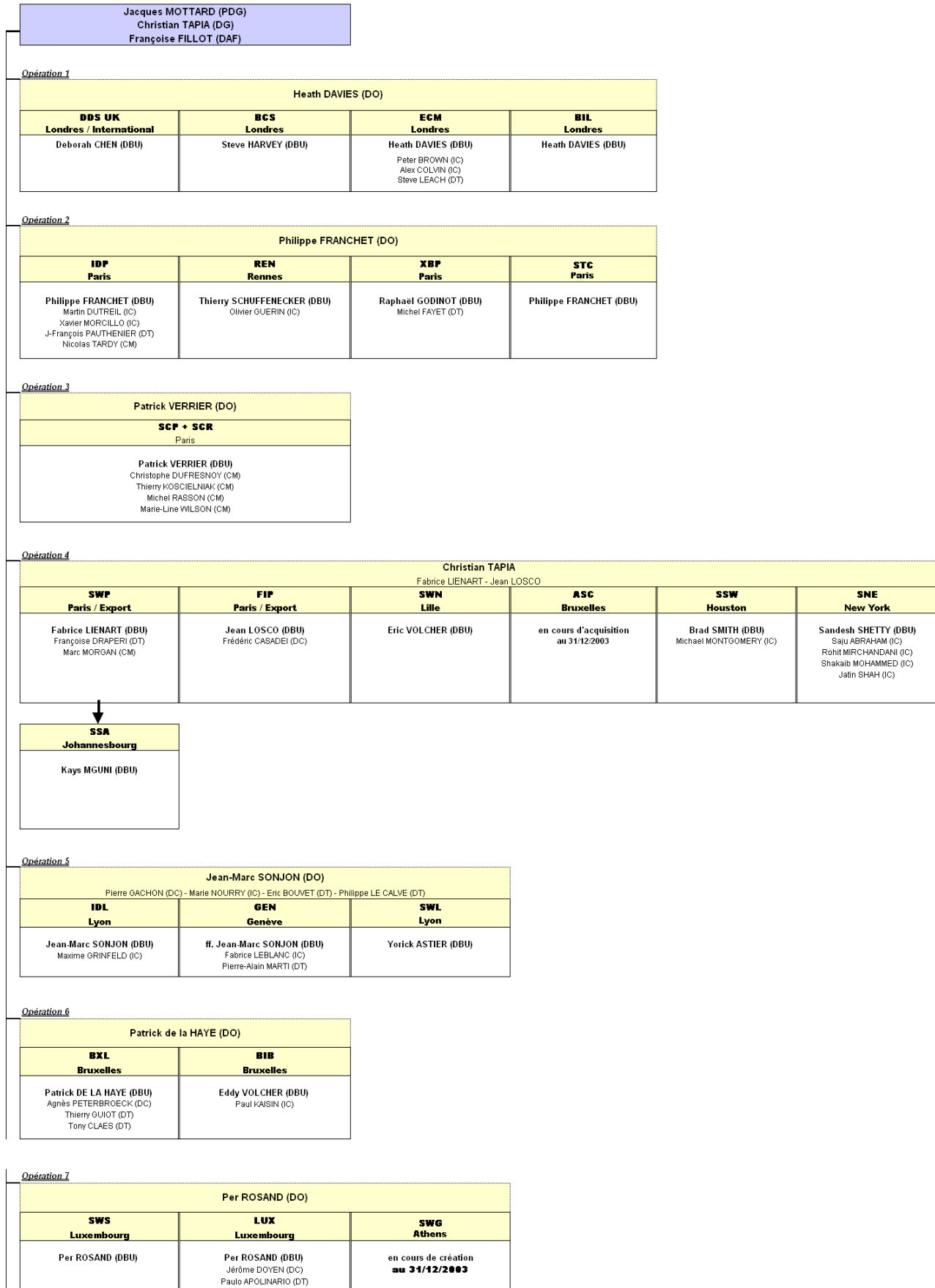
| Activity   | Competitors  |
|------------|--|
| Consulting | PWC – ATOS – KPMG<br>ACCENTURE                                     |
| ECM        | CGEY – ATOS – STERIA – IBM<br>THALES – SEMA – UNILOG –<br>EURIWARE |
| SECURITY   | PRIME ASSOCIATES – LOGICA<br>THOMSON FINALCIAL<br>PUBLISHING       |

The competition situation remains very stable from one year to another, though it has become entirely internationalised, and we encounter the same players in one country after another. The success rate for proposals in 2003 was on average 50% higher, adjusted proportionally to the turnover.

### 3.1.8. RESOURCES

#### 3.1.8.1. Management

##### 3.1.8.1.1. Functional organisational chart on 31/12/2003



### **3.1.8.1.2. The Directors**

#### **Jacques Mottard, 51, chairman**

Between 1989 and 1999, Jacques Mottard founded and developed Decan, until the friendly takeover by the Metamor group in February 1999. He occupied the position of chairman of the Metamor Group in Europe until October 2000. He then founded SWORD.

Previously, he had occupied the position of sales engineer at Bull, as well as regional manager for the Rhône-Alpes and then managing director at Comelog (IT services).

Jacques Mottard possesses diplomas in both science and management (Montpellier ESTP (*Grande école* for public works engineering) and IAE (company administration institute)).

#### **Christian Tapia, 44, managing director**

Christian Tapia joined SWORD in January 2001.

Christian Tapia occupied a position as project chief engineer in artificial intelligence at Cognitech before co-founding Ingénia in 1989. When Ingénia was bought out by Decan in 1997, he became a member of the Decan Group's executive committee and managing director in charge of International Business Units. He is trilingual (French, Spanish and English), holds an MSc in computer science from the University of Illinois, USA, and has carried out numerous studies on artificial intelligence.

#### **Françoise Fillot, 44, administrative and financial director**

Before joining SWORD, Françoise Fillot occupied the same position for 9 years in the Decan Group. She has a degree in management/accounting.

#### **Heath Davies, 37, director of "change management" operations worldwide**

Heath DAVIES was previously Sales Director at Cimage Enterprise Systems prior to joining Text Systems as Director of Operations. Further to the acquisition of Text Systems by the SWORD GROUP in 2002, he became Director of the Business Unit and then Director of Operations in October 2003. He holds a diploma in Computer Engineering from the Council for Information Technology Engineers in the UK.

#### **Philippe Franchet, 40, director of "EDM North" operations**

Since 1997 Philippe Franchet was the director of Decan's "IDP" Business Unit, which specialised in EDM. The unit then became part of the SWORD group. Previously, he occupied positions as sales manager, business engineer and project manager at Jacobs Serete.

He holds an engineering degree from the CPE (*Grande école* for physics, chemistry and electronics) in Lyon and a Masters from the Essec (*Grande école* for business and economics).

#### **Patrick Verrier, 44, director of "consulting" operations**

Patrick VERRIER was a consultant and then a business engineer at Sigma Conseil SA (organisational consulting firm) for 8 years. He took over the management of this unit when it was acquired by Decan in 1998 and then by SWORD in 2000.

Since February 2001, he has launched and organised SWORD's consulting activity.

He holds a Masters in management from the Université de Paris Dauphine and a DESS (postgraduate diploma) in systems information from the Paris IAE.

#### **Patrick de la Haye, 42, director of "data management" operations**

Patrick de la Haye had been Business Development manager at Cronos Luxembourg since June 2002. He took over the management of this unit when it was acquired by Sword in December 2002. Previously, Patrick worked at Oracle Belgium for 8 years as Sales Manager in charge of International Institutions. He holds a diploma in Political Science and International Relations.

#### **Per ROSAND, 46, director of "Security" operations**

Per ROSAND is one of the founders of SWORD Technologies (set up in 1999). He is presently Director of Operations for all Business Units in Luxembourg.

He obtained a diploma in Information Technology and Communications, and in 1978 began his career with the Norwegian Government. Between 1982 and 1992 he was, firstly, Software Engineer then Systems Engineer at BULL Europe. From 1992 to 1997 he held the post of Sales Director at OLIVETTI Belgium and was responsible for European institution accounts. From 1997 to 1999 he joined INTRASOFT International in Luxembourg as Sales Director and was responsible for European institution accounts.

#### **Jean-Marc Sonjon, 44, director of "Geographical Information Systems and Documentary Engineering South"**

Jean Marc SONJON had been the director of DECAN's "IDL" Business Unit since 1998. The unit specialised in GIS and EDM.

Over the course of his career in IT services, he occupied positions as project manager, project director and business engineer in various IT services companies: Syseca, Focal and Comelog.

He has a university degree in computer science, and holds a DEST (post graduate diploma in technology).



**3.1.8.1.3. Number of employees****PRO FORMA number of employees on 31st December 2003 by activity**

| <b>Activity</b> | <b>Billable employees</b> | <b>Unbillable employees</b> | <b>Subcontracted staff</b> | <b>Total number of employees</b> |
|-----------------|---------------------------|-----------------------------|----------------------------|----------------------------------|
| CONSULTING      | <b>72</b>                 | <b>10</b>                   | <b>16</b>                  | <b>98</b>                        |
| ECM             | <b>343</b>                | <b>45</b>                   | <b>163</b>                 | <b>551</b>                       |
| SECURITY        | <b>15</b>                 | <b>5</b>                    | <b>4</b>                   | <b>24</b>                        |
| HOLDING         |                           | <b>10</b>                   |                            | <b>10</b>                        |

The workforce, including subcontracted staff, grew from 491 to 683 during 2003.

The average daily rate for 2003 was €583.

The activity rate (of which holidays represented 7-14%, depending upon the country) reached 81%. The intercontract ratio is not currently a group criterion given its positioning (fixed price) and its order book (eight months).

Unbillable employees, including subcontracted staff, make up 10.3% of the total workforce.

The activity of our employees represents a potential 52 weeks.

Included in these 52 weeks are:

- Holidays: from 3.9% to 13.5% depending on the country, with an average of 8.5%.
- Training: 1.4%
- R&D: 4%
- Technical support: 3.1%
- Days lost (sick leave, maternity leave, etc.): 1.2%
- Intercontracts: 0.8%

The intercontract ratio relates to:

- A) time spent integrating new employees
- B) possible breaks in activity for certain junior consultants which are invoiced on a time and material basis

For the record, this rate remains constant: in 2002 it stood at 0.7%.

**3.1.8.2. Organisation****3.1.8.2.1. The main sites**

| <b>City</b>  | <b>Address</b>  | <b>Telephone</b>      | <b>Owner of the premises</b>   | <b>Surface area of the premises</b> |
|--------------|---|-----------------------|--|-------------------------------------|
| Lyon         | 9, avenue Charles-de-Gaulle 69370 Saint-Didier-au Mont-d'Or       | + 33 (0)4.72.85.37.40 | Groupe Sade<br>20, bd Eugène-Deruelle 69003 Lyon                           | 1,920 m <sup>2</sup>                |
| Paris        | 37, rue de Lyon 75012 Paris                                       | + 33 (0)1.44.67.24.00 | Cogifrance<br>47, rue du Fbg Saint-Honoré 75008 Paris                      | 1,575 m <sup>2</sup>                |
| London       | 1000 Great West Road Brentford Middlesex TW8 9DW 22               | + 44.208.758.94.99    | Jones Lang Lasalle<br>Hanover Square London W1A 2BN                        | 930 m <sup>2</sup>                  |
| Rennes       | 8, Rue Jouanet 35 700 RENNES                                      | + 33 (0)2 99 84 50 50 | Bouygues Immobilier 5, Rue A. Aubry 35000 Rennes                           | 482 m <sup>2</sup>                  |
| Geneva       | Geneva Business Center<br>12, Avenue de Morgines 1213 Petit Lancy | + 41 (0) 22 816 06 10 | Crédit Suisse AMF CP 8110 ZURICH   | 240 m <sup>2</sup>                  |
| Houston      | 11500 Northwest Freeway, Suite 275 HOUSTON TX 77092               | + 1 713 956 8880      | 11500 Northwest LP, HOUSTON TX 77092                                       | 190 m <sup>2</sup>                  |
| New York     | 230, Park Avenue – Suite 1000 New York, NY 10169                  | + 1.212.808.72.05     | HQ Global Workplaces<br>15305 Dallas parkway, suite 1400 Addison, TX 75001 | 16 m <sup>2</sup>                   |
| New York     | 1250 Broadway – 18 <sup>th</sup> floor – New York, NY 10001       | + 1.212.279.67.34     |  | 300 m <sup>2</sup>                  |
| Luxembourg   | 105 route d'Arlon – L 8009 Strassen                               | + 353 26 11 26 11     | GEO Bildinx<br>71 rue des Prés, L-7333 Steinsel                            | 1,000 m <sup>2</sup>                |
| Brussels     | Rue Joseph II, 9 à 13 – B 1000 Bruxelles                          | + 32 2 235 29 60      | DK Invest Delften 23 B-2390 Malle  | 600 m <sup>2</sup>                  |
| South Africa | 6 Kikuyu Road Sunninghill Johannesburg 2157                       | +27 11 234 4206       | Mr R.G. Olivier  | 85 m <sup>2</sup>                   |

There are no business links between the owners of the premises and the directors and employees of SWORD GROUP.

### 3.1.8.2.2. Trademarks

SWORD GROUP owns all the trademarks that it needs to use. Indeed, it owns the following trademarks:

- Firco trademark (European Union): owner: FircoSoft SA,
- STP Factory trademark (European Union): owner: FircoSoft SA,
- French trademark **SWORD**, initially registered under number 520509 on 22 June 1979 in classes 9, 35 and 42, renewed on 14<sup>th</sup> June 1989 under number 1536363, and renewed most recently on 27 May 1999,
- French trademark **Ptolemy**,
- French trademark **Accepto**,
- Foreign trademark **SWORD** registered in Germany under number 1111856 on 10 December 1985 in classes 7, 9, 16, 35 and 42,
- Foreign trademark **SWORD** registered in South Africa under number 88/5249 on 29 June 1988 in class 9,
- Foreign trademark **SWORD** registered in South Africa under number 88/5250 on 29 June 1988 in class 35,
- Foreign trademark **SWORD** registered in South Africa under number 88/5251 on 29 June 1988 in class 42,
- Foreign trademark **SWORD** registered in Benelux under number 378628 on 4 September 1981 in classes 7, 9 and 16,
- Foreign trademark **SWORD** registered in the UK under number 1255025 on 22 November 1985 in class 9,
- Foreign trademark **SWORD** registered in the UK under number 1255026 on 22 November 1985 in class 16,
- Foreign trademark **SWORD** registered in the UK under number 1278695 in 1 October 1986 in class 42,
- Foreign trademark **SWORD** registered in Switzerland under number 318013 in classes 9 and 16.

### 3.1.8.2.3. The quality system: Isopro

SWORD GROUP has set up an internal group quality scheme, in compliance with ISO 9001 standard.

#### **Principles governing the quality assurance system:**

At all levels, **SWORD GROUP's quality structure** is organised as follows:

- It is led by a Quality Assurance Manager (QAM) who reports to general management and coordinates all of SWORD GROUP's Quality Assurance activities.

- **Quality Assurance contacts** are set up at all SWORD GROUP sites.

- The **Project Quality Manager (PQM)** is responsible for monitoring the quality of a project. Depending on the project, s/he drafts or assists the project manager in drafting the Quality Assurance Plan. The PQM is in charge of ensuring the quality of the project, this involvement is generally on an ad hoc basis. S/he carries out or steers quality control activities (reviews). Depending on the business/technical skills required, s/he may delegate a certain proportion of these controls.

Because s/he observes the project's day-to-day progress as an outsider, s/he is able to remain sufficiently detached and objective. His/her precise role with regards to the project, as well as the extent of his/her involvement, is detailed in the Quality Assurance Plan (in particular his/her relationship with the project manager).

- The **project manager** is the person responsible for steering the project and all day-to-day quality assurance issues. Continuous action on his/her part has an impact on the quality of the project through:

- his/her commitment to a certain volume of work and deadlines,
- the strict application of procedures and standards,
- the traceability of key events, actions and decisions, and the visibility achieved with regards to the project's progress, through the creation of a project file,
- communication, by supervising the project team, providing an interface with the customer and supplying feedback to SWORD GROUP.

- The **Project Team** carries out the project on a day-to-day basis. Sharing information, increasing awareness and self-evaluation activities are therefore crucial in terms of quality.

#### **The Isopro approach**

The Isopro approach relies on:

- a set of organisational procedures,
- a set of operational procedures and work instructions,
- a set of template documents,
- guidance literature,
- tools,

in order for it to be correctly applied.

## **3.2. Analysis of the company's risks**

### **3.2.1. Customer risks**

There are no customer risks in terms of payments: no SWORD GROUP customer has ever been in a situation of suspension of payments or failed to settle a payment.

In addition, historically speaking, the loyalty rate is 100%. This rate represents the number of customers who renew contracts in year Y, compared with the number of customers in year Y-1.

### **3.2.2. Reduction in working hours**

The reduction in working hours was inherited from negotiations held at Decan by the very same directors, which generated a 10-day reduction in working time, and only concerns the turnover generated in France. This is fully taken into account in the cost accounting activity, which, to allow for this constraint, considers French labour costs to be 1.73 times the gross salary.

### **3.2.3. Risks relating to the departure of employees and key individuals**

Unlike other companies, that rely on individuals to gain results from their know-how, SWORD GROUP is built firmly upon software components that are improved from one project to the next, and which enable this know-how to not be lost should a particular employee leave.

As far as top management is concerned, the team consists of a Chairman/CEO, a Managing Director, an Administrative and Financial Director, and six Directors of Operations, introduced in 3.1.8.2.

Day-to-day management is handled by 13 Business Unit Directors: four of whom are new, and the six Directors of Operations, who are also BU Directors. These are genuine SME managers, and are responsible for administration, recruitment and management.

Lastly, the policy that has been implemented to encourage staff loyalty, through the allocation of both capital and stock options, contributes to the stability of our teams.

### **3.2.4. Commercial risk due to fixed price services**

Fixed price services reduce the commercial risk of finding ourselves in an intercontract situation from one day to the next. The intercontract ratio is 8%, including management staff (1% unbilled personnel and 7% management staff). By intercontract, we mean the number of days that are not billed and considered as non-useful (not including training and holidays) divided by the number of potential days (250 days a year).

On the other hand, they increase project completion risks and raise the question of occupying the team between projects.

This illustrates the importance of having an order book. Particular attention has been paid to this increased risk.

On 31 December 2003, it amounted to 8.85 months worth of pro forma turnover for 2003.

Each project is monitored on a monthly basis. To date, the difference between days gained and days lost compared with initial estimates for the cost of projects is close to 0, thanks to the systematic application of the Isopro method.

All estimated overruns by comparison to the original budget are immediately tracked by means of subcontracting (additional time on site not reflected in the sales turnover).

Lastly, billing for components is a major element of safety in SWORD GROUP's quoting policy, given that the resulting turnover does not generate direct costs and may alleviate the consequences of overspending on projects.

Pro forma turnover from fixed price contracts in 2003 stands at €25.83 million. Historically, and if we consider the state of progress of contracts on 31/12/2003, no current fixed price projects present risks that are not provided for.

### **3.2.5. Technological risk**

As far as hardware and local networks are concerned, a 5-person team is dedicated to maintaining our infrastructures and, in particular, the daily backup of data, which is placed in fireproof cabinets.

In addition, a civil liability insurance policy allows us to cover all risks relating to damage caused by our employees at customer sites.

Lastly, harnessing our know-how through our software components allows us to confidently grasp the technological advances of our partners and suppliers.

### **3.2.6. Competition risk**

The competition risk is very low thanks to:

- SWORD GROUP's technological advantage,
- its functional knowledge of its customers' areas of work,
- the dispersion of its competitors, all of whom display marked differences,
- the nature of its customers (e.g. the UN), which makes a considerable investment necessary from the outset.

This wide spectrum of competition is actually a very positive point, especially when the customer requires a wide range of skills for its integration projects, for instance.

**3.2.7. Liquidity risk**

| Characteristics of securities issued or loans contracted | Fixed or variable rate                | Total sum of credit lines | Validity period | Loan secured? |
|--|---------------------------------------|---------------------------|-----------------|---------------|
| 2 loans  | Variable rate (euribor 3 months +1.5) | €6,098,000                | 2003 to 2007    | no            |

SWORD is obliged to respect the clause to reimburse before due date, as set out in the covenant: SWORD undertakes to maintain the ratio, Equity capital and other comparable capital/Loans of over one year, which, at the outset, was equal to or above 49.9/60.

The credit lines in question relate to three loans of €3,049,000, or a total sum of €9,147,000 (the two loans mentioned above and an open credit line).

On 31 December 2003, the total amount of these loans used stood at €7,318,000.

On 15 March 2004:

The ratio Equity capital and other comparable capital before dividend distribution/Loans of over one year was equal to 8.55 (31,282/3,659).

The ratio Equity capital and other comparable capital after dividend distribution/Loans of over one year was equal to 8.25 (30,173/3,659).

**3.2.8. Interest rate risks**

|   | Up to 1 year | 1 to 5 years | Beyond |
|---|--------------|--------------|--------|
| <b>Financial liabilities</b>            | €1,220,000   | €3,659,000   | -      |
| <b>Financial assets</b>                 | -            | -            | -      |
| <b>Net position prior to management</b> | €1,220,000   | €3,659,000   | -      |
| <b>Off-balance sheet</b>                | -            | -            | -      |
| <b>Net position after management</b>    | €1,220,000   | €3,659,000   | -      |

Sensitivity to interest rate changes is equal to €1,220,000 (net position at variable rate) x 1% of change in short-term interest rate x 1 year or €12.2K.

**Interest rate risks are not currently considered to constitute a significant risk. Nevertheless, this risk is monitored and managed by the administrative and financial department within the scope of the company's general management. There is no specific cover for this risk.**

**3.2.9. Currency risk**

**The currency risk is not currently considered to be a significant risk, and it is therefore not necessary to set up a ponderous risk monitoring and management structure.**

There are no significant investments or debts that give rise to a currency risk. Indeed, debts are essentially a result of the corporate activity. Thus, no tools exist other than those that enable the following currency risk policy to be implemented:

In countries where costs are paid for locally (local personnel), no currency cover is taken.

In countries where certain costs result from transactions in different currencies (e.g. USA with a few European employees), we take out annual currency cover based on the budgeted turnover for the year.

In countries with extremely volatile currencies (e.g. the Rand in South Africa), we have a systematic insurance policy, given that very few costs are charged in the local currency.

The currency risk is controlled by the holding company. Budgets are set out with great prudence, and the analytical exchange rate is always that of the current month.

|   | <b>£(K)</b> | <b>\$(K)</b> | <b>CHF(K)</b> | <b>ZAR (K)</b> |
|---|-------------|--------------|---------------|----------------|
| <b>Assets</b>                           | 5,107       | 7,024        | 1,041         | 2,007          |
| <b>Liabilities</b>                      | 2,746       | 3,222        | 687           | 945            |
| <b>Net position prior to management</b> | 2,361       | 3,802        | 354           | 1,062          |
| <b>Off-balance sheet position</b>       | -           | -            | -             | -              |
| <b>Net position after management</b>    | 2,361       | 3,802        | 354           | 1,062          |

### 3.2.10 Share risks

|                      | <b>Portfolio of third party or UCITS shares (in € K)</b> | <b>Portfolio of own shares (in € K)</b> |
|----------------------|--|---|
| Assets position      | 3,024  | 774                                     |
| Off-balance sheet    |  |   |
| Overall net position | 3,024 K€   | 774                                     |

Market value of the portfolio on 31 December 2003 amounted to:

- Monetary value: €3,031K
- Company's own shares: €3,024K

Given that SWORD possesses monetary values with no risk of depreciation and that its own shares are already allocated to stocks options, no risk to the Group's portfolio is envisaged.

### **Assessment of the portfolio**

Two objectives have influenced the way the portfolio is composed:

- The acquisition of the company's own shares within the scope of a share repurchasing programme and a liquidity agreement.
- The investment of cash reserves in risk-free marketable securities.

If we discount own shares, the portfolio is very limited. Given the size of the investments, as yet no internal restrictions (market, counterpart, economic sector) or cover for risks or any other form of internal control have been formulated.

Investments must remain conventional by nature and risk-free by definition.

### **Marketable securities**

Marketable securities are valued according to their purchase cost. If their probable negotiable value at the end of the financial year (based on the last quoted price or the liquidation value) dips below the purchase price, a provision is set up.

### **Own shares**

#### **The SWORD GROUP holds its own shares as part of its shares repurchasing programme as authorised by the Shareholders' General Meeting held on 29 December 2003.**

The classification on the balance sheet of its own shares held as a result of the shares repurchasing programme is in accordance with the stated objectives of the programme:

- own shares intended for adjustment of the exchange share price (in particular by way of a liquidity agreement) and for allocation to employees, are accounted for among the investment securities, and are subject to a provision for depreciation when the average stock exchange price for the last month of the year is lower than the historic purchase price.
- own shares intended for other purposes (in particular capital reduction) are included in consolidated capital, with provisions for end of year and the results of transfer not affecting the consolidated results.

On 31 December 2003, all SWORD GROUP's own shares that it holds are classed as investment securities.

### **Risk monitoring and management**

The only potential risks regarding shares relate to cash investments in marketable securities. Investments are selected from those that present no real risk.

#### **3.2.11 Activity risks**

Analysing the projects in progress involves determining the following points for each:

- state of progress of the work;
- difficulties encountered and the adherence to the provisional completion schedule;
- exhaustive entry of costs that have gone into the project;
- adherence to the various contractual clauses and, notably, those relating to billing;
- Progress results.

These monitoring procedures are carried out monthly (first working day of each month) for all current projects. They not only enable the identification of potential problems that may be inherent to certain projects, but also allow monthly results to be determined. These measures are sufficient to justify the absence of specific cover.

**3.2.12 Miscellaneous**

The company's general policy on insurance cover revolves around three main areas:

- The cover of "civil liability" risks for each of the group's companies;
- The cover of "civil liability" risks for the directors Mr Jacques Mottard and Mr François Barbier;
- The cover of material risks (water damage, fires, vehicle fleet, etc.);
- Its general policy aims to cover risks that constitute a significant financial impact and for which the group is unable to insure itself financially.

The levels of coverage for the three areas mentioned above are:

SWORD GROUP civil liability:

- Operations: bodily, material and immaterial damage: €7,500,000
- Professional: bodily, material and immaterial damage, regardless of the cause: €4,500,000

Directors' civil liability: €5,000,000

Cover of material risks: multi-risk cover for:

- Buildings
- Vehicle fleet
- IT equipment

Insurance table:

| €(M) | General and professional civil liabilities |        | Multi-risk |        |
|------|--|--------|------------|--------|
|      | Premium                                    | Excess | Premium    | Excess |
| 2003 | 0.1  | 0.61   | 0.05       | None   |

**Provisions for risks and expenses:** obligations regarding third parties, be they legal, regulatory, contractual or implicit, give rise to a provision for risks and expenses if these exist on the closing date and if it has been established that they will lead to an outflow of resources, without an equivalent counter-flow from the parties concerned.



### **3.3 Investment policy**

#### **3.3.1. Research and development**

Research and development costs are limited to 50% of the gross margin generated by software component turnover and represent 4% of turnover.

In terms of accounting, these research and development costs are entered directly as expenses and are therefore not tied up.

There are no specific research and development personnel, and each major project ends with certain team members being allocated to research and development tasks. Today, the company estimates that 40% of its employees have participated in research and development activities.

Research and development covers various activities:

- **“Large volume” document management**

Research and development solves the technical problems that occur when the quantity of information to be processed increases.

- **Geographical Information Systems**

This area revolves around the exploration of the new technologies, standards, architectures and IT tools that enter the market.

Keeping watch of technological advances allows SWORD GROUP to be at the cutting edge of the field, to put proposals forward to its customers and to advise them of possible developments to their system.

Such research work can result in study reports, illustrative prototypes or presentation material.

- **International payment management**

This activity deals with development: in particular for the range of banking services. The range of filtering services that has been around since 1994 is complemented by components that are specifically designed to help combat money laundering.

Lastly, a significant part of this development concentrates on the progressive maintenance of existing components.

- **National and international intellectual property office management systems**

Research is carried out on the development of:

- software components for the management of intellectual property ownership in an intranet/internet environment,
- intellectual property search tools (verbal and figurative search algorithms),
- classification tools (trademarked products and services, figurative trademarks).

#### **3.3.2. Training**

The investment policy regarding training is put into practice through project management, which provides for systematic training at the outset of the project.

This cost amounts to 2.5% of the wage bill.

#### **3.3.3. Equipment**

The investment policy regarding equipment mainly concerns the engineers' microcomputers and local area networks. The computer installed base is new, therefore no significant investments have been planned. Within the scope of application management, computer equipment remains the property of SWORD GROUP's customer.

**3.3.4 Value of investments**

By type of investment (excluding financial and intangible investments)

|                              | 31/12/2002 | 31/12/2003 | 31/12/2004<br>(Budget) |
|------------------------------|------------|------------|------------------------|
| <b>In thousands of euros</b> |            |            |                        |
| Buildings                    | 180        | -          | -                      |
| Transport equipment          | 72         | -          | -                      |
| Installations, fixtures      | -          | 98         | 106                    |
| Office and IT equipment      | 264        | 331        | 162                    |
| Office furniture             | 128        | 104        | 69                     |
| <b>Total</b>                 | <b>644</b> | <b>533</b> | <b>337</b>             |

By activity

|              |            |            |            |
|--------------|------------|------------|------------|
| ECM          | 609        | 506        | 151        |
| Consulting   | 6          | 5          | 151        |
| Security     | 29         | 22         | 35         |
| <b>Total</b> | <b>644</b> | <b>533</b> | <b>337</b> |

By geographic area

|                      |            |            |            |
|----------------------|------------|------------|------------|
| France               | 419        | 205        | 119        |
| UK + US              | 222        | 77         |            |
| Belgium + Luxembourg |            | 212        | 203        |
| Other                | 3          | 39         | 15         |
| <b>Total</b>         | <b>644</b> | <b>533</b> | <b>337</b> |

To date, the governing bodies have made no plans to make any significant investments.

**3.3.5. Software components**

These investments are made within the scope of agreements for new projects, or to exploit the know-how acquired once certain projects are completed: at a functional level (example: trademarks and patents) for the follow up of new international agreements, in order to create specially adapted software components.

Software components are incorporated into the overall service provided for customers. With the exception of components used in the STP activity, customers become the owners of the software, including its components, although they are not authorised to sell it on. In this case, they can carry out their own maintenance, or this can be provided by SWORD GROUP within the scope of a contract.

However, STP components remain the property of FircoSoft, which simply sells a licence. Source programmes are never delivered, which ensures that products remain protected. FircoSoft always carries out the maintenance on these products.

**3.3.6. Acquisitions****Acquisitions completed until 31/12/2003**

| <b>€(K)</b>                    | <b>Date</b> | <b>Purchase price</b> | <b>Market shares</b> | <b>Goodwill</b> |
|--------------------------------|-------------|-----------------------|----------------------|-----------------|
| SWORD SA                       | 01-11-00    | -                     | 8,580                | 651             |
| FIRCOSOFT                      | 01-11-00    | 5,238                 | 4,428                |                 |
| SWORD DDS<br>France            | 01-07-01    | 242                   | -                    | -               |
| SWORD Création<br>Informatique | 01-11-00    | 107                   | -                    | -               |
| SWORD Inc.                     | 01-11-00    | 2,561                 | 1,797                | -               |
| SWORD Suisse                   | 01-04-01    | 284                   | 36                   | -               |
| DDS EUROPE<br>LIMITED          | 01-04-01    | 3,418                 | 1,378                | 420             |
| SWORD Consulting               | 01-04-01    | 419                   | 484                  | -               |
| SWORD ECM                      | 01-04-02    | 4,104                 | 4,709                | 96              |
| SWORD<br>TECHNOLOGIES          | 01-12-02    | 9,780                 | 9,905                | -               |
| ZEN & ART<br>(business)        | 01-12-03    | 3,067                 | 3,067                |                 |
| <b>TOTAL</b>                   |             | <b>28,936</b>         | <b>34,384</b>        | <b>1,167</b>    |

The acquisition of ZEN & ART was paid in cash by a transfer from Crédit Agricole of €3.067 million.

The evaluation of market shares was carried out by an independent expert.

The logic behind the acquisition of ZEN & ART was:

- a/ Strengthening the position in the US
- b/ Become positioned on the New York banking market

For information purposes, the logic behind the acquisition of FI SYSTEM BELGIUM / ASCII, that took place at the beginning of 2004, was to:

- a/ reinforce our position with EC institutions
- b/ enter the WCM market
- c/ highlight our multi-lingual approach in dealing with the issues involved in website management

### 3.4. Recent developments

Recent developments since the end of the financial year are presented in the management report, paragraph 4.3.9.

### 3.5. Strategy and outlook for the future

#### 3.5.1. Strategy

SWORD GROUP has decided to pursue the strategy it set itself when it was founded:

- **international**: the removal of borders is crucial to the group's activities. For example, in the case of change management, the setting up of an ERP in a large group involves all the subsidiaries of this group, regardless of the country. That is why SWORD GROUP works in places such as Japan, Panama or the USA;

- **profitable**: SWORD GROUP's objective for total operating profit obtained from all its activities is greater than 16 %;

- **specialised**: SWORD GROUP must become dominant in technologies and functionalities that enable it to demonstrate its know-how as leader in certain niches, and which are complementary to each other;

- **shared**: a system must be put into place in which the objectives of employees and investors converge. It is for this reason that SWORD GROUP set up a shareholding and stock options system.

Furthermore, SWORD GROUP will always cater for a key accounts customer base, carrying out work on their information systems using the tailor-made industrial approach described in chapter 3.1.6.

In 2004, SWORD will continue its acquisitions strategy, as follows:

- a) strengthening its footholds in English-speaking countries (UK, USA)
- b) promoting its offshore strategy
- c) developing its know-how

**3.5.2 Results of 2003 forecasts**

| <b>Year 2003 – pro forma in thousands of euros</b> | <b>2003 Forecast <sup>(1)</sup></b> | <b>2003 Actual <sup>(2)</sup></b> | <b>Gap</b> |
|--|-------------------------------------|-----------------------------------|------------|
| <b>Turnover</b>                                    | 69,000                              | 66,016                            | -2,984     |
| <b>Operating profit</b>                            | 10,280                              | 9,415                             | -865       |
| <b>Consolidated net profit</b>                     | 5,431                               | 5,228                             | -203       |
| <b>Net profit before goodwill amortisation</b>     | 5,431                               | 5,342                             | -89        |
| <b>Net profit after goodwill amortisation</b>      | 5,431                               | 5,228                             | -203       |

<sup>(1)</sup> Including acquisition<sup>(2)</sup> Pro forma

| <b>Year 2003 – pro forma in thousands of euros</b> | <b>2002 perimeter</b>               |                                   | <b>Gap</b> |
|--|-------------------------------------|-----------------------------------|------------|
|  | <b>2003 Forecast <sup>(1)</sup></b> | <b>2003 Actual <sup>(2)</sup></b> |            |
| <b>Turnover</b>                                    | 56,000                              | 55,544                            | - 456      |
| <b>Operating profit</b>                            | 8,960                               | 8,920                             | - 40       |
| <b>Consolidated net profit</b>                     | 4,851                               | 5,091                             | + 240      |
| <b>Net profit before goodwill amortisation</b>     | 4,851                               | 5,205                             | + 354      |
| <b>Net profit after goodwill amortisation</b>      | 4,851                               | 5,091                             | + 240      |

<sup>(1)</sup> Not including the acquisition of FI SYSTEM BELGIUM

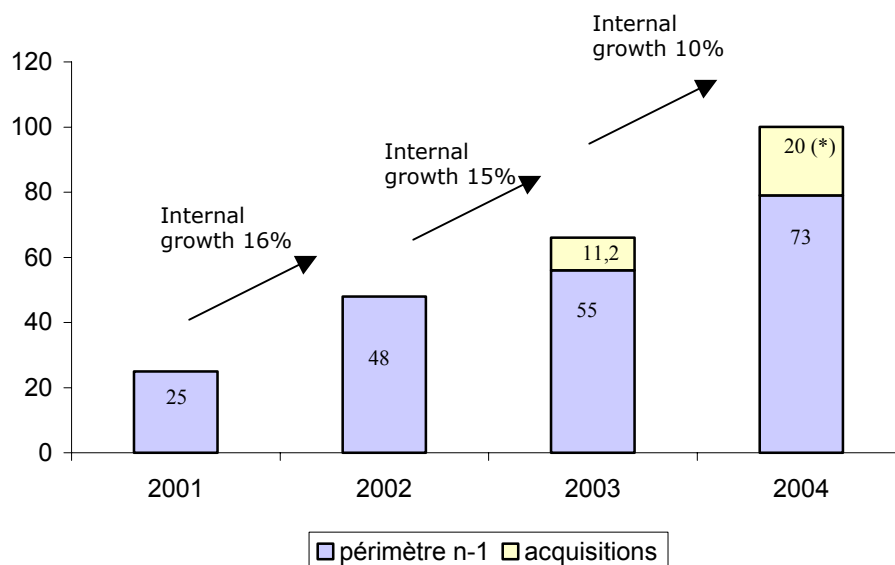
At the end of February 2004, the Group's net cash reserves amounted to – €9.5M

### 3.5.3. Business plan assumptions

Given the budget established for 2003 and the niche strategy being pursued by SWORD GROUP, with the exception of a few adjustments, the company is keeping to the business plan presented when it was floated on the stock exchange.

#### 3.5.3.1. Growth in turnover

Turnover forecasts in million €:



Périmètre n-1 = y-1 perimeter  
Acquisitions = acquisitions

- (\*) In 2004, SWORD will continue its acquisitions strategy, as follows:
- strengthening its footholds in English-speaking countries (UK, USA)
  - promoting its offshore strategy
  - developing its know-how

Turnover from acquisitions will be in the region of €20M in 2004.

#### Pro forma turnover

| (in thousands of euros) | 2003          | 2002          | Variation      |
|-------------------------|---------------|---------------|----------------|
| <b>ECM</b>              | <b>52,262</b> | <b>32,452</b> | <b>+ 61.0%</b> |
| <b>Security</b>         | <b>2,687</b>  | <b>1,979</b>  | <b>+ 35.8%</b> |
| <b>Consulting</b>       | <b>11,068</b> | <b>13,384</b> | <b>- 17.3%</b> |
| <b>TOTAL</b>            | <b>66,016</b> | <b>47,815</b> | <b>+ 38.1%</b> |

#### Turnover from acquisitions on 31/12/2003

The impact of 2003 acquisitions on consolidated turnover is as follows:

- for ZEN & ART (acquired on 01/12/2003)  
consolidated turnover over 1 month: €603,000

Additional turnover from these acquisitions posted on the pro forma financial statement for 2003 is as follows:

- for ZEN & ART  
pro forma turnover over 11 months: €5,636,000
- for FI SYSTEM BELGIUM  
pro forma turnover over 12 months: €4,836,000

Turnover resulting from the organic growth of the perimeter at the end of 2002:

Turnover: €54,942,000

Equivalent to organic growth of 14.9%

**Sensitivity of turnover to a variation in the assumptions used**

In view of its current size, its geographical positioning and the nature of its markets (technological niches), in terms of consolidated turnover, the SWORD group is relatively insensitive to the fluctuations of cyclical factors (sector growth, general economic climate of the country, competition, etc.).

**3.5.3.2. Variations in the operating margin between 2001 and 2004**

|  | 2001         | 2002         | 2003         | 2004 (p)           |
|--|--------------|--------------|--------------|--------------------|
| <b>Not including acquisitions for the year</b> | 17.1%        | 16.6%        | 16.1%        | 16% <sup>(1)</sup> |
| <b>Acquisitions</b>                            |              | 6.9%         | 5.2%         | -                  |
| <b>Pro forma</b>                               | <b>14.3%</b> | <b>12.9%</b> | <b>14.3%</b> | -                  |

<sup>(1)</sup> This 16% takes into account the increase in the gross margin of 2003 acquisitions (December) from 8.5% to 16%.

**3.5.4. Results forecasts**

These results take into account the acquisitions made each year.

**3.5.4.1. Forecast earnings**

The SWORD GROUP Business Plan is based on the coming together of the following two strategies:

- A/ internal expansion
- B/ acquisitions

The table below shows this double strategy:

- A/ continuation of the profitable expansion of the group
- B/ the integration of new acquisitions that took place at the end of 2003

The choice is, on the one hand, the growth in the profitability of acquisitions without internal growth, and on the other hand, internal growth not including the 2003 acquisitions, at a level of 12%.

|                      | 2003     |                  | 2004          |                  |
|----------------------|----------|------------------|---------------|------------------|
|                      | Turnover | Operating profit | Turnover      | Operating profit |
| 31/12/2002 perimeter | 54,942   | 8,837            | 61,535 (+12%) | 9,890 (+12%)     |
| 2003 acquisitions    | 11,074   | 578              | 11,074 (0%)   | 1,780 (+308%)    |
| Total for 2003       | 66,016   | 9,415            | 72,609 (+10%) | 11,670(+24%)     |

**Operating profit**

The estimated operating profit is a direct result of the budget process that exists within SWORD GROUP. The main rules for establishing these figures, to be exercised by the Business Unit, are as follows:

- Expected turnover is translated as a number of directly billable employees (DBE). In each BU, secretaries, managers and sales engineers are not billable. However technical managers are billable.
- The activity of "DBEs" is divided up into potentially billable days, which are the working days of each month of the year: to calculate turnover, each "DBE" employee is valued at a daily rate that is specific to their position.
- The level of contribution of each BU relies on the permanent adherence to three fundamental ratios:
  - a minimum "daily billing rate for each DBE in the BU/daily cost of the DBE" ratio, which defines the acceptable limit when a new customer order is taken;
  - a minimum activity rate expected from each DBE: this is equal to the number of days billed for with respect to the potential number of days, where the potential days are the working days of each month of the year, not counting legal or conventional non-working days (paid holidays, public holidays, leave due to the reduction in working times, training days, etc.);
  - a "non-directly billable employees (non-DBE)/DBE" ratio, which must fall within a maximum fixed cost per BU.

Head office expenses: structural costs (not including BUs), which correspond to the technical, quality and

functional support provided by head office departments; these are estimated at 4% of total consolidated turnover according to the management system in force.

### **Financial result**

Each year, financial costs relating to net debt are assessed according to the average discounted cash flow and acquisition related requirements.

In addition, the financial result takes up a prudent position with regards to the currency risks of invoicing in non-euro zone currencies (dollar, pound sterling), which allows for the potential costs of insuring against this risk.

### **Corporation tax and equity interest**

Equity interest was calculated by applying legal weightings to net profit for the year from 2003 onwards. Corporation tax: for all companies that posted profits as of 2002 without deferred losses or ARD (known deferred amortisation), the corporation tax rate applied is the common tax rate applied to profits before tax.

## **3.5.4.3 Detailed forecasted income statement**

### **3.5.4.3.1 Assumptions**

#### **Assets**

#### **Investments**

Tangible investments are essentially the infrastructure that is necessary for employees to carry out their activities (office furniture, office equipment and IT): this has been determined mainly based on changes in the number of employees over the period.

Financial investments correspond to the acquisition price of turnover gained in the period 2003 to 2004, for which a value equivalent to 6 months worth of turnover has been taken into consideration.

#### **Operating capital requirements**

Operating capital requirements are determined based on the following assumptions:

\* customer payment ratio divided into geographical zones (France, international), that is:

- France: theoretical 60-day payment deadline;
- International (development relates essentially to English speaking countries): 45 days;

\* supplier ratios that are identical to customer ratios.

#### **Dividends distributed**

For the financial year 2003, a 0.90 EUR dividend per share will be distributed subject to approval being obtained at the shareholder meeting of 26<sup>th</sup> April 2004.

#### **Liabilities**

#### **Cash flow**

Cash flow is directly linked to the profitability defined in the business plan, as calculated costs (depreciation, provisions) are fairly small in SWORD's sector of activity.

#### **Capital increase**

The model takes account of the impact on the company's capital by the approval given by the Extraordinary General Meeting for an increase of €5 million, whose implementation was entrusted to the Board of Directors.

#### **Net debt**

This item represents total debt (short term – long term) minus the cash reserves available at the start and end of the accounting year.



**3.5.4.3.2. Forecasted financing plan**

|  | <b>2003</b>    | <b>2003</b>   | <b>2004</b>   |
|--|----------------|---------------|---------------|
|  | <b>Actual</b>  | <b>Budget</b> | <b>Budget</b> |
| <b>ASSETS</b>  |                |               |               |
| Acquisition of fixed assets                                |                |               |               |
| Intangible   | 3,646          | 124           | 181           |
| Tangible   | 600            | 204           | 299           |
| Financial  | 2,265          | 6,500         | 10,000        |
| Increase in operating capital requirements                 | 2,017          | 1,137         | 909           |
| Abatement of the frozen partner current account            | -              | -             | -             |
| Distribution of dividends                                  | 1,501          | 924           | 1,109         |
| <b>TOTAL ASSETS</b>  | <b>10,029</b>  | <b>8,889</b>  | <b>12,498</b> |
| <b>LIABILITIES</b>   |                |               |               |
| <b>Cash</b>  | <b>5,372</b>   | <b>5,500</b>  | <b>6,400</b>  |
| <b>Sale or reduction of fixed assets</b>                   | <b>104</b>     | <b>-</b>      | <b>-</b>      |
| <b>Capital increase and subsidies</b>                      | <b>-</b>       | <b>-</b>      | <b>15,000</b> |
| <b>TOTAL LIABILITIES</b>                                   | <b>5,476</b>   | <b>5,500</b>  | <b>21,400</b> |
| Annual variation in total net debt                         | <b>- 4,553</b> | <b>-3,389</b> | <b>8,902</b>  |
| Net debt (short term – long term) at the start of the year | <b>-2,393</b>  | <b>-2,393</b> | <b>-6,975</b> |
| Net debt (short term – long term) at the end of the year   | <b>-6,975</b>  | <b>-5,782</b> | <b>1,927</b>  |

**3.6. Extraordinary events and litigation**

To the company's knowledge, no extraordinary events or litigation that have not been provided for in the accounts could have or have had an incidence on the results, the financial situation or the assets of SWORD GROUP or any of its subsidiaries.

The level of provisions for risks and other charges is explained on the one hand by provisions for stock options in the SWORD SA subsidiary (€538,000) and, on the other hand, by a very stringent approach to provisions for risk by the Business Unit directors.

Provisions are allocated for 100% of risks and expenses.

The total sum of provisions for risks and expenses stands at €1,104,000.

**3.7. Glossary**

| Term                             | Abbreviation | Meaning  |
|----------------------------------|--------------|--|
| Customer Relationship Management | CRM          | Strategy, organisation and technologies employed to strengthen relationships with the company's customers.   |
| Data-mining                      |              | Data-mining tools make it possible to select a certain quantity of data for the user.  |
| E-learning                       | E-learning   | Computer-aided training system that makes use of the Internet.   |
| e-procurement                    |              | Procurement through electronic channels (Internet).  |
| Enterprise Resource Planning     | ERP          | Integrated management software package that manages one or more of a company's various functions (accounting, production, procurement, etc.)   |
| Electronic Document Management   | EDM          | Storing, managing, updating, using and circulating all types of digitised document within the company.   |
| Internet                         |              | Global network based on a set of interconnected networks and which uses a type of technology that allows users to communicate and exchange data, multimedia information and files.                             |
| Intranet                         |              | Internal company network that uses Internet technology.  |
| Marketplace                      |              | Virtual meeting place for customers and suppliers.   |
| Portal                           |              | Website that contains links to other sites organised into themes, as well as various services (weather reports, news, directories, etc.).  |
| Geographical Information System  | GIS          | System that allows a cartographic dimension to be incorporated into information systems.   |
| Straight-Through Processing      | STP          | Automatic repair/rebuilding of messages (SWIFT or other formats)   |
| Supply Chain Management          |              | Automation of the company's supply chain through the use of specialist software and the Internet.  |
| Swift                            | SWIFT        | Global interbank payment network   |
| Application management           | AM           | When a company hands over responsibility for an entire functional area of its information system.  |
| Web Content Management           | WCM          | Expertise to manage and develop multilingual IT systems, in all existing forms: paper, CD-ROM, websites.   |
| World Wide Web                   | WEB          | Multimedia part of the Internet, composed of a number of sites that are interconnected via hyperlinks.   |
| Web to Host                      |              | A technique that allows an architecture to be set up that allows users to access central sites thanks to a browser (browser: an application that enables users to browse from one page to another on the Web). |
| Workflow                         |              | Computerisation of business processes that takes into account the various different flows  |

## Chapter 4

### 4. FINANCIAL SITUATION AND RESULTS

#### 4.1 Consolidated financial statements for SWORD GROUP CONSOLIDATED

(in thousands of euros)

|   | 31/12/2003    | 31/12/2002    | 31/12/2002      | 31/12/2001    |
|---|---------------|---------------|-----------------|---------------|
|   | Consolidated  |               | PROFORMA<br>(1) |               |
| <b>Turnover</b>                                     | <b>55,544</b> | <b>33,441</b> | <b>47,815</b>   | <b>12,592</b> |
| Other revenue                                       | 2             | 32            | 220             | 142           |
| <b>REVENUE FROM OPERATIONS</b>                      | <b>55,546</b> | <b>33,473</b> | <b>48,035</b>   | <b>12,733</b> |
| Purchase of materials                               | 658           | 487           | 488             |               |
| Other external purchases and expenses               | 22,114        | 10,499        | 19,022          | 4,366         |
| Taxes and duties                                    | 398           | 151           | 151             | 141           |
| Wages and social contributions                      | 23,218        | 17,448        | 22,569          | 6,141         |
| Net depreciation expenses and reserve allocations   | 204           | -604          | -362            | 82            |
| Other operating costs                               | 35            | 5             | 7               | 5             |
| <b>OPERATING COSTS</b>                              | <b>46,626</b> | <b>27,986</b> | <b>41,876</b>   | <b>10,736</b> |
| <b>OPERATING PROFIT</b>                             | <b>8,920</b>  | <b>5,486</b>  | <b>6,159</b>    | <b>1,997</b>  |
| <b>FINANCIAL RESULT</b>                             | <b>-504</b>   | <b>-793</b>   | <b>-828</b>     | <b>-558</b>   |
| <b>INCOME FROM ORDINARY OPERATIONS (BEFORE TAX)</b> | <b>8,417</b>  | <b>4,693</b>  | <b>5,331</b>    | <b>1,439</b>  |
| <b>EXTRAORDINARY PROFIT</b>                         | <b>-239</b>   | <b>138</b>    | <b>114</b>      | <b>-42</b>    |
| Corporation tax                                     | 2,974         | 1,018         | 1,499           | 160           |
| Goodwill amortisation                               | 114           | 35            | 35              |               |
| <b>OVERALL CONSOLIDATED NET EARNINGS</b>            | <b>5,091</b>  | <b>3,778</b>  | <b>3,911</b>    | <b>1,238</b>  |
| Share of minority interests                         | 198           | 116           | 131             | 35            |
| <b>GROUP'S SHARE OF NET EARNINGS</b>                | <b>4,893</b>  | <b>3,662</b>  | <b>3,780</b>    | <b>1,203</b>  |
| Profit per share                                    | 3.97          | 2.97          | 3.07            | 1.74          |
| Diluted profit per share                            | 3.97          | 2.95          | 3.04            | 1.57          |

(1) The pro forma financial statements take into account the acquisitions of 2002, i.e. SWORD TECHNOLOGIES and SWORD ECM over 12 months.

**SWORD GROUP consolidated – Consolidated balance sheet on 31/12/2003 - ASSETS**

(in thousands of euros)

|                                | <b>31/12/2003 CONSOLIDATED</b> |                          |               | <b>31/12/2002</b> | <b>31/12/2001</b> |
|--------------------------------|--------------------------------|--------------------------|---------------|-------------------|-------------------|
|                                | <b>Gross</b>                   | <b>Deprec.<br/>Prov.</b> | <b>Net</b>    | <b>Net</b>        | <b>Net</b>        |
| <b>FIXED ASSETS</b>            |                                |                          |               |                   |                   |
| Goodwill                       | 1,167                          | 149                      | 1,018         | 167               |                   |
| Intangible fixed asset         | 34,707                         | 277                      | 34,430        | 31,394            | 16,657            |
| Tangible fixed assets          | 2,459                          | 1,264                    | 1,195         | 1,257             | 683               |
| Financial fixed assets         | 299                            |                          | 299           | 169               | 185               |
| <b>TOTAL FIXED ASSETS</b>      | <b>38,632</b>                  | <b>1,690</b>             | <b>36,941</b> | <b>32,986</b>     | <b>17,526</b>     |
| <b>CURRENT ASSETS</b>          |                                |                          |               |                   |                   |
| Customer accounts receivable   | 17,771                         | 26                       | 17,745        | 13,721            | 8,203             |
| Other receivables and accruals | 2,952                          | 31                       | 2 921         | 2,815             | 1,479             |
| Own shares                     | 774                            |                          | 774           | 94                |                   |
| Marketable securities          | 3,024                          | 0                        | 3,024         | 31                |                   |
| Cash reserves                  | 3,764                          |                          | 3,764         | 5,520             | 2,077             |
| <b>TOTAL CURRENT ASSETS</b>    | <b>28,285</b>                  | <b>58</b>                | <b>28,228</b> | <b>22,182</b>     | <b>11,758</b>     |
|                                |                                |                          |               |                   |                   |
| <b>OVERALL TOTAL</b>           | <b>66,917</b>                  | <b>1,748</b>             | <b>65,169</b> | <b>55,168</b>     | <b>29,284</b>     |

**SWORD GROUP consolidated – Consolidated balance sheet on 31/12/2003 - LIABILITIES**

(in thousands of euros)

|  | <b>31/12/2003</b>   | <b>31/12/2002</b> | <b>31/12/2001</b> |
|--|---------------------|-------------------|-------------------|
|  | <b>CONSOLIDATED</b> |                   |                   |
| Capital                                  | 6,161               | 6,161             | 3,620             |
| Paid-in capital                          | 16,596              | 16,596            | 747               |
| Reserves – Group share                   | 2,512               | 293               | -17               |
| Net profit – Group share                 | 4,893               | 3,662             | 1,203             |
| <b>EQUITY CAPITAL</b>                    | <b>30,162</b>       | <b>26,712</b>     | <b>5,553</b>      |
| <b>MINORITY INTERESTS</b>                | 1,342               | 1,589             | 517               |
| <b>OTHER EQUITY CAPITAL</b>              |                     |                   | 3,354             |
| <b>PROVISIONS FOR RISKS AND EXPENSES</b> | 1,104               | 1,358             | 1,318             |
| Financial debt                           | 14,537              | 8,037             | 9,846             |
| Supplier accounts payable                | 4,376               | 6,297             | 3,053             |
| Other debts and accruals                 | 13,648              | 11,175            | 5,642             |
| <b>TOTAL CURRENT LIABILITIES</b>         | <b>32,560</b>       | <b>25,508</b>     | <b>18,542</b>     |
|  |                     |                   |                   |
| <b>OVERALL TOTAL</b>                     | <b>65,169</b>       | <b>55,168</b>     | <b>29,284</b>     |

## SWORD GROUP – TABLE OF CONSOLIDATED CASH FLOW ON 31 DECEMBER 2003

**FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2003**

| <b>(in thousand euros)</b>                               | <b>31/12/2003</b> | <b>31/12/2002</b> | <b>31/12/2001<br/>(6 months)</b> |
|--|-------------------|-------------------|----------------------------------|
| <b>Operational activities</b>                            |                   |                   |                                  |
| Net profit from consolidated companies                   | 4,893             | 3,778             | 1,238                            |
| Depreciation   | 744               | 419               | 82                               |
| Allocation / carryover of reserves                       | -230              | -401              | -350                             |
| Capital gains or losses from asset sales                 | -9                | 6                 | 311                              |
| Deferred taxes   | -26               | -11               | -35                              |
| <b>CASH FLOW</b>   | <b>5,372</b>      | <b>3,791</b>      | <b>624</b>                       |
| Change in operating capital requirements                 | -2,017            | -5,381            | 187                              |
| <b>TOTAL OPERATING CASH FLOW</b>                         | <b>3,355</b>      | <b>-1,590</b>     | <b>811</b>                       |
| <b>Investment operations</b>                             |                   |                   |                                  |
| Sale of tangible/intangible fixed assets                 | 92                | 54                | 477                              |
| Sale of securities                                       | 12                |                   |                                  |
| Sale of other financial assets                           |                   | 18                |                                  |
| Acquisitions of tangible and intangible fixed assets (2) | -4,247            | -712              | -621                             |
| Acquisitions of other financial fixed assets             | -130              |                   |                                  |
| Impact of perimeter changes                              |                   |                   |                                  |
| Financial investments (1)                                | -2,265            | -12,115           | -3,457                           |
| Net cash from acquired companies                         | 33                | 2,420             | 1,162                            |
| Own share repurchase programme                           |                   | -527              |                                  |
| Cash receipts from long-term loans and deposits          |                   |                   |                                  |
| <b>TOTAL INVESTMENT FLOW</b>                             | <b>-6,506</b>     | <b>-10,861</b>    | <b>-2,439</b>                    |
| <b>Financing operations</b>                              |                   |                   |                                  |
| Parent company increase in capital                       |                   | 2,541             | 3,580                            |
| Increase in paid-in cash                                 |                   | 16,048            | 747                              |
| Frozen partner current accounts                          |                   | -3,354            | -914                             |
| Foreign currency reserves                                |                   | -293              | -17                              |
| Dividends paid by parent company                         | -1,380            | 0                 |                                  |
| Dividends paid out to minority shareholders              | -121              | 0                 |                                  |
| Increase in long-term debts                              | 6,323             | 1,129             | 269                              |
| Repayment of long-term debts                             | -1,220            | 0                 |                                  |
| <b>TOTAL FINANCIAL FLOWS</b>                             | <b>3,603</b>      | <b>16,072</b>     | <b>3,665</b>                     |
| <b>TOTAL CASH FLOW</b>                                   | <b>452</b>        | <b>3,621</b>      | <b>2,037</b>                     |
| Net cash at year end (A)                                 | 5,966             | 5,646             | 2,077                            |
| Cash at start of the year (B)                            | 5,646             | 2,077             | 40                               |
| Impact of the variation in currency prices               | 132               | 52                |                                  |
| <b>Cash difference (B)-(A)</b>                           | <b>452</b>        | <b>3,621</b>      | <b>2,037</b>                     |
| <b>Gap</b>   | <b>0</b>          | <b>0</b>          | <b>0</b>                         |

(1) The financial investments for 2003 include:

- the acquisition of additional shares of the following companies: SWORD TECHNOLOGIES, DDS EUROPE Limited, ECM, FIRCOSOFT
- the reduction of debts on fixed assets.

(2) including €3,067,000 for the acquisition of ZEN & ART

**ANNEXE TO THE CONSOLIDATED FINANCIAL STATEMENTS on 31 December 2003****NOTE 1: ACCOUNTING PRINCIPLES AND CONSOLIDATION RULES**

SWORD GROUP's consolidated financial statements are established in compliance with French accounting principles, in particular with the provisions of Regulation No 99-02 of the Accounting Rules Committee. They cover the period between 1 January and 31 December 2003.

**1.1. Consolidation perimeter and methods**

The company SWORD GROUP was founded in June 2001 with the aim of become the holding company for the group SWORD. In order to do so, it was suggested to the shareholders that they contribute their SWORD SA shares to the company SWORD GROUP, a move approved by the extraordinary general meeting of 30 August 2001.

The historical background contributed is as follows:

On 15 December 2000 SWORD SA acquired the following businesses, with backdated effect from 1 December 2000:

- IDP, sold by DECAN for a sum of €2,973,000, specialising in documentation engineering in the Paris region.
- IDL, sold by DECAN for a sum of €1,610,000, specialising in documentation engineering in the Lyon region.
- SWP, sold by DECAN for a sum of €3,445,000, specialising in trademark and patent engineering, based in Paris. It works side by side with all trademark and patent organisations whatever their location.

On 15 December 2000 SWORD SA also acquired:

- 81.33 % of the capital of FIRCOSOFT, which specialises in Swift message rebuilding, for a sum of €4,482,000; during the 1st half-year of 2001, this acquisition was completed by the purchase of an additional 7.04% of its capital for a sum of €315,000. During 2002 the SWORD GROUP acquired 9.78% of FIRCOSOFT's capital and 0.7% during 2003. FIRCO INC is a 100% owned subsidiary of FIRCOSOFT.
- The shares of SWORD CREATION INFORMATIQUE for €1,631,000. This Pretoria-based company provides services for the ECM segment.
- The shares of SWORD Inc for €2,561,000. The company specialises in document management and its main customer is the United Nations in New York.

SWORD SA acquired the following equity interest on 1 April 2001:

- SWORD Consulting, acquired in whole for a sum of €419,000. This company has three main components:
  - Interfacing between customers and freelancers
  - IT engineering in Lyon
  - Consulting in Paris.
- DDS Europe limited, acquired in whole for a sum of €3,418,000. This company is based in London and Manchester. Its main activity is change management.
- SWORD SUISSE based in Sion, Switzerland, acquired in whole for €284,000.

On 14 September 2001, SWORD CONSULTING acquired the capital of ESPACE CRECY in its entirety (the company was renamed SWORD DDS on 18th January 2002), with the intention of developing its change management activity.

Over the course of the 2<sup>nd</sup> half-year of 2001, SWORD GROUP repurchased from its subsidiary SWORD SA the shares of the following companies: DDS EUROPE LIMITED, SWORD SUISSE, SWORD Inc and SWORD CREATION INFORMATIQUE Ltd.

The English company ACRAMAN was founded on 1 April 2002 with a capital of £2, 100% of which was held by DDS EUROPE LIMITED, in order to initiate the acquisition of the English company TEXT SOLUTIONS LTD for a total sum of £2,259,000. The holding company TEXT SOLUTIONS LTD held 100% of the company SWORD ECM Ltd, which specialises in change management.

In June 2002, in order to simplify the organisational chart for the group's English companies, ECM's shares were reclassified through their sale by TEXT SOLUTIONS to DDS EUROPE LIMITED for £2,524,000, a sum equal to their initial purchase price. ACRAMAN and TEXT SOLUTIONS have now ceased business.

In December 2002, SWORD GROUP acquired 90% of CRONOS (renamed SWORD TECHNOLOGIES), a company located in Luxembourg.

During the first half of 2003, SWORD GROUP purchased an additional 3% of SWORD TECHNOLOGIES.

SWORD SECURITY, located in Luxembourg, was set up on 26 February 2003, 60% is owned by FIRCOSOFT.

SWORD SAS, a wholly owned subsidiary of SWORD SA, was set up on 2 April 2003.

On 3 December 2003, SWORD INC acquired ZEN & ART, financed through an increase of capital in SWORD INC by SWORD GROUP, equal to the value of equity acquired.

The companies within the consolidation perimeter are listed in note 15. All the companies in the consolidation perimeter are controlled in whole by SWORD GROUP and are therefore consolidated using the full consolidation method.

### **1.2. Closing date and accounting year for consolidation**

SWORD GROUP closes its annual individual accounts on 31 December.

All group companies end their financial year on 31 December with the exception of SWORD INC which, for the purposes of consolidation, has established an intermediary accounting date of 31 December 2003.

### **1.3. Internal operations**

All reciprocal balances and flows between incorporated companies have been completely cancelled.

### **1.4. Conversion of financial statements for foreign companies**

The conversion of financial statements for foreign subsidiaries outside the Euro zone is carried out using the closing price method.

According to this method, the conversion of financial statements is carried out in the following way:

- All assets and liabilities, be they monetary or non-monetary, are converted using the exchange rates in force on the date the financial year closes;
- Revenue and costs (including depreciation and provisions) are converted using the average rate for the period;
- Observed foreign currency conversion differences, both on opening balance sheets and on income statements, are posted in equity capital under "foreign currency reserves".

### **1.5. Conversion of transactions made in foreign currency**

Transactions made in foreign currency are converted at the exchange rate in force at the time of the transaction. At the end of the year, any accounts receivable and debts in foreign currency are converted at the closing exchange rate. Conversion differences are posted onto the income statement.

Exchange differences applicable to a debt or account receivable denoted in foreign currency for a consolidated company, for which payment is neither scheduled nor expected to occur in the foreseeable future and effectively represents a net increase or reduction in the group's investment in this foreign company, is recorded in the consolidated equity (conversion reserve) until the complete transfer or liquidation of this investment, at the date at which it is recorded as an earning or a charge as per the other exchange differences of this company.

### **1.6. Goodwill**

The difference observed between the cost of acquiring the shares of a consolidated company (which includes all costs resulting directly from the acquisition) and the share of equity capital acquired, restated according to the group's principles on the date of entry into the consolidation perimeter, is posted to the valuation of identifiable elements. Most notably, this includes any intangible assets that have not been posted in the individual financial statements of each consolidated entity, such as market share (see below).

The final unallocated balance, which constitutes the goodwill, is amortised according to the straight-line method over a period set according to economic activities and which cannot exceed 10 years.



### **1.7. Intangible fixed assets**

#### *Market shares*

The existence of market shares is acknowledged when the target satisfies three criteria:

- The existence of an international, national or regional market share
- An acknowledged position
- Recurring customers.

The market shares acquired directly by the companies in the perimeter and which appear under the "business capital" item of the individual financial statements of said companies are reclassified in the consolidation under the "market share" accounts item, from the moment they themselves satisfy the criteria listed above.

In respect of depreciation of intangible assets, the company employs the provisions of Regulation CRC 2002-10 relating to the amortisation and depreciation of assets. The valuation of market share that appears as an asset in the consolidated balance sheet is systematically subject to independent, expert opinion at a date close to the date of acquisition.

Because market shares posted on the balance sheet are representative of an identifiable intangible asset that does not depreciate with time, and for which an evaluation can be made according to objective criteria (in this case, according to the future cash flow method) that can be monitored over time, these are not subject to depreciation.

Each year, an independent expert carries out a depreciation test (impairment) that aims to check that the true value of the market shares posted on the balance sheet is equal to or greater than their book value. If this is not the case, a provision for depreciation is posted in the accounts in order to bring their book value down to their true value.

The test method for the depreciation of intangible assets is based on their current value net of cash flow. In order to carry out these tests, certain reorganisation of elements of the intangible assets was carried out, when such reorganisation is more representative of identifiable release of cash. In order to carry out the depreciation tests on intangibles, three years of forecast results, a growth rate of approx. 2%, apart from in the security area (growth rate of 8%), and a present value factor of 15% - 25%, have been varyingly used.

### **1.8. Tangible fixed assets**

For tangible fixed assets, the figure that appears on the balance sheet is the acquisition cost. The depreciation of tangible fixed assets is calculated according to the straight-line method over the predicted lifetime.

The main lifetimes used for calculations are:

- Transport equipment 5 years
- Office equipment 3 to 5 years
- IT equipment 3 years
- Office furnishings 10 years

The company does not possess any movable or immovable assets financed under the lease system.

### **1.9. Financial fixed assets**

Financial fixed assets consist mainly of paid and recoverable guarantee deposits and shares of the company SBT.

### **1.10. Accounts receivable**

These are assessed at face value. A provision for depreciation is set up according to the risk of receivables being non-recoverable and to the length of time they have been in existence.

Customer risks are handled individually and any provisions that may be specifically set up are justified through an evaluation carried out by the group using the information at its disposal: quality of the debtor, length of time the receivables have been in existence, nature of the commercial dispute.

### **1.11. Fixed price contracts not completed at year-end**

Results for fixed price contracts are assessed according to the technical progression status method. The services relating to these contracts are assessed on the basis of a detailed inventory established using cost accounting methods and on the elements used to establish forecasts.

The company posts its employees' output in terms of turnover. To assess the turnover, employees are valued at a daily rate that is specific to their position. Only output for which customers are liable to be invoiced is taken into account when evaluating turnover. Thus, during the course of a project, production times can be entered as mali by taking into account the delays or overspending that are accepted, with respect to the expected progress defined at the start of the contract.

Excess production that appears as turnover on the invoices issued at year-end are entered in the "revenues to be received" section of the assets side of the balance sheet, under the item "customer accounts receivable".

Conversely, when the invoices issued exceed output produced and warranted, the excess is entered under the item "revenues entered in advance" on the liabilities side of the balance sheet.

In the same way, when output that is produced and acknowledged in the form of turnover, added to the work that remains to complete the contract, exceeds the total turnover from the contract, a provision for losses upon completion is set up to cover the difference. This provision is entered under the provisions for risks and expenses.

In addition, when the contract contains such a clause, the company enters a guarantee provision in the form of revenues entered in advance.

### **1.12. Own shares**

The SWORD GROUP holds its own shares as part of its shares repurchasing programme as authorised by the Shareholders' General Meeting held on 29 December 2003.

The classification on the balance sheet of its own shares held as a result of the shares repurchasing programme is in accordance with the stated objectives of the programme:

- shares intended for adjustment of the exchange share price (in particular by way of a liquidity agreement) and for allocation to employees, are accounted for among the investment securities, and are subject to a provision for depreciation when the average stock exchange price for the last month of the year is lower than the historic purchase price.
- own shares intended for other purposes (in particular capital reduction) are included in consolidated capital, with provisions for end of year and the results of transfer not affecting the consolidated results.

On 31 December 2003, all SWORD GROUP's own shares that it holds were allocated as investment securities.

### **1.13. Marketable securities**

Marketable securities are valued according to their acquisition cost. If their probable negotiable value at financial year-end (based on the last quoted price or the liquidation value) dips below the purchase price, a provision is set up.

### **1.14. Interests outside the group**

The proportion of the group's equity capital and profits that results from third parties appears in an appropriate item under "liabilities" in the consolidated balance sheet.

### **1.15. Provisions for risks and expenses**

Obligations with regards to third parties, be they legal, regulatory, contractual or implicit, give rise to a provision for risks and expenses if these exist on the closing date and if it has been established that they will lead to an outflow of resources, without an equivalent counter-flow from the parties concerned. A regular review of the elements that go to constitute these provisions (commercial disputes, industrial disputes, losses on completion [see 1.11.], restructuring, etc.) is carried out to make any readjustments that are considered necessary. In view of the age of the company and the average age of its personnel, pension requirements are small and therefore no provision for pension commitments is entered.

### **1.16. Start-up costs**

Start-up costs are entered directly into the costs for the financial year during which they were borne.

### **1.17. Research and development costs**

Research and development costs are entered directly into the costs for the financial year during which they were borne. Internal expenditure devoted to research and development is included in the “wages and social security contributions” item.

### **1.18. Income tax**

Certain restatements posted in the annual financial statements of consolidated companies in order for them to be harmonised with the accounting principles for consolidated financial statements, in addition to certain deferred taxes that appear in the annual financial statements, create temporal differences between taxable income and the restated profit before tax.

Deferred taxes result from the differences between the book and fiscal values of assets and liabilities. These differences give rise to deferred taxes being calculated according to the variable deferral method, which takes into account the terms and conditions for taxation that exist at the end of the financial year.

In the same way, when market shares are acknowledged on the asset side of the balance sheet for the 1<sup>st</sup> consolidation (see note 1.7.), no deferred tax liabilities are taken into account in the difference between the book value and the fiscal value of said market shares. This is due to the fact that these are evaluation discrepancies relating to intangible assets for which the probability of a transfer that is separate from the company that holds them is judged to be small.

### **1.19. Extraordinary profit**

Extraordinary profit takes into account non-operating costs and revenue, as well as any adjustments for management operations that are non-recurring and significant, and therefore justify their status as extraordinary profit.

## **NOTE 2: TRANSITION TO IFRS STANDARDS**

**According to European ruling CE No 1606/2002 of the European Parliament and of the EU Council dated 19 July 2002, publicly quoted European companies will be obliged as of 2005 to use the IAS/IFRS standards for the preparation of their consolidated accounts.**

The main steps planned at SWORD GROUP for the move to IFRS are as follows:

- analysis to evaluate compliance of the organisational and IT systems to produce the required data;
- costing the effect of differences noted and the choice of possible options;
- implementation.

These phases will be implemented under the supervision of a steering committee, made up of members of the Management Committee and the Finance Department as well as outside consultants (accounting and legal), in accordance with the following timetable:

- 2<sup>nd</sup> half of 2003: set up steering committee and carry out analysis
- 1<sup>st</sup> half of 2004: cost differences, select options, and make company's systems comply
- 30 June 2004: cost main impact of the transition on the equity at start and end of the first half-year, and document options selected by the company as well as the main exemptions
- 31 December 2004: prepare accounts according to standard 99-02 and to IFRS standards.

At that date the following items shall be analysed:

- modifications to the IT systems to be implemented, in particular to produce the new data
- adaptation of internal organisational systems and reinforcement of the finance department of the Anglo-Saxon part of the group
- adaptation of the financial policy system

The analysis identified the following differences whose impact has not yet been calculated:

- commitments to staff, in particular payments upon retirement
- leasing
- valuation and depreciation of intangible assets.

## **NOTE 3: HIGHLIGHTS**

The main events during the past financial year have been:

- The set up of SWORD SAS, a wholly owned subsidiary of SWORD SA, and of SWORD SECURITY, a subsidiary owned 60% by FIRCOSOFT.
- The purchase of an additional 3% of SWORD TECHNOLOGIES by SWORD GROUP.
- The acquisition of ZEN & ART by SWORD INC in December 2003.

- On 6 February 2004, SWORD GROUP acquired FI SYSTEM BELGIUM, which owns ASCII, pursuant to authorisation by the PARIS Commercial Court on 15 December 2003 to transfer ownership of FI SYSTEM BELGIUM to the SWORD GROUP.

**NOTE 4: PRO FORMA FINANCIAL STATEMENTS****4.1. Income statement**

| (in thousands of euros)                             | 31/12/03      | 31/12/02      | 31/12/02                | 31/12/03                | 31/12/02      |
|---|---------------|---------------|-------------------------|-------------------------|---------------|
|   | Consolidated  |               | PROFORMA<br>(1)         | PROFORMA (2)            |               |
|   |               |               | 31/12/2002<br>perimeter | 31/12/2003<br>perimeter |               |
| <b>Turnover</b>                                     | <b>55,544</b> | <b>33,441</b> | <b>47,815</b>           | <b>66,016</b>           | <b>58,223</b> |
| Other revenue                                       | 2             | 32            | 220                     | 4                       | 222           |
| <b>REVENUE FROM OPERATIONS</b>                      | <b>55,546</b> | <b>33,473</b> | <b>48,035</b>           | <b>66,020</b>           | <b>58,444</b> |
| Purchase of materials                               | 658           | 487           | 488                     | 658                     | 488           |
| Other external purchases and expenses               | 22,114        | 10,499        | 19,022                  | 24,993                  | 21,949        |
| Taxes and duties                                    | 398           | 151           | 151                     | 417                     | 160           |
| Wages and social contributions                      | 23,218        | 17,448        | 22,569                  | 30,144                  | 28,843        |
| Net depreciation expenses and reserve allocations   | 204           | -604          | -362                    | 358                     | -209          |
| Other operating costs                               | 35            | 5             | 7                       | 36                      | 8             |
| <b>OPERATING COSTS</b>                              | <b>46,626</b> | <b>27,986</b> | <b>41,876</b>           | <b>56,605</b>           | <b>51,240</b> |
| <b>OPERATING PROFIT</b>                             | <b>8,920</b>  | <b>5,486</b>  | <b>6,159</b>            | <b>9,415</b>            | <b>7,205</b>  |
| <b>FINANCIAL RESULT</b>                             | <b>-504</b>   | <b>-793</b>   | <b>-828</b>             | <b>-766</b>             | <b>-846</b>   |
| <b>INCOME FROM ORDINARY OPERATIONS (BEFORE TAX)</b> | <b>8,417</b>  | <b>4,693</b>  | <b>5,331</b>            | <b>8,649</b>            | <b>6,358</b>  |
| <b>EXTRAORDINARY PROFIT</b>                         | <b>-239</b>   | <b>138</b>    | <b>114</b>              | <b>-239</b>             | <b>113</b>    |
| Corporation tax                                     | 2,974         | 1,018         | 1,499                   | 3,069                   | 2,056         |
| Goodwill amortisation                               | 114           | 35            | 35                      | 114                     | 35            |
| <b>OVERALL CONSOLIDATED NET EARNINGS</b>            | <b>5,091</b>  | <b>3,778</b>  | <b>3,911</b>            | <b>5,228</b>            | <b>4,380</b>  |
| Share of minority interests                         | 198           | 116           | 131                     | 198                     | 131           |
| <b>GROUP'S SHARE OF NET EARNINGS</b>                | <b>4,893</b>  | <b>3,662</b>  | <b>3,780</b>            | <b>5,030</b>            | <b>4,249</b>  |

- (1) The pro forma financial statements take into account the acquisitions of 2002, i.e. SWORD TECHNOLOGIES and SWORD ECM over 12 months.
- (2) The pro forma results for the year ending 31/12/2003 include FI BELGIUM and ZEN & ART for both 2002 and 2003.  
Financial charges have been included in the pro forma financial statements. These have been calculated on the total value of acquisitions at 4% for the year.

**4.2. Assets**

(in thousands of euros)

|                                | 31/12/2003 CONSOLIDATED |                 |               | 31/12/2002    | 31/12/2001    | 31/12/2003 PROFORMA 31/12/03 |                 |               |
|--------------------------------|-------------------------|-----------------|---------------|---------------|---------------|------------------------------|-----------------|---------------|
|                                | Gross                   | Deprec.<br>prov | Net           | Net           | Net           | Gros                         | Deprec.<br>prov | Net           |
| <b>FIXED ASSETS</b>            |                         |                 |               |               |               |                              |                 |               |
| Goodwill                       | 1,167                   | 149             | 1,018         | 167           |               | 1,167                        | 149             | 1,018         |
| Intangible fixed assets (1)    | 34,707                  | 277             | 34,430        | 31,394        | 16,657        | 38,529                       | 348             | 38,181        |
| Tangible fixed assets          | 2,459                   | 1,264           | 1,195         | 1,257         | 683           | 3,281                        | 1,726           | 1,556         |
| Financial fixed assets         | 299                     |                 | 299           | 169           | 185           | 299                          | 0               | 299           |
| <b>TOTAL FIXED ASSETS</b>      | <b>38,632</b>           | <b>1,690</b>    | <b>36,941</b> | <b>32,986</b> | <b>17,526</b> | <b>43,276</b>                | <b>2,223</b>    | <b>41,054</b> |
| <b>CURRENT ASSETS</b>          |                         |                 |               |               |               |                              |                 |               |
| Customer accounts receivable   | 17,771                  | 26              | 17,745        | 13,721        | 8,203         | 18,746                       | 26              | 18,720        |
| Other receivables and accruals | 2,952                   | 31              | 2,921         | 2,815         | 1,479         | 3,128                        | 31              | 3,097         |
| Own shares                     | 774                     |                 | 774           | 94            |               | 774                          | 0               | 774           |
| Marketable securities          | 3,024                   | 0               | 3,024         | 31            |               | 3,066                        | 0               | 3,065         |
| Cash reserves                  | 3,764                   |                 | 3,764         | 5,520         | 2,077         | 1,566                        | 0               | 1,566         |
| <b>TOTAL CURRENT ASSETS</b>    | <b>28,285</b>           | <b>58</b>       | <b>28,228</b> | <b>22,182</b> | <b>11,758</b> | <b>27,280</b>                | <b>58</b>       | <b>27,223</b> |
|                                |                         |                 |               |               |               |                              |                 |               |
| <b>OVERALL TOTAL</b>           | <b>66,917</b>           | <b>1,748</b>    | <b>65,169</b> | <b>55,168</b> | <b>29,284</b> | <b>70,556</b>                | <b>2,280</b>    | <b>68,276</b> |

(1) The goodwill of FI SYSTEM and ASCII was entirely allocated to the market shares for a total amount of €3,715,000.

**4.3 Liabilities**

(in thousands of euros)

|  | 31/12/2003    | 31/12/2002    | 31/12/2001    | 31/12/2003<br>PROFORMA |
|--|---------------|---------------|---------------|------------------------|
|  | CONSOLIDATED  |               | (6 months)    | 31/12/03               |
| Capital                                  | 6,161         | 6,161         | 3,620         | 6,161                  |
| Paid-in capital                          | 16,596        | 16,596        | 747           | 16,596                 |
| Reserves – Group share(1)                | 2,512         | 293           | -17           | 2,375                  |
| Net profit – Group share                 | 4893          | 3,662         | 1,203         | 5,030                  |
| <b>EQUITY CAPITAL</b>                    | <b>30,162</b> | <b>26,712</b> | <b>5,553</b>  | <b>30,162</b>          |
| <b>MINORITY INTERESTS</b>                | 1,342         | 1,589         | 517           | 1,342                  |
| <b>OTHER EQUITY CAPITAL</b>              |               |               | 3,354         | 0                      |
| <b>PROVISIONS FOR RISKS AND EXPENSES</b> | 1,104         | 1,358         | 1,318         | 1,404                  |
| Financial debt                           | 14,537        | 8,037         | 9,846         | 14,667                 |
| Current liabilities                      | 4,376         | 6,297         | 3,053         | 5,727                  |
| Other debts and accruals                 | 13,648        | 11,175        | 5,642         | 14,973                 |
| <b>TOTAL LIABILITIES</b>                 | <b>32,560</b> | <b>25,508</b> | <b>18,542</b> | <b>35,367</b>          |
|  |               |               |               |                        |
| <b>OVERALL TOTAL</b>                     | <b>65,169</b> | <b>55,168</b> | <b>29,284</b> | <b>68,276</b>          |

(1) The Group's share of reserves include the negative value of the 2003 results for ZEN & ART (11 months), FI SYSTEM and ASCII prior to the acquisition for a total amount of -€137,000.

**NOTE 5: INCOME STATEMENT****5.1. Sector information**

|  | <b>12/03</b>  | <b>12/02<br/>Pro forma</b> | <b>12/02</b>  |
|--|---------------|----------------------------|---------------|
| <b>Turnover</b>                                | <b>55,544</b> | <b>47,815</b>              | <b>33,441</b> |
| <i>By sector of activity (according to BU)</i> |               |                            |               |
| □ ECM  | 41,789        | 32,452                     | 18,078        |
| □ Consulting                                   | 11,068        | 13,384                     | 13,384        |
| □ Security                                     | 2,687         | 1,979                      | 1,979         |
| <i>By geographic area</i>                      |               |                            |               |
| □ France                                       | 14,496        | 12,248                     | 12,248        |
| □ UK + US                                      | 10,083        | 14,409                     | 13,261        |
| □ Belgium + Luxembourg                         | 20,637        | 14,514                     | 1,288         |
| □ Others                                       | 10,328        | 6,644                      | 6,644         |
| <b>Operating profit</b>                        | <b>8,920</b>  | <b>6,159</b>               | <b>5,486</b>  |
| <i>By sector of activity</i>                   |               |                            |               |
| □ ECM  | 6,756         | 2,828                      | 2,168         |
| □ Consulting                                   | 1,566         | 2,728                      | 2,718         |
| □ Security                                     | 598           | 603                        | 600           |
| <i>By geographic area</i>                      |               |                            |               |
| □ France                                       | 1,528         | 1,956                      | 1,956         |
| □ UK + US                                      | 1,392         | 2,192                      | 2,333         |
| □ Belgium + Luxembourg                         | 3,823         | 1,040                      | 226           |
| □ Others                                       | 2,177         | 971                        | 971           |



|   | <b>12/03</b>  | <b>12/02<br/>Pro forma</b> | <b>12/02</b>  |
|---|---------------|----------------------------|---------------|
| <b>Average workforce of companies incorporated through full consolidation (1)</b> | <b>435</b>    | <b>335</b>                 | <b>255</b>    |
| <i>By sector of activity</i>  |               |                            |               |
| □ ECM   | 331           | 245                        | 164           |
| □ Consulting  | 84            | 76                         | 77            |
| □ Security  | 20            | 14                         | 14            |
| <i>By geographic area</i>   |               |                            |               |
| □ France  | 143           | 141                        | 141           |
| □ UK + US   | 46            | 66                         | 56            |
| □ Belgium + Luxembourg  | 95            | 77                         | 7             |
| □ Others  | 151           | 51                         | 51            |
| <b>Gross fixed assets</b>   | <b>38,632</b> | <b>34,156</b>              | <b>34,156</b> |
| <i>By sector of activity</i>  |               |                            |               |
| □ ECM   | 29,204        | 26,914                     | 26,914        |
| □ Consulting  | 4,818         | 2,733                      | 2,733         |
| □ Security  | 4,610         | 4,509                      | 4,509         |
| <i>By geographic area</i>   |               |                            |               |
| □ France  | 15,397        | 14,369                     | 14,369        |
| □ UK + US   | 12,283        | 9,216                      | 9,216         |
| □ Belgium + Luxembourg  | 10,852        | 10,533                     | 10,533        |
| □ Others  | 100           | 38                         | 38            |

(1) The workforce includes salaried employees only and does not take subcontracted staff into account, including whom the 2003 consolidated workforce would have been 608.

## **5.2 Personnel costs**

Personnel costs amount to €23,218,000 and are analysed in terms of:

| <b>(in thousands of euros)</b> | <b>12/03</b>  | <b>12/02<br/>Pro forma</b> | <b>12/02</b>  |
|--------------------------------|---------------|----------------------------|---------------|
| Gross wages                    | 17,803        | 17,609                     | 13,063        |
| Social contributions           | 5,372         | 4,944                      | 4,369         |
| Stakes and interests           | 43            | 16                         | 16            |
| <b>Total</b>                   | <b>23,218</b> | <b>22,569</b>              | <b>17,448</b> |

*Workforce at year-end:*

|               | <b>12/03</b> | <b>12/02<br/>Pro forma</b> | <b>12/02</b> |
|---------------|--------------|----------------------------|--------------|
| Executive     | 375          | 207                        | 183          |
| Non-executive | 60           | 128                        | 72           |
| <b>Total</b>  | <b>435</b>   | <b>335</b>                 | <b>255</b>   |

**5.3. Net depreciation and operating provisions**

| <b>(in thousands of euros)</b>                                  | <b>12/03</b> | <b>12/02<br/>Pro forma</b> | <b>12/02</b> |
|---|--------------|----------------------------|--------------|
| Net reserve allocation for tangible and intangible fixed assets | 631          | 546                        | 384          |
| Reserve allocation for accounts receivable                      | 7            | (99)                       | (180)        |
| Reserve allocation for other provisions for risks and expenses  | (392)        | (777)                      | (777)        |
| <b>Total</b>  | <b>246</b>   | <b>(330)</b>               | <b>(573)</b> |

**5.4. Financial result**

| <b>(in thousands of euros)</b>         | <b>12/03</b> | <b>12/02<br/>Pro forma</b> | <b>12/02</b> |
|--|--------------|----------------------------|--------------|
| Reserve allocations                    | 539          | 475                        | 475          |
| Net expenses for marketable securities |              |                            |              |
| Financial expenses for loans           | 482          | 509                        | 471          |
| Negative exchange differences          | 635          | 313                        | 313          |
| <b>Total net financial expenses</b>    | <b>1,656</b> | <b>1,297</b>               | <b>1,259</b> |
| Reversal of financial reserves         | 475          |                            |              |
| Revenue from marketable securities     | 2            | 167                        | 167          |
| Other revenues                         | 114          | 66                         | 63           |
| Positive exchange rate differences     | 561          | 236                        | 236          |
| <b>Total financial revenue</b>         | <b>1,152</b> | <b>469</b>                 | <b>466</b>   |
| <b>Financial result</b>                | <b>(504)</b> | <b>(828)</b>               | <b>(793)</b> |

**5.5. Extraordinary profit**

Extraordinary profit can be broken down as follows:

| <b>(in thousands of euros)</b>                                    | <b>12/03</b> | <b>12/02<br/>Pro forma</b> | <b>12/02</b> |
|---|--------------|----------------------------|--------------|
| Capital gains on the disposal of tangible/intangible fixed assets | 9            | (6)                        | (6)          |
| Net reversal of other provisions for risks and expenses           |              | 26                         | 26           |
| Other extraordinary costs and revenues                            | (248)        | 94                         | 118          |
| <b>Extraordinary profit</b>                                       | <b>(239)</b> | <b>114</b>                 | <b>138</b>   |

**5.6. Analysis of income tax expenses****5.6.1. Structure of the corporation tax bill**

| <b>(in thousands of euros)</b>    | <b>12/03</b> | <b>12/02<br/>Pro forma</b> | <b>12/02</b> |
|-----------------------------------|--------------|----------------------------|--------------|
| Income tax on ordinary operations | 3,000        | 1,510                      | 1,029        |
| Deferred taxes (1)                | (26)         | (11)                       | (11)         |
| <b>Total</b>                      | <b>2,974</b> | <b>1,499</b>               | <b>1,018</b> |

(1) See note 1.18.

## 5.6.2. Actual tax rate

| (in thousands of euros)  | <b>12/03</b>  | <b>12/02<br/>Pro forma</b> | <b>12/02</b>  |
|--|---------------|----------------------------|---------------|
| <b>Profit from incorporated companies before tax</b>   | <b>8,064</b>  | <b>5,410</b>               | <b>4,796</b>  |
| <b>Average tax rate in force in France</b>   | <b>34.33%</b> | <b>34.33%</b>              | <b>34.33%</b> |
| <i>Expected tax</i>  | 2,769         | 1,857                      | 1,646         |
| Impact   |               |                            |               |
| <input type="checkbox"/> Final difference between profit before tax and taxable profit           | 40            | (525)                      | (525)         |
| <input type="checkbox"/> Permanent differences on consolidation entries                          | 194           | (58)                       | (58)          |
| <input type="checkbox"/> Exchange rate difference for foreign subsidiaries                       | (25)          | 206                        | (7)           |
| <input type="checkbox"/> Non-activation of corporation tax for tax deficits (prudence principle) | 30            | 223                        | 166           |
| <input type="checkbox"/> Use of tax deficits not taken into account at the start of the year     | (34)          | (204)                      | (204)         |
| <input type="checkbox"/> Miscellaneous   |               |                            |               |
| <i>Actual assessed tax</i>   | 2,974         | 1,499                      | 1,018         |
| <b>Actual tax rate</b>   | <b>36.88%</b> | <b>27.71%</b>              | <b>21.23%</b> |

**5.7. Profit per share**

Undiluted net profit per share is calculated from the average weighted number of shares outstanding during the financial year in question, from which the average weighted number of shares held by consolidated companies is deducted.

- Net diluted profits per share take into account share equivalents, after the deduction of share equivalents held by consolidated companies, which have a dilution effect, and do not take into account share equivalents that do not have a dilution effect.

There was no diluted instrument on 31 December 2003.

| <b>In euros</b>   | <b>12/03</b>     | <b>12/02<br/>Pro forma</b>   | <b>12/02</b>                 |
|---|------------------|------------------------------|------------------------------|
| <i>Undiluted net profit per share</i>   |                  |                              |                              |
| <input type="checkbox"/> Total average number of shares   | 1,232,243        | 1,232,243                    | 1,232,243                    |
| <input type="checkbox"/> Total net profit   | 4,893,015        | 3,779,225                    | 3,661,585                    |
| <input type="checkbox"/> <b>Undiluted net profit per share</b>  | <b>3.97</b>      | <b>3.07</b>                  | <b>2.97</b>                  |
| <i>Diluted net profit per share</i>   |                  |                              |                              |
| <input type="checkbox"/> Total average number of shares   | 1,232,243        | 1,232,243                    | 1,232,243                    |
| <input type="checkbox"/> Number of SWORD SA stock options guaranteed in the form of SWORD GROUP shares (1 SWORD GROUP share for 1 SWORD SA share) |                  | 10,106<br>(share equivalent) | 10,106<br>(share equivalent) |
| <input type="checkbox"/> <b>Total number of securities</b>  | <b>1,232,243</b> | <b>1,242,439</b>             | <b>1,242,349</b>             |
| <input type="checkbox"/> Total net profit   | 4,893,015        | 3,779,225                    | 3,661,585                    |
| <input type="checkbox"/> <b>Net diluted profit per share</b>  | <b>3.97</b>      | <b>3.04</b>                  | <b>2.95</b>                  |

**5.8. Cash flow**

| (in thousands of euros)            | 12/03        | 12/02            | 12/02        |
|------------------------------------|--------------|------------------|--------------|
|                                    |              | <i>Pro forma</i> |              |
| Profit from consolidated companies | 4,893        | 3,911            | 3,778        |
| Depreciation                       | 744          | 546              | 419          |
| Provisions                         | (230)        | (427)            | (401)        |
| Deferred taxes                     | (26)         | (11)             | (11)         |
| <b>Gross cash flow</b>             | <b>5,381</b> | <b>4,019</b>     | <b>3,785</b> |
| Profit from the sale of assets     | 9            | (6)              | (6)          |
| <b>Overall cash flow</b>           | <b>5,372</b> | <b>4,025</b>     | <b>3,791</b> |

**NOTE 6: INTANGIBLE FIXED ASSETS**

The company applies the provisions laid down in Regulation CRC 2002-10 relating to the amortisation and depreciation of intangible assets. The valuation of the market shares that appears as an asset in the consolidated balance sheet is systematically subject to independent, expert opinion at a date close to that of the acquisition. Each year, an independent expert carries out a depreciation test (impairment) that aims to check that the true value of the market shares posted on the balance sheet is equal to or greater than their book value. Where appropriate, a provision for depreciation is posted in the accounts in order to bring their book value down to their true value. In this respect, no depreciation took place in 2003.

**6.1. Item breakdown**

| (in thousands of euros)                 | 31/12/2002    |              |               |
|---|---------------|--------------|---------------|
|   | Gross value   | Depreciation | Net value     |
| Software, other intangible fixed assets | 217           | (137)        | 80            |
| Market shares                           | 31,314        |              | 31,314        |
| Goodwill                                | 202           | (35)         | 167           |
| <b>Total</b>                            | <b>31,733</b> | <b>(172)</b> | <b>31,561</b> |

On 31 December 2002, market shares include:

- **"ECM" segment**
  - SWORD Inc, €1,797,000
  - SWORD SA, €8,517,000
  - SWORD SUISSE, €36,000
  - SWORD ECM Ltd, €4,880,000
  - SWORD TECHNOLOGIES SA, €9,794,000
- **Security segment**
  - FIRCOSOFT SA, €4,307,000
  - FIRCOSOTF Inc, €121,000
- **Contulting segment**
  - DDS EUROPE LIMITED, €1,378,000
  - SWORD CONSULTING, €484,000

| (in thousands of euros)                 | 31/12/2003    |              |               |
|---|---------------|--------------|---------------|
|   | Gross value   | Depreciation | Net value     |
| Software, other intangible fixed assets | 323           | (277)        | 46            |
| Market shares                           | 34,384        |              | 34,384        |
| Goodwill                                | 1,167         | (149)        | 1,018         |
| <b>Total</b>                            | <b>35,874</b> | <b>(426)</b> | <b>35,448</b> |

On 31<sup>st</sup> December 2003, market shares include:

|                             |            |
|-----------------------------|------------|
| - <b>"ECM" segment</b>      |            |
| - SWORD Inc,                | €1,797,000 |
| - SWORD SA,                 | €8,580,000 |
| - SWORD SUISSE,             | €36,000    |
| - SWORD ECM Ltd,            | €4,709,000 |
| - SWORD TECHNOLOGIES SA,    | €9,905,000 |
| - ZEN ET ART,               | €3,067,000 |
| - <b>Security segment</b>   |            |
| - FIRCOSOFT SA,             | €4,307,000 |
| - FIRCOSOTF Inc,            | €121,000   |
| - <b>Contulting segment</b> |            |
| - DDS EUROPE LIMITED,       | €1,378,000 |
| - SWORD CONSULTING,         | €484,000   |

## **6.2. Movements for the period**

| (in thousands of euros)              | 12/02         | Acquisition<br>s reserve<br>allocations | Sale of<br>assets | MEE | Perimeter<br>movement<br>s | 12/03         |
|--------------------------------------|---------------|---|-------------------|-----|----------------------------|---------------|
| <b>Market shares</b>                 |               |   |                   |     |                            |               |
| Gross value                          | 31,314        | 3,070                                   |                   |     |                            | 34,384        |
| Depreciation                         | -             |   |                   |     |                            |               |
| Net                                  | 31,314        | 3,070                                   |                   |     |                            | 34,384        |
| <b>Goodwill</b>                      |               |   |                   |     |                            |               |
| Gross value                          | 202           | 965                                     |                   |     |                            | 1,167         |
| Depreciation                         | (35)          | (114)                                   |                   |     |                            | (149)         |
| Net                                  | 167           | 851                                     |                   |     |                            | 1,018         |
| <b>Other intangible fixed assets</b> |               |   |                   |     |                            |               |
| Gross value                          | 217           | 110                                     | (4)               |     |                            | 323           |
| Depreciation                         | (137)         | (140)                                   |                   |     |                            | (277)         |
| Net                                  | 80            | (30)                                    | (4)               |     |                            | 46            |
| <b>Total</b>                         | <b>31,561</b> | <b>3,891</b>                            | <b>(4)</b>        |     |                            | <b>35,448</b> |

The increase in acquisition variations is due to:

- €651,000 taken into account to correct an error in the original valuation of the identifiable liabilities of SWORD SA (provision for losses on a long-term contract),
- purchase of minority interests in DDS Europe Limited and SWORD ECM, in the sum of €314,000.

## **NOTE 7: TANGIBLE FIXED ASSETS**

### **7.1. Item breakdown**

| (in thousands of euros) | 31/12/02     |              |              |
|-------------------------|--------------|--------------|--------------|
|                         | Gross value  | Depreciation | Net value    |
| Land                    | -            | -            | -            |
| Buildings               | 180          | (61)         | 119          |
| Transport equipment     | 72           | (16)         | 56           |
| Fixtures-installations  | 410          | (111)        | 299          |
| Office and IT equipment | 1,320        | (704)        | 616          |
| Office furnishings      | 272          | (106)        | 166          |
| <b>Total</b>            | <b>2,254</b> | <b>(998)</b> | <b>1,256</b> |

| (in thousands of euros) | 31/12/03     |                |              |
|-------------------------|--------------|----------------|--------------|
|                         | Gross value  | Depreciation   | Net value    |
| Land                    | -            | -              | -            |
| Buildings               | 166          | (73)           | 93           |
| Transport equipment     |              |                |              |
| Fixtures-installations  | 498          | (192)          | 306          |
| Office and IT equipment | 1,466        | (887)          | 579          |
| Office furnishings      | 329          | (112)          | 217          |
| <b>Total</b>            | <b>2,459</b> | <b>(1,264)</b> | <b>1,195</b> |

**7.2. Movements for the period**

| (in thousands of euros)        | 12/02        | Acquisition<br>s reserve<br>allocations | Sale of<br>assets | Perimeter<br>movement<br>s | 12/03        |
|--------------------------------|--------------|---|-------------------|----------------------------|--------------|
| <b>Land</b>                    |              |   |                   |                            |              |
| Gross value                    |              |   |                   |                            |              |
| Depreciation                   |              |   |                   |                            |              |
| Net                            |              |   |                   |                            |              |
| <b>Buildings</b>               |              |   |                   |                            |              |
| Gross value                    | 180          |   | (14)              |                            | 166          |
| Depreciation                   | (61)         | (17)                                    | 5                 |                            | (73)         |
| Net                            | 119          | (17)                                    | (9)               |                            | 93           |
| <b>Equipment and tools</b>     |              |   |                   |                            |              |
| Gross value                    |              |   |                   |                            |              |
| Depreciation                   |              |   |                   |                            |              |
| Net                            |              |   |                   |                            |              |
| <b>Transport equipment</b>     |              |   |                   |                            |              |
| Gross value                    | 72           |   | (72)              |                            |              |
| Depreciation                   | (16)         |   | 16                |                            |              |
| Net                            | 56           |   | (56)              |                            |              |
| <b>Fixtures-installations</b>  |              |   |                   |                            |              |
| Gross value                    | 410          | 98                                      | (10)              |                            | 498          |
| Depreciation                   | (111)        | (85)                                    | 4                 |                            | (192)        |
| Net                            | 299          | 13                                      | (6)               |                            | 306          |
| <b>IT and office equipment</b> |              |   |                   |                            |              |
| Gross value                    | 1 320        | 331                                     | (185)             |                            | 1 466        |
| Depreciation                   | (704)        | (336)                                   | 153               |                            | (887)        |
| Net                            | 616          | (5)                                     | (32)              |                            | 579          |
| <b>Office furnishings</b>      |              |   |                   |                            |              |
| Gross value                    | 272          | 104                                     | (47)              |                            | 329          |
| Depreciation                   | (106)        | (53)                                    | 47                |                            | (112)        |
| Net                            | 166          | 51                                      | -                 |                            | 217          |
| <b>Total</b>                   | <b>1,256</b> | <b>42</b>                               | <b>(103)</b>      |                            | <b>1,195</b> |

**NOTE 8: FINANCIAL FIXED ASSETS**

Financial fixed assets are principally made up of deposits and securities in SWORD SA and SWORD SUISSE, as well as a stake of 3.3% in SBT by SWORD DDS FRANCE.

**NOTE 9: OPERATING RECEIVABLES****Item breakdown**

| (in thousands of euros)                                | 12/02         |            |               |
|--|---------------|------------|---------------|
|  | Gross value   | Provisions | Net value     |
| Operating receivables and customer accounts receivable | 13,812        | 91         | 13,721        |
| Other receivables                                      | 2,428         | 31         | 2,397         |
| Prepaid expenses                                       | 328           |            | 328           |
| Deferred tax assets                                    | 90            |            | 90            |
| <b>Total</b>   | <b>16,658</b> | <b>122</b> | <b>16,536</b> |

| (in thousands of euros)                                | 12/03         |            |               |
|--|---------------|------------|---------------|
|  | Gross value   | Provisions | Net value     |
| Operating receivables and customer accounts receivable | 17,771        | 26         | 17,745        |
| Other receivables (1)                                  | 2,460         | 31         | 2,429         |
| Prepaid expenses                                       | 445           |            | 445           |
| Deferred tax assets                                    | 47            |            | 47            |
| <b>Total</b>   | <b>20,723</b> | <b>57</b>  | <b>20,666</b> |

(1) Other receivables include principally taxes and social payments.

**NOTE 10: CHANGES IN EQUITY CAPITAL AND MINORITY INTERESTS****Group's share**

| (in thousands of euros)   | 31/12/2002    | Allocation of profit | Profit for the financial year | Dividends paid by the parent company | Perimeter variation | Own shares (1) | Currency differences (2) | 31/12/2003    |
|---------------------------|---------------|----------------------|-------------------------------|--------------------------------------|---------------------|----------------|--------------------------|---------------|
| Capital                   | 6,161         |                      |                               |                                      |                     |                |                          | 6,161         |
| Paid-in capital           | 16,596        |                      |                               |                                      |                     |                |                          | 16,596        |
| Social reserves           |               | 68                   |                               |                                      |                     |                |                          | 68            |
| Consolidation reserves    | 722           | 3,594                |                               | (1,380)                              | 38                  | 448            |                          | 3,422         |
| Foreign currency reserves | (430)         |                      |                               |                                      |                     |                | (548)                    | (978)         |
| Profit                    | 3,662         | (3,662)              | 4,893                         |                                      |                     |                |                          | 4,893         |
| <b>TOTAL</b>              | <b>26,712</b> | <b>0</b>             | <b>4,893</b>                  | <b>(1,380)</b>                       | <b>38</b>           | <b>448</b>     | <b>(548)</b>             | <b>30,162</b> |

- (1) Own shares attributed to a capital loss at the end of the previous financial year (€527,000) were disposed of during 2003, creating a net, taxable capital loss of €79,000 on the companies.
- (2) The sum of the currency exchange differences of accounts receivable and payable denoted in foreign currency, for which payment is neither scheduled nor likely to occur in the future, is €200,000.

**Minority interests**

| <b>(in thousands of euros)</b> | <b>31/12/2002</b> | <b>Reserves</b> | <b>Profit for the financial year</b> | <b>Dividends paid</b> | <b>Perimeter variation</b> | <b>31/12/2003</b> |
|--------------------------------|-------------------|-----------------|--------------------------------------|-----------------------|----------------------------|-------------------|
| Non-group reserves             | 1,473             | 116             |                                      | (121)                 | (324)                      | 1,144             |
| Non-group profit               | 116               | (116)           | 198                                  |                       |                            | 198               |
| <b>TOTAL</b>                   | <b>1,589</b>      | <b>0</b>        | <b>198</b>                           | <b>(121)</b>          | <b>(324)</b>               | <b>1,342</b>      |

**Capital stock and securities that give access to capital****➤ Capital stock**

Capital stock consisted of 8,000 shares with a face value of 5 euros on the date SWORD GROUP was created in June 2001.

The extraordinary shareholder meeting of 30 August 2001 voted for an increase in capital of €3,412,000 to pay SWORD SA shareholders, who contributed all their SWORD SA shares to SWORD GROUP.

On 31 December 2001, following the exercising of 33,568 stock warrants by Jacques Mottard, capital stock was increased by a further €168,000.

On 27 February 2002, following the exercising of 123,072 stock warrants by the company 21 CENTRAL PARTNER, capital stock was increased by €615,000 (123,072 new shares) with paid-in capital of €2,769,000.

On 12 March 2002 the board of directors ordered an increase in the capital reserved for the VCF 21 DEVELOPPEMENT of €630,000 (126,089 new shares) with paid-in capital of €4,665,000.

On 20 March 2002 the board of directors ordered an increase in capital of €1,295,000 (259,020 new shares) with paid-in capital of €9,584,000 with the intention of floating the company on the stock market.

On 31 December 2002, capital stock stands at €6,161,215 divided into 1,232,243 shares with a face value of €5.



**NOTE 11: LONG-TERM AND SHORT-TERM PROVISIONS****11.1. Item breakdown**

| (in thousands of euros)                     | 31/12/2002 |            |       |
|---|------------|------------|-------|
|   | Long Term  | Short Term | Total |
| Provision for legal risks                   |            | 137        | 137   |
| Other provisions for risks and expenses (1) |            | 1,221      | 1,221 |
| <b>Total</b>                                |            | 1,358      | 1,358 |

| (in thousands of euros)                     | 31/12/2003 |            |       |
|---|------------|------------|-------|
|   | Long Term  | Short Term | Total |
| Provision for legal risks                   |            | 114        | 114   |
| Other provisions for risks and expenses (1) |            | 990        | 990   |
| <b>Total</b>                                |            | 1,104      | 1,104 |

(q) This is the charge arising from the undertaking to repurchase SWORD SA shares as part of the stock options contracts, for a sum of €290,000 at the end of the 2002 financial year, and for €538,000 at the end of 2003, the rest being mainly provisions for disagreement risks.

**11.2. Movements for the period**

| (in thousands of euros)  | 31/12/2002   | Reserve allocations over the financial year | Sums carried over from the financial year (1) | Perimeter movements | 31/12/2003   |
|--|--------------|---|---|---------------------|--------------|
| <b>Operations</b>  |              |   |   |                     |              |
| - Reserve allocations for legal risks  |              |   |   |                     |              |
| - Other provisions for risks and expenses  | 664          | 346   | (724)   |                     | 286          |
| <b>Financial</b>   |              |   |   |                     |              |
| Provision for exchange rate losses   | 86           |   | (86)  |                     | -            |
| Provision for costs relating to the repurchasing agreement within the scope of stock options | 290          | 538   | (290)   |                     | 538          |
| <b>Extraordinary</b>   |              |   |   |                     |              |
| - Reserve allocations for legal risks  | 137          |   | (23)  |                     | 114          |
| - Other provisions for risks and expenses  | 181          |   | (15)  |                     | 166          |
| <b>TOTAL</b>   | <b>1,358</b> | <b>884</b>                                  | <b>(1,138)</b>                                |                     | <b>1,104</b> |

**NOTE 12: NET DEBT****12.1. Item breakdown by nature of the debt**

| (in thousands of euros)                 | 12/03         | 12/02        |
|---|---------------|--------------|
| Other long-term and short-term loans    | 13,076        | 8,037        |
| Other LT financial debts                |               |              |
| Bank loans and overdrafts               | 1,461         |              |
| <b>Total gross debt</b>                 | <b>14,537</b> | <b>8,037</b> |
| Financial current accounts (debit side) |               |              |
| Own shares                              | 774           | 94           |
| Marketable securities                   | 3,024         | 31           |
| Cash and similar                        | 3,764         | 5,520        |
| <b>Total net debt</b>                   | <b>6,975</b>  | <b>2,392</b> |

**12.2 Breakdown of loans by maturity date**

| (in thousands of euros) | 12/03         | 12/02        |
|-------------------------|---------------|--------------|
| <b>Maturity date</b>    |               |              |
| < 1 year                | 10,878        | 3,159        |
| 1 year < X > 5 years    | 3,659         | 4,878        |
| > 5 years               |               |              |
| <b>Total (1)</b>        | <b>14,537</b> | <b>8,037</b> |

The main loans were contracted at the 3-month Euribor interest rate of +1.5.

**NOTE 13: OPERATING DEBTS**

| (in thousands of euros)                    | 12/03         | 12/02         |
|--|---------------|---------------|
| Accounts payable and other operating debts | 4,514         | 6,297         |
| Tax and social debts                       | 9,870         | 5,915         |
| Other debts                                | 295           | 1,777         |
| Deferred income                            | 3,345         | 3,482         |
| <b>Total</b>                               | <b>18,024</b> | <b>17,471</b> |

**NOTE 14: CONTINGENT LIABILITIES**

Breakdown by nature

|  | Total         | 31/12/2003                |                          |                             |
|--|---------------|---------------------------|--------------------------|-----------------------------|
|  |               | Payments due per period   |                          |                             |
|  |               | Within less than one year | Within one to five years | Within more than five years |
| <b>Contractual obligation</b>            |               |                           |                          |                             |
| Long term debt                           |               |                           |                          |                             |
| Lease obligations                        |               |                           |                          |                             |
| Simple lease contract                    | 1,186         | 489                       | 545                      | 152                         |
| Irrevocable purchasing obligations       |               |                           |                          |                             |
| Other long term obligations              |               |                           |                          |                             |
| <b>Total</b>                             | <b>1,186</b>  | <b>489</b>                | <b>545</b>               | <b>152</b>                  |
| <b>Other commercial commitments</b>      |               |                           |                          |                             |
| Credit facilities (1)                    | 9,147         | 5,488                     | 3,659                    |                             |
| Securities pledging (2)                  | 2,422         | 113                       | 686                      | 1,623                       |
| Letters of credit                        |               |                           |                          |                             |
| Guarantee                                | 870           | 311                       | 559                      |                             |
| Commitment to repurchase own shares (3)  |               |                           |                          |                             |
| Commitment to pay a price complement (4) | 738           | 738                       |                          |                             |
| Other commercial commitments (5)         | 104           |                           |                          | 104                         |
| <b>Total</b>                             | <b>13,281</b> | <b>6,650</b>              | <b>4,904</b>             | <b>1,727</b>                |
| <b>Commitments received</b>              |               |                           |                          |                             |
| Guarantee received on a project          |               |                           |                          |                             |
| Other commitments received (5)           | 197           |                           |                          | 197                         |
| <b>Total</b>                             | <b>197</b>    |                           |                          | <b>197</b>                  |

- (1) SWORD GROUP allocates and delegates the following in the form of commercial collateral as a guarantee for current bank loans of €9,147,000, of which €7,318,000 were used as of 31 December 2003:
- Collateral from the 3 businesses acquired in December 2000: IDP, IDL and SWP
  - An account pledge for financial instruments relating to the shares of FIRCOSOFT PARIS (value of the shares: €4,798,000)
- (2) SWORD GROUP has laid down the shares of SWORD DDS France as collateral, and is not permitted to modify the distribution of capital of said company without prior agreement from SICOMI RHONE-ALPES (value of the shares: €38,000). This collateral is provided as a guarantee for the rent of the company offices.
- (3) Agreement to repurchase SWORD SA shares:
- In an effort to maintain the rights of the beneficiaries of SWORD SA's stock options plan, and subsequent to approval from the Commission des Opérations de Bourse, SWORD GROUP agreed with these optionees that it would repurchase any new shares that should result from them exercising their rights as part of said plan at a unit price set according to the stock market value SWORD GROUP shares.

The terms of the stock options plan that apply at SWORD SA, and to which the SWORD GROUP repurchasing commitment relates, are as follows:

## Reference Document / 2003 Annual Report – SWORD GROUP

- *Optionees*: options are intended solely for employees of one of the SWORD Group's companies who have been at the company for more than two years at the time the options are exercised.
- *Number of options issued*: 15,700 options (1 share per option), which corresponds to a maximum capital increase of €78,500; the options allocation plan was closed on 29 October 2001. As at 31 December 2003, the number of outstanding SWORD SA shares came out to 10,400.
- *Subscription price for new shares*: the subscription price has been set to the face value, that is 5 euros.
- *Time limit for exercising options*: optionees will only be able to exercise the options after a 2-year freezing period and for a period of three years only. On 31 December 2003, 1,500 options had been exercised.

On 31 December 2003, SWORD GROUP held 12,050 shares intended to cover the cost of this agreement to repurchase.

(4) There is an undertaking to make an additional payment for the acquisition of the goodwill of ZEN & ART if certain targets are attained.

(5) SWORD GROUP has provided collateral to DEXIA Bank International to the value of €100,000. DEXIA has provided warranties to the European Commission.

(6) SWORD GROUP has received a guarantee from KBC Bank for the rental of premises located at rue Joseph 9/13, Brussels, and those at 105, route d'Arlon, Luxembourg.

No significant off-balance-sheet commitment has been omitted.

|   | <b>31/12/2002</b> |                                    |                         |                           |
|---|-------------------|------------------------------------|-------------------------|---------------------------|
|   | <b>Total</b>      | <b>Payments due per period</b>     |                         |                           |
|   |                   | <b>Within more than five years</b> | <b>De un à cinq ans</b> | <b>A plus de cinq ans</b> |
| <b>Contractual obligation</b>           |                   |                                    |                         |                           |
| Long term debt                          |                   |                                    |                         |                           |
| Lease obligations                       |                   |                                    |                         |                           |
| Simple lease contract                   | 1,051             | 489                                | 410                     | 152                       |
| Irrevocable purchasing obligations      |                   |                                    |                         |                           |
| Other long term obligations             |                   |                                    |                         |                           |
| <b>Total</b>                            | <b>1,051</b>      | <b>489</b>                         | <b>410</b>              | <b>152</b>                |
|   |                   |                                    |                         |                           |
| <b>Other commercial commitments</b>     |                   |                                    |                         |                           |
| Credit facilities (1)                   | 9,147             | 4,269                              | 4,878                   |                           |
| Securities pledging (2)                 | 2,476             | 54                                 | 653                     | 1,769                     |
| Letters of credit                       |                   |                                    |                         |                           |
| Guarantee                               |                   |                                    |                         |                           |
| Commitment to repurchase own shares (3) |                   |                                    |                         |                           |
| Other commercial commitments (4)        | 104               |                                    |                         | 104                       |
| <b>Total</b>                            | <b>11,727</b>     | <b>4,323</b>                       | <b>5,531</b>            | <b>1,873</b>              |
|   |                   |                                    |                         |                           |
| <b>Commitments received</b>             |                   |                                    |                         |                           |
| Guarantee received on a project         |                   |                                    |                         |                           |
| Other commitments received (5)          | 197               |                                    |                         | 197                       |
| <b>Total</b>                            | <b>197</b>        |                                    |                         | <b>197</b>                |

**NOTE 15: REMUNERATION FOR MEMBERS OF THE ADMINISTRATIVE AND DIRECTORS' BOARDS**

The members (nine people) of the directors' and operational boards collectively received a gross payment of €743,000 for the financial year ending 31 December 2003. The appearance fees collected by the members of the board of directors came to €31,000.

**NOTE 16: LIST OF CONSOLIDATED COMPANIES**

| Company                         | Closing date | 31 <sup>st</sup> December 2003 |         | Consolidation method |
|---------------------------------|--------------|--------------------------------|---------|----------------------|
|                                 |              | % controlled                   | % stake |                      |
| SWORD GROUP (parent company)    | 31/12        | 100 %                          | 100 %   | Full consolidation   |
| SWORD SA                        | 31/12        | 99.78 %                        | 99.78 % | Full consolidation   |
| SWORD Création Informatique Ltd | 31/12        | 100 %                          | 100 %   | Full consolidation   |
| SWORD SOUTH AFRICA Ltd          | 31/12        | 60 %                           | 60 %    | Full consolidation   |
| FIRCOSOFT                       | 31/12        | 98.22%                         | 98.03 % | Full consolidation   |
| FIRCOSOFT Inc                   | 31/12        | 100 %                          | 98.03 % | Full consolidation   |
| SWORD Inc (*)                   | 31/12        | 100 %                          | 100 %   | Full consolidation   |
| SWORD CONSULTING                | 31/12        | 100 %                          | 99.78 % | Full consolidation   |
| DDS EUROPE LIMITED              | 31/12        | 99.42 %                        | 99.42 % | Full consolidation   |
| SWORD SUISSE                    | 31/12        | 94.80 %                        | 94.80 % | Full consolidation   |
| SWORD DDS FRANCE                | 31/12        | 99.88 %                        | 99.66 % | Full consolidation   |
| SWORD ECM Ltd                   | 31/12        | 94.39%                         | 93.84%  | Full consolidation   |
| SWORD TECHNOLOGIES SA           | 31/12        | 93%                            | 93%     | Full consolidation   |
| SWORD SAS                       | 31/12        | 100%                           | 99.78%  | Full consolidation   |
| SWORD SECURITY SA               | 31/12        | 60%                            | 58.82%  | Full consolidation   |

(\*)Statutory accounts closed on 30 June.

## 4.2 Corporate financial statements

### SWORD GROUP SA – INCOME STATEMENT AS OF 31 DECEMBER 2003

12-month financial year ending 31<sup>st</sup> December 2003

| (in thousands of euros)                                       | 31/12/2003   | 31/12/2002   | 31/12/2001<br>(6 months) |
|---|--------------|--------------|--------------------------|
| Turnover  | 2,027        | 904          | 229                      |
| Fixed production assets                                       |              |              |                          |
| Other revenue   | 0            | 153          | 0                        |
| <b>OPERATING REVENUE</b>                                      | <b>2,027</b> | <b>1,057</b> | <b>229</b>               |
| Consumed purchases  |              |              |                          |
| Other purchases and external costs                            | 1,063        | 813          | 33                       |
| Taxes and duties  | 13           | 9            | 3                        |
| Personnel costs   | 728          | 325          | 193                      |
| Net reserve allocations for provisions and depreciation       |              | 16           |                          |
| Other operating costs   | 31           | 0            |                          |
| <b>OPERATING COSTS</b>  | <b>1,835</b> | <b>1,163</b> | <b>229</b>               |
| <b>OPERATING PROFIT</b>                                       | <b>192</b>   | <b>-106</b>  | <b>-1</b>                |
| <b>FINANCIAL RESULT</b>                                       | <b>3,036</b> | <b>1,065</b> | <b>-61</b>               |
| <b>PROFIT FROM ORDINARY OPERATIONS BEFORE CORPORATION TAX</b> | <b>3,228</b> | <b>959</b>   | <b>-62</b>               |
| <b>EXTRAORDINARY PROFIT</b>                                   | <b>-124</b>  | <b>-3</b>    | <b>0</b>                 |
| Corporation tax   | 26           | -457         |                          |
| <b>NET PROFIT</b>   | <b>3,077</b> | <b>1,413</b> | <b>-62</b>               |

**SWORD GROUP SA – BALANCE SHEET AS OF 31 DECEMBER 2003 - ASSETS****12-MONTH FINANCIAL YEAR ENDING 31 December 2003**

| (in thousands of euros)                   | 31/12/2003 (12 months) |                             |               | 31/12/2002    | 31/12/2003    |
|---|------------------------|-----------------------------|---------------|---------------|---------------|
|   | Gross                  | Depreciations<br>Provisions | Net           | Net           | Net           |
| <b>FIXED ASSETS</b>                       |                        |                             |               |               |               |
| Intangible assets                         | 10                     |                             | 10            | 10            | 204           |
| Tangible assets                           |                        |                             | 0             | 56            | 0             |
| Financial assets                          | 22,862                 |                             | 22,862        | 19,668        | 9,833         |
| <b>TOTAL FIXED ASSETS</b>                 | <b>22,872</b>          | <b>0</b>                    | <b>22,872</b> | <b>19,734</b> | <b>10,037</b> |
| <b>CURRENT ASSETS</b>                     |                        |                             |               |               |               |
| Customer accounts receivable              | 21                     |                             | 21            | 252           | 9             |
| Other accounts receivable and<br>accruals | 6,824                  |                             | 6,824         | 5,367         | 72            |
| Own shares                                | 645                    | 0                           | 645           | 95            |               |
| Other marketable securities               | 3,153                  |                             | 3,153         | 30            |               |
| Cash                                      | 474                    |                             | 474           | 1,641         | 218           |
| <b>TOTAL CURRENT ASSETS</b>               | <b>11,118</b>          | <b>0</b>                    | <b>11,118</b> | <b>7,385</b>  | <b>299</b>    |
|   |                        |                             |               |               |               |
| <b>OVERALL TOTAL</b>                      | <b>33,990</b>          | <b>0</b>                    | <b>33,990</b> | <b>27,119</b> | <b>10,336</b> |



**SWORD GROUP SA – BALANCE SHEET AS OF 31 DECEMBER 2003 - LIABILITIES**

**12-MONTH FINANCIAL YEAR ENDING 31 December 2003**

| <b>(in thousands of euros)</b>    | <b>31/12/2003</b> | <b>31/12/2002</b> | <b>31/12/2001<br/>(6 months)</b> |
|-----------------------------------|-------------------|-------------------|----------------------------------|
| <b>PERMANENT CAPITAL</b>          |                   |                   |                                  |
| Capital                           | 6,161             | 6,161             | 3,620                            |
| Paid-in capital                   | 16,596            | 16,596            | 747                              |
| Undistributed profit              | 68                | -62               |                                  |
| Net profit                        | 3,077             | 1,413             | -62                              |
| <b>EQUITY CAPITAL</b>             | <b>25,806</b>     | <b>24,109</b>     | <b>4,305</b>                     |
| Other equity capital              | 132               | 132               | 3,459                            |
| <b>TOTAL PERMANENT CAPITAL</b>    | <b>25,938</b>     | <b>24,241</b>     | <b>7,764</b>                     |
| Provisions for risks and expenses |                   | 86                |                                  |
| Financial debts                   | 7,047             | 659               | 2,369                            |
| <b>CURRENT LIABILITIES</b>        |                   |                   |                                  |
| Customer accounts receivable      | 291               | 461               | 148                              |
| Other debts and accruals          | 713               | 1,672             | 55                               |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>8,052</b>      | <b>2,792</b>      | <b>203</b>                       |
| <b>OVERALL TOTAL</b>              | <b>33,990</b>     | <b>27,119</b>     | <b>10,336</b>                    |

## **ANNEXE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

This is the annexe to the balance sheet prior to the breakdown of the financial year ending 31 December 2003, which totals €33,989,771.08, and to the financial statement for the financial year, presented in the form of a list, which shows profits of €3,077,041.38.

The financial year lasts 12 months and covers the period from 01/01/2003 to 31/12/2003.

SWORD GROUP was created in June 2001. It became the holding company for the SWORD group on 30 August 2001 when SWORD SA shareholders contributed all their SWORD shares to SWORD GROUP.

Since 30 August 2001, SWORD GROUP has acquired the shares of the following companies: DDS, SWORD SUISSE, SWORD Inc and SWORD South Africa, all subsidiaries of SWORD SA.

In December 2002, it acquired 90% of the capital of SWORD TECHNOLOGIES, a company based in Luxembourg.

In January 2003, it acquired 3% of the capital of SWORD TECHNOLOGIES.

In November 2003, it participated in the increase in capital carried out by SWORD INC.

Its activities are exclusively devoted to:

- the management of the SWORD GROUP's stakes
- making central services available to subsidiaries (general, financial, commercial and strategic management) through an agreement to provide management services.

### **NOTE 1: ACCOUNTING RULES AND PRINCIPLES**

The notes or tables that appear hereafter form an integral part of the annual financial statements.

General accounting conventions have been applied, in accordance with the prudence principle, and founded on these basic assumptions:

- the continuity of operations,
- the permanent nature of accounting methods from one financial year to the next,
- the independence of financial years,

and in accordance with the general rules for establishing and presenting annual financial statements.

The application, as of January 2002, of Regulation CRC 2000-06 relating to liabilities and provisions for risks and expenses, has had no effect on the financial statements for the financial year 2003.

#### **1.1. Intangible fixed assets**

Intangible fixed assets relate to the trademark SWORD, which was purchased during the course of the previous financial year.

#### **1.2. Tangible fixed assets**

The company does not possess any tangible fixed assets.

The company does not possess any movable or immovable assets financed under a lease system.

#### **1.3. Financial fixed assets**

Financial fixed assets consist of equity interests and of paid and recoverable guarantee deposits for own shares.

Equity interests are evaluated according to their historical cost. At the close of each financial year, provisions for depreciation are set up based on possible capital losses between the book value and the inventory value. The inventory value is assessed using the same criteria as those used for consolidated financial statements (in particular with regards to the value of subsidiaries' fixed tangible assets), if we take into account the fact that the value of shares in the annual financial statements of SWORD GROUP cannot be significantly greater than the value of the subsidiary in the consolidated financial statements.

The company's own shares held are not recorded as financial fixed assets at the end of the financial year, since the purchase contracts specify their applications. They are accordingly classified as marketable securities.

#### **1.4. Operating accounts receivable**

These are assessed at face value and are essentially comprised of accounts receivable from subsidiaries. A provision for the depreciation of customer accounts receivable is set up when a risk that these accounts

#### 1.5. Own shares

SWORD GROUP holds its own shares within the scope of:

-a share repurchasing programme

-a liquidity agreement

Own shares held within the scope of the share repurchasing programme are entered as fixed securities (fixed financial assets) insofar as the objective of share repurchasing (allocation to employees) was quantified from the outset. They give rise to a provision for depreciation when the average market price in the last month of the year dips below the historical share price.

Own shares held within the scope of the liquidity agreement are entered as marketable securities. They give rise to a provision for depreciation when the average market price in the last month of the year dips below the historical share price.

#### 1.6. Provisions for risks and expenses

The risks and expenses identified on the closing date give rise to provisions established in accordance with the rules of prudence. A regular review of the elements that constitute these provisions (industrial disputes, exchange rate risks, subsidiary risks, etc.) is carried out in order to make any readjustments that are considered necessary.

In view of the age of the company and the average age of its personnel, pension requirements are small and therefore no provision for pension commitments is entered.

#### 1.7. Extraordinary profit

Extraordinary profit includes non-operating costs and revenues, as well as any adjustments for management operations that are non-recurring and significant, and therefore justify their categorisation as extraordinary profit.

It also includes asset disposal loss of the company's own shares in the first repurchase contract, which were classified as fixed assets.

#### 1.8. Corporation tax

As of 1 January 2002, SWORD GROUP opted for the fiscal consolidation tax regime. According to the convention for fiscal consolidation in force within the company, each subsidiary company incurs the same corporation tax costs as they would have incurred without fiscal consolidation. The tax saving produced by transferring the deficits of subsidiaries to SWORD GROUP is entered for the year in which they were transferred.

#### 1.9. Events subsequent to the year end

SWORD GROUP has acquired the shares of FI SYSTEM BELGIUM following the end of the financial year at 31 December 2003.

### ***NOTE 2: HIGHLIGHTS***

In November 2003, it contributed to the increase in capital of SWORD INC for €2,975,000.

**NOTE 3: INCOME STATEMENT****3.1 Personnel costs**

Personnel costs amount to €727,555 € and can be broken down as follows:

| <b>(in €)</b>        | <b>31/12/03<br/>(12<br/>months)</b> | <b>31/12/02<br/>(12<br/>months)</b> |
|----------------------|-------------------------------------|-------------------------------------|
| Gross wages          | 531,009                             | 230,340                             |
| Social contributions | 196,546                             | 94,565                              |
| Stakes and interests |                                     |                                     |
| <b>Total</b>         | <b>727,555</b>                      | <b>324,905</b>                      |

*Workforce:*

|               | <b>31/12/03<br/>(12<br/>months)</b> | <b>31/12/02<br/>(12<br/>months)</b> |
|---------------|-------------------------------------|-------------------------------------|
| Executive     | 7                                   | 4                                   |
| Non-executive |                                     |                                     |
| <b>Total</b>  | <b>7</b>                            | <b>4</b>                            |

**3.2. Net reserve allocations for operational depreciation and provisions**

| <b>(in €)</b>   | <b>31/12/03<br/>(12<br/>months)</b> | <b>31/12/02<br/>(12<br/>months)</b> |
|---|-------------------------------------|-------------------------------------|
| Net reserve allocation for tangible and intangible fixed assets | -                                   | 16,295                              |
| Reserve allocation for accounts receivable                      |                                     |                                     |
| Reserve allocation for other provisions for risks and expenses  |                                     |                                     |
| <b>Total</b>  | <b>-</b>                            | <b>16,295</b>                       |

3.3. Financial result

| (in €)  | <b>31/12/03<br/>(12 months)</b> | <b>31/12/02<br/>(12 months)</b> |
|---|---------------------------------|---------------------------------|
| Reserve allocations for depreciation and provisions             | 338                             | 335,606                         |
| Interest on current accounts                                    | 22,474                          | 42,214                          |
| Bank interests  | 102,454                         | 4,717                           |
| Mali on own shares  | 36,435                          |                                 |
| Negative exchange rate differences                              | 423,392                         | 101,698                         |
| <b>Total net financial costs</b>                                | <b>585,093</b>                  | <b>484,235</b>                  |
| Reversal of reserve allocations for depreciation and provisions | 335,606                         |                                 |
| Financial revenue from stake                                    | 2,790,604                       | 1,258,067                       |
| Revenue from marketable securities                              | 2,271                           | 165,011                         |
| Interest on current accounts                                    | 221,625                         | 123,124                         |
| Bonuses on own shares   | 70,686                          |                                 |
| Exchange rate differences                                       | 200,410                         | 3,046                           |
| <b>Total financial revenue.</b>                                 | <b>3,621,202</b>                | <b>1,549,248</b>                |
| <b>Financial result</b>   | <b>3,036,109</b>                | <b>1,065,013</b>                |

3.4. Extraordinary profit or loss

Extraordinary profit can be broken down as follows:

| (in €)                               | <b>31/12/03<br/>(12 months)</b> | <b>12/02<br/>(12 months)</b> |
|--------------------------------------|---------------------------------|------------------------------|
| Net profit from sale of own shares   | (120,034)                       | 443                          |
| Net profit from sale of assets       | (4,182)                         |                              |
| Other extraordinary costs or revenue | 2                               | (3,096)                      |
| <b>Extraordinary profit or loss</b>  | <b>(124,214)</b>                | <b>(2,653)</b>               |

3.5. Cash flow

| (in €)                     | <b>31/12/03<br/>(12 months)</b> | <b>31/12/02<br/>(12 months)</b> |
|----------------------------|---------------------------------|---------------------------------|
| Profit                     | 3,077,041                       | 1,413,287                       |
| Depreciation               |                                 | 16,295                          |
| Provisions                 | (335,268)                       | 335,606                         |
| <b>Cash flow</b>           | <b>2,741,773</b>                | <b>1,765,188</b>                |
| Profit from sale of assets | (4,182)                         |                                 |
| <b>Overall cash flow</b>   | <b>2,745,955</b>                | <b>1,765,188</b>                |

3.6. Income tax breakdown

| <b>(in €)</b>           | <b>Before tax</b> | <b>Corresponding tax</b> | <b>After tax</b> |
|-------------------------|-------------------|--------------------------|------------------|
| Profit                  | 3,227,641         | 69,033                   | 3,158,608        |
| Extraordinary profit    | (124,214)         | (42,647)                 | (81,567)         |
| Employee profit-sharing | -                 | -                        | -                |
| Accounting profit       | 3,103,427         | 26,386                   | 3,077,041        |

3.7. Reductions in future tax debt

| <b>(in €)</b>  | <b>Value</b> |
|--|--------------|
| <b>Reduction of future debt</b>  |              |
| Non-deductible provision the year of their posting<br>- <b>Organic</b> | 1 560        |
| Underlying appreciation of marketable securities                       | 2 302        |
| <b>Total reduction of future debt</b>                                  | <b>3 862</b> |

There is no growth in future tax debt to note.

**NOTE 4: INTANGIBLE FIXED ASSETS**4.1. Item breakdown

|                        | <b>31/12/2002</b>  |              |                  |
|------------------------|--------------------|--------------|------------------|
| <b>(in €)</b>          | <b>Gross value</b> | Depreciation | <b>Net value</b> |
| Trademarks and patents | 10,000             |              | 10,000           |
| <b>Total</b>           | <b>10,000</b>      |              | <b>10,000</b>    |

|                        | <b>31/12/2003</b>  |              |                  |
|------------------------|--------------------|--------------|------------------|
| <b>(in €)</b>          | <b>Gross value</b> | Depreciation | <b>Net value</b> |
| Trademarks and patents | 10,000             |              | 10,000           |
| <b>Total</b>           | <b>10,000</b>      |              | <b>10,000</b>    |

4.2. Movements for the period

| <b>(in €)</b>                 | <b>01/01/03</b> | <b>Acquisitions</b> | <b>Sale of assets</b> | <b>Reclassification</b> | <b>31/12/03</b> |
|-------------------------------|-----------------|---------------------|-----------------------|-------------------------|-----------------|
| <b>Trademarks and patents</b> |                 |                     |                       |                         |                 |
| Gross value                   | 10,000          |                     |                       |                         | <b>10,000</b>   |
| Depreciation                  |                 |                     |                       |                         |                 |
| Net value                     | 10,000          |                     |                       |                         | <b>10,000</b>   |
| <b>Total</b>                  |                 |                     |                       |                         | <b>10,000</b>   |

**NOTE 5: TANGIBLE FIXED ASSETS**5.1. Item breakdown

|                     | <b>31/12/2002</b>  |               |                  |
|---------------------|--------------------|---------------|------------------|
| <b>(in €)</b>       | <b>Gross value</b> | Depreciation  | <b>Net value</b> |
| Transport equipment | 71,831             | 16,295        | 55,536           |
| <b>Total</b>        | <b>71,831</b>      | <b>16,295</b> | <b>55,536</b>    |

|                     | <b>31/12/2003</b>  |              |                  |
|---------------------|--------------------|--------------|------------------|
| <b>(in €)</b>       | <b>Gross value</b> | Depreciation | <b>Net value</b> |
| Transport equipment | -                  | -            | -                |
| <b>Total</b>        | <b>-</b>           | <b>-</b>     | <b>-</b>         |

## 5.2. Movements for the period

| (in €)                             | 01/01/03 | Acquisitions | Sale of assets | Reclassification | 31/12/03 |
|------------------------------------|----------|--------------|----------------|------------------|----------|
| <b>Other tangible fixed assets</b> |          |              |                |                  |          |
| Gross value                        | 71,831   |              | (71,831)       |                  | -        |
| Depreciation                       | (16,295) |              | 16,295         |                  | -        |
| Net value                          | 55,536   |              | (55,536)       |                  | -        |
| <b>Total</b>                       |          |              |                |                  | -        |

**NOTE 6: FINANCIAL FIXED ASSETS**

## 6.1. Item breakdown

| (in €)                                  | 31/12/02          |                |                   |
|---|-------------------|----------------|-------------------|
|   | Gross value       | Provisions     | Net               |
| Equity interests                        | 19,281,327        |                | 19,281,327        |
| Paid and recoverable guarantee deposits | 10,000            |                | 10,000            |
| Other financial fixed assets            | 527,036           | 150,286        | 376,750           |
| <b>Total</b>                            | <b>19,818,363</b> | <b>150,286</b> | <b>19,668,077</b> |

| (in €)                                  | 31/12/03          |            |                   |
|---|-------------------|------------|-------------------|
|   | Gross value       | Provisions | Net               |
| Equity interests                        | 22,852,208        |            | 22,852,208        |
| Paid and recoverable guarantee deposits | 10,000            |            | 10,000            |
| Other financial fixed assets            |                   |            |                   |
| <b>Total</b>                            | <b>22,862,208</b> |            | <b>22,862,208</b> |

Financial fixed assets mainly consist of equity interests and own shares.

## 6.2. Movements for the period

| (in €)                              | 01/01/03   | Acquisitions | Sale of assets | 31/12/03          |
|-------------------------------------|------------|--------------|----------------|-------------------|
| <b>Equity interests</b>             |            |              |                |                   |
| Gross Value                         | 19,281,327 | 3,585,675    | (14,794)       | 22,852,208        |
| Depreciation                        |            |              |                |                   |
| Net                                 | 19,281,327 | 3,585,675    | (14,794)       | 22,852,208        |
| <b>Deposits</b>                     |            |              |                |                   |
| Gross Value                         | 10,000     |              |                | 10,000            |
| Depreciation                        |            |              |                |                   |
| Net                                 | 10,000     |              |                | 10,000            |
| <b>Other financial fixed assets</b> |            |              |                |                   |
| Gross Value                         | 527,036    |              | (527,036)      | -                 |
| Depreciation                        | (150,286)  |              | 150,286        | -                 |
| Net                                 | 376,750    |              | (376,750)      | -                 |
| <b>Total</b>                        |            |              |                | <b>22,862,208</b> |

Acquisitions of equity interests over the financial year relate to:

- the purchase of 3% of the capital of the Luxembourg company SWORD TECHNOLOGIES, which took place in January 2003 for €350,000.
- participation in the increase in capital of SWORD INC for €2,975,000.
- the repurchase from employees of 2% of the capital of DDS Europe for €258,000.

The disposal for the year is the sale of 5% of the capital of SWORD SUISSE for €15,000.



**NOTE 7: OPERATING ACCOUNTS RECEIVABLE****Item breakdown**

| (in €)                                     | 31/12/02         |            |                  |
|--|------------------|------------|------------------|
|  | Gross value      | Provisions | Net value        |
| Customer and operating accounts receivable | 251,661          |            | 251,661          |
| Other receivables                          | 5,363,505        |            | 5,363,505        |
| Prepaid expenses                           | 3,349            |            | 3,349            |
| <b>Total</b>                               | <b>5,618,515</b> |            | <b>5,618,515</b> |

| (in €)                                     | 31/12/03         |            |                  |
|--|------------------|------------|------------------|
|  | Gross value      | Provisions | Net value        |
| Customer and operating accounts receivable | 20,700           |            | 20,700           |
| Other receivables                          | 6,777,197        |            | 6,777,197        |
| Prepaid expenses                           | 46,770           |            | 46,770           |
| <b>Total</b>                               | <b>6,844,667</b> |            | <b>6,844,667</b> |

**NOTE 8: EQUITY CAPITAL****Capital social et titres donnant accès au capital**➤ **Capital stock**

Capital stock consisted of 8,000 shares with a face value of €5 on the date the SWORD GROUP was formed in June 2001.

The extraordinary Shareholders' meeting of 30 August 2001 ordered a capital increase €3,412,000 to enable payments to SWORD SA shareholders, who contributed all their SWORD SA shares to SWORD GROUP.

On 31 December 2001, after J. Mottard exercised 33,568 of his stock warrants, capital stock was increased again, this time by €168,000.

On 31 December 2001, capital stock totalled 3,620,310 euros, divided into 724,062 shares with a face value of €5

On 27 February 2002, after the company 21 CENTRAL PARTNER exercised 123,072 of its stock warrants, capital stock was increased by €615,000.

On 12 March 2002 the board of directors carried out a capital increase of €630,000 for the FCPR 21 DEVELOPPEMENT.

On 20 March 2002 the board of directors carried out a capital increase of €1,295,000 with a view to floating the company on the stock market.

On 31 December 2002, capital stock totals 6,161,215 euros divided into 1,232,243 shares with a face value of €5.

**NOTE 9: OTHER EQUITY CAPITAL**

An innovation grant of €132,000 was awarded by the ANVAR (French office for innovation) during the previous fiscal years. It remained unchanged during the period ending 31 December 2003.

**NOTE 10: LONG-TERM AND SHORT-TERM PROVISIONS**10.1. Item breakdown

| (in €)                       | 31/12/2002 |               |               |
|------------------------------|------------|---------------|---------------|
|                              | Long-Term  | Short-Term    | Total         |
| Provision for currency risks |            | 86 180        | 86 180        |
| <b>Total</b>                 |            | <b>86 180</b> | <b>86 180</b> |

| (in €)                       | 31/12/2003 |            |          |
|------------------------------|------------|------------|----------|
|                              | Long-Term  | Short-Term | Total    |
| Provision for currency risks |            | -          | -        |
| <b>Total</b>                 |            | <b>-</b>   | <b>-</b> |

10.2. Movements for the period

| (in €)                        | 01/01/2003    | Reserve allocations for the financial year | Carryovers for the financial year | 31/12/2003 |
|-------------------------------|---------------|--|-----------------------------------|------------|
| <b>Financial</b>              |               |  |                                   |            |
| Provision for currency losses | 86,180        |  | (86,180)                          | -          |
| <b>Total</b>                  | <b>86,180</b> |  | <b>(86,180)</b>                   | <b>-</b>   |

**NOTE 11: NET DEBT**11.1. Item breakdown by type

| (in €)                                    | 31/12/03         | 31/12/02           |
|---|------------------|--------------------|
| Other long-term and medium-term borrowing |                  |                    |
| Other financial debts                     | 5,451,149        | 658,580            |
| Current financial backing from banks      | 1,596,327        |                    |
| <b>Total gross debt</b>                   | <b>7,047,476</b> | <b>658,580</b>     |
| Financial current accounts (debit side)   |                  |                    |
| Marketable securities                     | 3,798,402        | 125,635            |
| Cash and similar                          | 474,494          | 1,641,021          |
| <b>Total net debt</b>                     | <b>2,774,580</b> | <b>(1,108,076)</b> |

11.2 Breakdown of long and medium-term loans, including those of a short-term nature

| (in €)               | 31/12/03         | 31/12/02       |
|----------------------|------------------|----------------|
| <b>Maturity date</b> |                  |                |
| < 1 year             | 7,047,476        | 658,580        |
| 1 year < X > 5 years |                  |                |
| > 5 years            |                  |                |
| <b>Total</b>         | <b>7,047,476</b> | <b>658,580</b> |

**NOTE 12: OPERATING DEBTS**

| (in €)                                   | 31/12/03         | 31/12/02         |
|--|------------------|------------------|
| Supplier debts and other operating debts | 291,351          | 461,069          |
| Tax and social debts                     | 705,384          | 63,121           |
| Debts for fixed assets                   |                  | 1,560,000        |
| Other debts                              | 8,000            | 49,230           |
| Deferred income                          |                  |                  |
| <b>Total</b>                             | <b>1,004,735</b> | <b>2,133,420</b> |

**NOTE 13: CONTINGENT LIABILITIES**

Breakdown by type

| (in thousands of euros)             | 31/12/03   | 31/12/02  |
|-------------------------------------|------------|-----------|
| <b>Financial guarantees offered</b> |            |           |
| Deposits for future rents (1)       | 2,422      | 2,476     |
| Other deposits                      | 10,318 (2) | 10,993    |
| Other guarantees given (3)          |            |           |
| <b>Guarantees received</b>          |            |           |
| Deposits received                   |            |           |
| Other guarantees received           |            | 1,384 (4) |

(1) SWORD GROUP assigns as collateral the shares in SWORD DDS France, with a prohibition to alter the distribution of capital in the said company without the agreement of SICOMI RHONE-ALPES. (value of shares, €38,000). The rent payable by SWORD DDS France is guaranteed by the SWORD GROUP, and comes to €2,384,000.

(2) The guarantees apply to the lines of bank credit taken out by SWORD SA for €9,147,000, of which €7,318,000 was drawn down up until 31 December 2003, against a warranty to acquire FI BELGIUM for €3,000,000.

(3) Agreement to repurchase SWORD SA shares.

In an effort to maintain the rights of the beneficiaries of SWORD SA's stock options plan, and subsequent to approval from the Commission des Opérations de Bourse, SWORD GROUP agreed with these optionees that it would repurchase any new shares that should result from them exercising their rights as part of said plan at a unit price set according to the stock market value SWORD GROUP shares.

The terms of the stock options plan that apply at SWORD SA, and to which the SWORD GROUP repurchasing commitment relates, are as follows:

- *Optionees*: options are intended solely for employees of one of the SWORD group's companies who have been at the company for more than two years at the time the options are exercised.
- *Number of options issued*: 15,700 options (1 share per option), which corresponds to a maximum capital increase of €78,500; the options allocation plan was closed on 29 October 2001. As at 31 December 2003, the number of outstanding SWORD SA shares came out to 10,400.
- *Subscription price for new shares*: the subscription price has been set to the face value, that is 5 euros.
- *Time limit for exercising options*: optionees will only be able to exercise the options after a 2-year freezing period and for a period of three years only. On 31 December 2003, 1,500 options had been exercised.

(4) The commitment received at 31 December 2003 is a cash security up to £900,000 as guarantee for payment to John Anderson and Helen Potter.

NOTE 14: LIST OF SUBSIDIARIES AND STAKES HELD

|   | Capital stock | Equity capital not including capital stock | Share of capital held, as a percent-age | Value of securities |           | Advance loan granted by the company and not yet repaid | Turnover   | Result for the last financial year | Dividends collected | Comments |
|---|---------------|--|---|---------------------|-----------|--|------------|------------------------------------|---------------------|----------|
|   | In €          | In €                                       |   | Gross               | Net       |  | In €       | In €                               | In €                | In €     |
| <u>1 - Subsidiaries (more than 50% of capital held)</u>                   |               |  |   |                     |           |  |            |                                    |                     |          |
| SWORD INC<br>230 Park Avenue Suite 1000<br>NEW YORK – NY<br>10169 – USA   | 2,976,33      | 215,0                                      | 100                                     | 5,536,32            | 5 536 322 |  | 1,095,011  | (388,61                            | NONE                | 30/06    |
| SWORD SOUTH AFRICA<br>PO BOX 9518<br>PRETORIA 0001 –<br>AFRIQUE DU SUD    |               | 142,0                                      | 60                                      | 106,7               | 106 714   |  | 7,712      | (9                                 | NONE                | 31/12    |
| SWORD SUISSE<br>36 place du midi<br>SION VALAIS                           | 163,7         | 2,   | 94.80                                   | 269,0               | 269 699   |  | 1,108,229  | 60                                 | NONE                | 31/12    |
| DDS<br>1000 Great West Road<br>Brentford<br>Middlesex<br>TW8 9DW          | 1,69          | 3,021,78                                   | 99.42                                   | 3,675,49            | 3 675 494 |  | 4,288,022  | 236,2                              | NONE                | 31/12    |
| SWORD SA<br>9 Avenue Charles de Gaulle<br>69370 ST DIDIER AU<br>MONT D'OR | 3,420,00      | 62   | 99.78                                   | 3,412,47            | 3 412 470 |  | 19,528,602 | 2,010,                             | 1,80                | 31/12    |
| SWORD TECHNOLOGIES<br>Luxembourg SA                                       | 31            | 48   | 93                                      | 9,410,00            | 9 410 000 |  | 21,698,828 | 2,317,                             | 900,0               | 31/12    |

Reference Document / 2003 Annual Report – SWORD GROUP

| 105 Route d'Arlon<br>L-8009 Stassen<br>LUXEMBOURG |               |  |   |                     |         |  |           |                                    |                     |              |
|---|---------------|--|---|---------------------|---------|--|-----------|------------------------------------|---------------------|--------------|
| <u>2 - Stakes (less than 10% of capital held)</u> | Capital stock | Equity capital not including capital stock | Share of capital held, as a percent-age | Value of securities |         | Advance loan granted by the company and not yet repaid | Turnover  | Result for the last financial year | Dividends collected | Comments     |
|   | In €          | In €                                       |   | Gross               | Net     | In €   | In €      | In €                               | In €                | Closing date |
|   | In €          |  |   | In €                |         |  |           |                                    |                     |              |
| FIRCOSOFT SA                                      | 230,000       | 766,568                                    | 9.85                                    | 441,328             | 441,328 |  | 1,697,539 | 264,151                            | 88,620              | 31/12        |
| SWORD DDS France                                  | 40,000        | 109,126                                    | 0.04                                    | 97                  | 97      |  | 362,358   | 61,225                             | NONE                | 31/12        |
| SWORD CONSULTING                                  | 76,224        | 716,417                                    | 0.02                                    | 84                  | 84      |  | 3,650,82  | 577,723                            | 200                 | 31/12        |

No data appears here for loans and advances granted by the company and not yet repaid.

#### 4.3 Management report on the financial year ending 31 December 2003

##### **SWORD GROUP**

Limited Liability Company with capital of 6,161,215 euros  
Head office: 9 avenue Charles de Gaulle  
69370 SAINT DIDIER AU MONT D'OR  
438 305 054 RCS LYON

#### **MANAGEMENT REPORT DRAFTED BY THE BOARD OF DIRECTORS AND PRESENTED AT THE ORDINARY AND EXTRAORDINARY SHAREHOLDER MEETING OF 26 APRIL 2004**

Ladies and Gentlemen,

We have brought you together at this Annual Combined Shareholder Meeting, in application of the legal provisions, to submit the annual financial statements and consolidated financial statements for the financial year ending 31 December 2003 for your approval.

We will present the consolidated financial statements and corporate financial statements to you successively. We will then submit these for your approval.

The required notifications were sent to you on a regular basis and all the documentation required by current rules have been made available to you at the mandatorily prescribed times.

#### **Important Events**

- Acquisitions made during the financial year ending 31 December 2003:

Acquisition by SWORD INC, the American subsidiary of the SWORD GROUP, on 4 December 2003 of the intangible assets and certain fixed assets of the US company **ZEN & ART OF CLIENT SERVER COMPUTER INC**, registered in NEW JERSEY. This acquisition will strengthen the SWORD GROUP's position with major US accounts and increase its turnover by 12%.

Acquisition by decision of the PARIS Commercial Court dated 15 December 2003, of **FI SYSTEM BELGIUM**, the holding company of ASCII. This acquisition will increase the consolidated turnover of the SWORD GROUP by 9% and augment the Group's know-how in the field of Content Management. It should be noted that the transfer of shares will take place in the current financial year commenced 1 January 2004.

Acquisition on 9 September 2003 by SWORD SA, a subsidiary of the SWORD GROUP, of a business area of FILENET FRANCE, for a price of €58,500 for various tangible and intangible items.

- Companies set up during the financial year ending 31 December 2003:

Registration on 4 September 2003 of **SWORD SOUTH AFRICA Ltd**, whose head office is located at 17, Philirene Avenue, Raslow Estate, Centurion, 0149 SOUTH AFRICA. This company is owned 60% by SWORD CREATION INFORMATIQUE Ltd, a wholly owned subsidiary of the SWORD GROUP.

Creation on 26 February 2003 of **SWORD SECURITY SA**, whose head office is located at 105, Route d'Arlon – L-8809 Strassen, Luxembourg, owned 60% by FIRCOSOFT, which in turn is indirectly owned 88.96% by SWORD GROUP.

## **COMPARABILITY OF THE FINANCIAL STATEMENT - ACCOUNTING RULES AND METHODS**

The consolidated financial statements have been established according to the same rules and methods as for those of the previous financial year, closing on 31 December 2002. They comply with the provisions of rule No 99-02 of the Accounting Rules Committee.

Annual financial statements for 2003 were established on a similar basis to those of the previous financial year.

In the aim of maintaining the comparability of consolidated financial statements, pro forma data is presented next to the consolidated financial statements:

- Pro forma accounts to 31 December 2002 drawn up with ECM and SWORD TECHNOLOGIES, both acquired during 2002, shown for 12 months.

## THE GROUP'S ACTIVITIES – PRESENTATION OF INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2003

The table below presents a simplified income statement for the SWORD group for the financial year ending 31 December 2003, as well as the pro forma income statement.

| <b>In thousands of euros</b>                  | <b>2003 consolidated</b> | <b>2002 consolidated</b> | <b>2002 Proforma 31/12/2002 perimeter (1)</b> |
|---|--------------------------|--------------------------|---|
| <b>Turnover</b>                               | 55,544                   | 33,441                   | 47,815  |
| <b>Operating margin</b>                       | 16.1%                    | 16.4%                    | 12.9%   |
| <b>Profit before goodwill amortisation</b>    | 5,205                    | 3,813                    | 3,946   |
| <b>Net profit after goodwill amortisation</b> | 5,091                    | 3,778                    | 3,911   |
| <b>Group's share of net profit</b>            | 4,893                    | 3,662                    | 3,780   |

(1) trading accounts that consolidate for the entire year 2002 the companies acquired during that year, namely SWORD ECM and SWORD TECHNOLOGIES SA.



**List of consolidated companies**

| <b>COMPANY CONTROLLED</b>       | <b>UNDER GROUP CONTROL</b> | <b>GROUP STAKE</b> | <b>CONSOLIDATION</b> |                         |
|---------------------------------|----------------------------|--------------------|----------------------|-------------------------|
| SWORD GROUP                     | 100%                       | 100%               | 100%                 | FC (Full consolidation) |
| DDS EUROPE Ltd                  | 99.42%                     | 99.42%             | 100%                 | FC                      |
| SWORD ECM Ltd                   | 94.39%                     | 93.84%             | 100%                 | FC                      |
| SWORD CREATION INFORMATIQUE Ltd | 100%                       | 100%               | 100%                 | FC                      |
| SWORD SOUTH AFRICA Ltd          | 60%                        | 60%                | 100%                 | FC                      |
| SWORD TECHNOLOGIES SA           | 93%                        | 93%                | 100%                 | FC                      |
| SWORD SUISSE                    | 94.80%                     | 94.80%             | 100%                 | FC                      |
| SWORD CONSULTING                | 100%                       | 99.78%             | 100%                 | FC                      |
| SWORD DDS FRANCE                | 99.88%                     | 99.66%             | 100%                 | FC                      |
| SWORD Inc                       | 100%                       | 100%               | 100%                 | FC                      |
| SWORD SAS                       | 100%                       | 99.78%             | 100%                 | FC                      |
| SWORD SA                        | 99.78%                     | 99.78%             | 100%                 | FC                      |
| FIRCOSOFT                       | 98.22%                     | 98.03%             | 100%                 | FC                      |
| FIRCOSOFT Inc                   | 100%                       | 98.03%             | 100%                 | FC                      |
| SWORD SECURITY SA               | 60%                        | 58.82%             | 100%                 | FC                      |

## 1- **Activities and turnover**

Overall change:

In 2003, SWORD GROUP posted a 38.07% increase in pro forma turnover compared to 2002 (2003 pro forma turnover with the perimeter as it stood on 31/12/2003 compared with pro forma turnover for 2002 with the perimeter as it stood on 31/12/2002).

### **The increase of 38.07% is divided as follows:**

- a) internal growth: 14.91%
- b) growth linked to the acquisition of ZEN & ART: 13.05%
- c) growth linked to the acquisition of ASCII: 10.11%

In 2003, the group share of net profit for the consolidated companies as a whole was 8.8% of turnover.

With the perimeter as it stood on 31/12/2003, the group share of net profit was 7.6% of the turnover in 2003 and 7.3% of the turnover in 2002.

The group has:

- Continued its internationalisation
- Continued to specialise in Electronic Content Management
- Pursued both its internal and external expansion policies

**A. Internationalisation**

The Group continued its internationalisation:

- In terms of the number of countries where it operates (more than 30)
- In terms of the number of nationalities of its employees (33)
- In terms of the number of countries where SWORD has a production centre (8)
- In terms of turnover breakdown:

|            | As compared to the pro forma turnover | As compared to the consolidated turnover |
|------------|---------------------------------------|--|
| France     | 22%                                   | 26%                                      |
| Belgium    | 23%                                   | 19%                                      |
| UK         | 13%                                   | 15%                                      |
| Luxembourg | 15%                                   | 18%                                      |
| USA        | 11%                                   | 3%                                       |
| Others     | 16%                                   | 19%                                      |

**B. Specialisation**

The Group's service offering has been built around three areas that today represent the Group's strong points:

- Consulting, which includes organisation consulting and change management consulting
  - 17% of the pro forma turnover
  - 20% of the consolidated turnover
- E-Content Management, which now includes the following areas of specialisation:
  - \* Document Management
  - \* GIS
  - \* Data management
  - \* Web Content Management
  - 79% of the pro forma turnover
  - 75% of the consolidated turnover
- Security, which includes Straight Through Processing, the fight against money laundering, and the security of money transfers
  - 4% of the pro forma turnover
  - 5% of the consolidated turnover

These groupings were made because the specialists in each area are totally involved in global projects, without any division possible.

The industrial approach has intensified thanks to the policy of software components, particularly in the fields of E-Content Management and Security.

**C. Expansion**

In terms of pro forma turnover, expansion can be set out as follows:

|               |             |  |
|---------------|-------------|--|
| 2001 turnover | €25,418,000 | (12/01 pro forma with the 12/2001 perimeter) |
| 2002 turnover | €47,815,000 | (12/02 pro forma with the 12/2002 perimeter) |
| 2003 turnover | €66,016,000 | (12/03 pro forma with the 12/2003 perimeter) |

On a like-for-like basis (perimeter of December 2002), the 2003 turnover amounts to €54,942,000, i.e. organic expansion of 15%.

Contributions to the 2003 pro forma turnover

The contributions to the 2003 pro forma turnover were as follows:

|  |                    |
|--|--------------------|
| a) Turnover of the perimeter as at 31/12/2002                                  | €54,942,000        |
| b) Pro forma turnover of ZEN & ART over 1 month<br>(acquisition of 03/12/2003) | €603,000           |
| <i>Consolidated subtotal</i>   | <i>€55,544,000</i> |
| d) Turnover of ZEN & ART over the 11 non-consolidated months                   | €5,636,000         |
| e) Turnover of FI SYSTEM BELGIUM over the 12 non-consolidated<br>months        | €4,835,000         |
| <i>Pro forma total</i>   | <i>€66,016,000</i> |

## 2- Operating profit

2003 operating profit from all the consolidated companies stands at €8,920,000, that is 16.1% of turnover.

The operating margin continues to be the Group's main strength and demonstrates its ability to acquire less profitable companies and bring them into line with SWORD's standards within a year of their acquisition.

## 3- Financial result and income from ordinary operations

The financial result rose to -€504,000, i.e. 0.9% of turnover.

This can be broken down mainly into net interest payable on loans of €368,000, exchange rate losses of €74,000, reserve allocations for the depreciation of marketable securities of €184,000, costs of €248,000 linked to the repurchasing of SWORD SA shares with the scope of the stock options agreement, and revenues from the sale of marketable securities of €2,000.

Income from ordinary operations therefore stands at €8,417,000, i.e. 15.15% of turnover.

## 4- Extraordinary profit

Extraordinary profit is constituted mainly of non-recurring revenue from previous financial years of €239,000.

**5- Income tax and net profit**

Corporation tax at consolidated level amounts to €2,974,000, with an effective tax rate of 36.88% (see analysis of income tax expenses (note 4.7 in the annexe to the consolidated financial statements).

After corporation tax, net profit for the consolidated companies stands at €5,091,000, that is 9.2% of turnover, the group share of net profit stands at €4,893,000, that is 8.8% of turnover, and net profit allocated to minority shareholders is €198,000.

**6- Debt, cash flow and investments**

Net debt, in other words total gross debt from which cash reserves on 31 December 2003 are deducted, stands at €6,975,000.

Cash flow (see cash flow table) stands at €5,372,000.

Gross investments for the financial year, both intangible (excluding goodwill and market shares) and tangible, stand at €1,180,000.

**7- External growth**

This concerns the incorporation of SWORD SOUTH AFRICA Ltd and SWORD SECURITY SA, and the acquisition of ZEN & ART, FILENET and FI SYSTEM BELGIUM.

- a) The ZEN & ART was acquired on 03/12/2003 and its contribution to the proforma consolidated operating financial statement over 11 months is as follows:

|                  |            |
|------------------|------------|
| Turnover         | €5,636,000 |
| Operating profit | €396,000   |

- b) By decision of the Paris Commercial Court dated 15 December 2003, the SWORD GROUP was authorised to acquire 100% of FI SYSTEM BELGIUM. Its contribution to the pro forma consolidated operating financial statement over 12 months is as follows:

|                  |            |
|------------------|------------|
| Turnover         | €4,835,000 |
| Operating profit | €128,000   |

**8- Changes in the group's main subsidiaries (SWORD SA, SWORD CREATION INFORMATIQUE LIMITED, SWORD TECHNOLOGIES SA, SWORD SUISSE, SWORD INC, DDS EUROPE LIMITED)**

SWORD SA's turnover stands at €19,528,000, a 25% increase as compared to the previous financial year. Its net profit of €2,010,000 was 2.75 times higher than the previous year's total.

SWORD CREATION INFORMATIQUE LIMITED's turnover stands at €8,000, versus €187,000 for the previous financial year. Its net loss comes out to -€9,000, versus a net profit of €30,000 for the previous year.

SWORD TECHNOLOGIES SA's turnover stands at €21,699,000, a 48.5% increase as compared to the previous financial year. Its net profit of €2,317,000 was 3.3 times higher than the previous year.

SWORD SUISSE's turnover stands at €1,108,000, i.e. 2.5 times higher than the previous financial year. Its net profit of €61,000 increased by €123,000 from the previous year's figure.

SWORD INC's turnover stands at €1,489,000, a 10.5% increase as compared to the previous financial year. Its net loss comes out to -€59,000, up €288,000 as compared to the previous year's figure.

DDS EUROPE LIMITED's turnover stands at €4,288,000, down 45.7% as compared to the previous financial year. Its net profit of €236,000 was 6.1 times lower than the previous year's total.

## 9- Important events occurring after year-end

FI SYSTEM BELGIUM, the parent company of ASCII, was wholly acquired on 6 February 2004 by SWORD GROUP. It is expected that the managers of the former will receive 30% of the equity. In order to carry out this transaction, SWORD GROUP will resell its shares to a Belgian Holding Company created for the purpose, owned 70% by SWORD GROUP and 30% by the employees.

SWORD NORD was set up at the beginning of 2004 by the SWORD GROUP to strengthen the group's position in the north of France.

## 10- Outlook

The group aims to continue its internal and external expansion:

- geographically, the following choices are available:
  - a) FRANCE will have to limit its expansion because of the crisis currently hitting IT service companies and in order to maintain its profitability;
  - b) Benelux, which benefits from the stability of European Community markets, is currently experiencing rapid expansion due to the enlargement of the EU. It should lead the group's internal expansion policy, in particular by enabling penetration into the Document Management market;
  - c) the United Kingdom will be an area of sustained expansion, on account of the current economic pick-up there;
  - d) the USA will benefit from the purchase of ZEN & ART, and will be a strong expansion area;
  - d) SWITZERLAND will continue the expansion commenced in 2003;
  - e) SOUTH AFRICA is in a position in 2004 to generate profits according to the Group's criteria.
  - f) an acquisitions policy will be implemented in countries that we do not yet cover.
- strategically:
  - GREECE is expected to become a production centre for the EU;
  - the industrial approach will be continued based on software components;
  - acquisitions for approx. €20 million in turnover will be made during 2004.

## 11- Estimated value of market shares in the consolidated financial statements

No provision was set up after it was checked that the evaluation criteria for market shares had been met.

An independent evaluation led by the firm MAZARS GUERARD confirmed the balance sheet value of these intangible assets.

## 12- Research and development

R&D expenses are entered directly into the costs for the financial year in which they were borne.

Internal expenses devoted to the R&D effort represent around 4% of the group's turnover and are entered in the "wages and social security contributions" item.

### **13- Approval of the consolidated financial statements**

We would ask you to approve the consolidated financial statements for the year ended 31 December 2003 (balance sheet, profit and loss statement, and annexes) as they are submitted and which show a total consolidated profit of €5,091,000 (of which the group's share of the profit is €4,893,000).

## **ACTIVITIES OF SWORD GROUP – PRESENTATION OF THE CORPORATE FINANCIAL STATEMENTS**

### **1- Company activities over the financial year 2003 – Balance sheet and income statement**

Over 2003, SWORD GROUP carried out its operational, strategic and financial supervision role for the Group.

Its staffing has gone from four people in 2002 (Chairman, Managing Director, Finance Director and one Assistant) to nine in 2003: in particular, three Directors of Operations joined the team.

The balance of its operating accounts is maintained by rebilling its services to its subsidiaries.

### **2- Important events occurring after year-end**

After year-end, SWORD GROUP acquired all the shares of FI SYSTEM BELGIUM, in anticipation of their allocation to a Belgian Holding Company owned 70% by the Group and 30% by the managers of ASCII.

SWORD NORD was set up at the beginning of 2004 by the SWORD GROUP to strengthen the group's position in the north of France.

### **3- Outlook for 2004**

Contrary to overly optimistic forecasts, 2004 will remain a difficult year. Difficult in countries where business is picking up, since expansion will be progressive and will mainly affect the second half. Difficult in France, since structural problems have not been solved.

Accordingly:

- a) the Group will not give preference to investments in acquisitions in France;
- b) the Group will select acquisitions that can become quickly profitable, focused on the Anglo-Saxon countries;
- c) management will work according to the usual guiding principles of the Group: rigour, excellence and employee involvement;
- d) clientele will be major international accounts;
- e) there is a strategic question concerning the possible acquisition of an offshore platform.

### **4- Description of human resources and the corporate environment**

The salaried staff of the Company numbers nine people, of whom all are members of the Board Management Committee with the exception of the assistant.

Accordingly, the list of formal information on corporate matters as provided by the Decree of 20 February 2002 is of little interest.

## **5- Industrial and environmental risks**

In application of regulations No 98-01 and No 95-01, we would like to point out to you that, because of its area of activity, the company is not exposed to environmental issues.

## **6- Information on market risks**

### **6.1 – Commercial risk due to fixed price services**

Fixed price services reduce the commercial risk of finding ourselves in an intercontract situation from one day to the next. On the other hand, they increase project completion risks and raise the question of keeping the team busy between projects.

This illustrates the importance of having an order book. Particular attention has been paid to increasing its size.

On 31 December 2003, it amounted to 8.85 months worth of turnover.

Each project is monitored on a monthly basis. To date, the difference between days gained and days lost compared with initial estimates for the cost of projects is close to 0, thanks to the systematic application of the Isopro method.

Nevertheless, in the event of likely slippage at a site, all estimated overruns by comparison to the original site budget are immediately tracked by means of subcontracting (additional time on site not reflected in the sales turnover).

Lastly, billing for components is a major element of safety in SWORD GROUP's quoting policy, given that the resulting turnover does not generate direct costs and may alleviate the consequences of overspending on projects.

### **6.2 – Technological risk**

As far as hardware and local networks are concerned, a five-person team is dedicated to maintaining our infrastructures and, in particular, the daily backup of data, which is placed in fireproof cabinets.

In addition, a civil liability insurance policy allows us to cover all risks relating to damage caused by our employees at customer sites.

Lastly, exploiting our know-how through our software components allows us to confidently grasp the technological advances of our partners and suppliers.

### **6.3 – Competition risk**

The competition risk is very low thanks to:

- SWORD GROUP's technological advantage,
- its functional knowledge of its customers' areas of work,
- the dispersion of its competitors, all of whom display marked differences,
- the nature of its customers (e.g. the UN), which makes a considerable investment necessary from the outset.

This wide spectrum of competition is actually a very positive point, especially when the customer requires a wide range of skills for its integration projects, for instance.



## 6.4 – Currency risk

In countries where costs are paid for locally (local personnel), no currency cover is taken.

In countries where we have costs resulting from transactions in different currencies (e.g. USA with a few European employees), we take out annual currency cover based on the budgeted turnover for the year.

In countries with extremely volatile currencies (e.g. the Rand in South Africa), we have a systematic insurance policy, given that very few costs are charged in the local currency.

The currency risk is controlled by the holding company. Budgets are set out with great prudence, and the analytical exchange rate is always that of the current month.

### 7- Activities and results of the subsidiaries and companies we control

Below, in accordance with the provisions of Article L 233-6 paragraphs 1 and 2 of the Commercial Code, we will report to you on the following:

- the activities and results of our company's subsidiaries and the companies it controls;
- significant stakes acquired or takeovers of companies headquartered in France.

### 8- Significant stakes acquired or takeovers occurring over the course of the financial year

By decision of the Paris Commercial Court dated 15 December 2003, the SWORD GROUP was authorised to acquire 100 % of FI SYSTEM BELGIUM, the holding company of ASCII. The actual transfer of ownership of the shares took place on 6 February 2004.

### 9- Activities and results of the subsidiaries in the sense of Article L 233-1 of the Commercial Code

| <i>COMPANY</i>                             | <b>STAKE HELD AS A PERCENTAGE</b> | <b>TURNOVER</b> | <b>RESULTS</b> | <b>ACTIVITY</b> |
|--|-----------------------------------|-----------------|----------------|-----------------|
| <b>SWORD SA</b>                            | 99.78%                            | €19,529,000     | €2,010,000     | ECM             |
| <b>SWORD INC</b>                           | 100%                              | €1,489,000      | - €59,000      | ECM             |
| <b>SWORD SUISSE</b>                        | 94.80%                            | €1,108,000      | €61,000        | ECM             |
| <b>SWORD TECHNOLOGIES SA</b>               | 93%                               | €21,699,000     | €2,317,000     | ECM             |
| <b>SWORD CREATION INFORMATIQUE LIMITED</b> | 100%                              | €8,000          | - €9,000       | ECM             |
| <b>DDS EUROPE LIMITED</b>                  | 99.42%                            | €4,288,000      | €236,000       | Consulting      |

**10- Activities and results of the companies we control in the sense of Article L°233-3 of the Commercial Code**

| <i>COMPANY</i>                    | <b>STAKE HELD AS A PERCENTAGE</b> | <b>TURNOVER</b> | <b>RESULTS</b> | <b>ACTIVITY</b> |
|-----------------------------------|-----------------------------------|-----------------|----------------|-----------------|
| <b>SWORD ECM LIMITED</b>          | 94.39%                            | €3,277,000      | €531,000       | ECM             |
| <b>SWORD SOUTH AFRICA LIMITED</b> | 60%                               |                 | - €30,000      | ECM             |
| <b>SWORD CONSULTING</b>           | 100%                              | €3,651,000      | €578,000       | Consulting      |
| <b>SWORD DDS FRANCE</b>           | 99.88%                            | €362,000        | €61,000        | Consulting      |
| <b>SWORD SAS</b>                  | 100%                              |                 | -€3,000        |                 |
| <b>FIRCOSOFT</b>                  | 98.22%                            | €1,698,000      | €264,000       | Security        |
| <b>FIRCOSOFT INC</b>              | 100%                              | €193,000        | €11,000        | Security        |
| <b>SWORD SECURITY SA</b>          | 60%                               |                 | - €11,000      | Security        |

**11- SWORD GROUP employee equity interest**

In application of the provisions of Article L 225-102 paragraph 1 of the Commercial Code we must report to you on the state of employee stakes in the company's capital stock at year-end.

At the end of the financial year, employees held no stake in the Company's capital as part of joint management.

**12- Breakdown of the SWORD GROUP capital at the close of the financial year (in %)**

| <b>Forename-Surname</b>                       | <b>% capital</b> | <b>% voting rights</b> |
|---|------------------|------------------------|
| Jacques Mottard                               | 29.93            | 30.24                  |
| 21 CENTRALE PARTNERS et FCPR 21 DEVELOPPEMENT | 32.74            | 33.08                  |
| Françoise Fillot                              | 1.73             | 1.74                   |
| Christian Tapia                               | 1.59             | 1.61                   |
| SWORD GROUP                                   | 1.03             | 0                      |
| Employees                                     | 3.95             | 3.99                   |
| Non employees                                 | 1.73             | 1.75                   |
| Free float                                    | 27.30            | 27.59                  |
| <b>TOTAL</b>                                  | <b>100.00</b>    | <b>100.00</b>          |

**13- Variations in the share price**

| <b>2003</b>                                     | <b>2004</b>                                       |
|---|---|
| Highest price €88.55 (on 17/12/2003)            | Highest price €93.40 (on 14/01/2004)              |
| Lowest price €20.00 (on 27/01/2003)             | Lowest price €78.00 (on 05/02/2004)               |
| Number of shares traded on the stock market 946 | Number of shares traded on the stock market 1,436 |

**14- Information on the acquisition and sale by the company of its own shares**

|   |        |
|---|--------|
| Number of shares held by the Company on 31 December 2002  | 12,363 |
| Number of shares purchased in 2003                        | 5,674  |
| Number of shares transferred from the liquidity agreement | 3,238  |
| Number of shares sold in 2003                             | 8,642  |
| Number of shares held by the Company on 31 December 2003  | 12,633 |

**15- Profit allocation proposal****Profit allocation**

We request that you approve the corporate financial statements for the financial year ending 31 December 2003 (balance sheet, income statement and annexes) such as they are presented to you, which show profits of €3,077,041.38.

The distributable profit stands at €2,980,478.10 given the discharging of previous losses of €96,563.22.

We propose that this sum be allocated as follows:

- €149,024 to the legal reserve,
- a distribution of dividends of € 0.90 per share (this dividend creating for eligible shareholders a tax credit of € 0.45)
- the balance to "other reserves".

The dividend attributable to shares owned by the company at date of payment will be posted to a deferment account.

In order to comply with the provisions of Article 243 bis of the General Tax Code, we remind you that the value of the dividend placed in circulation during the first two financial years and the corresponding tax credit were as follows:

| <b>Financial year ending</b> | <b>Net dividend</b> | <b>Tax credit</b> |
|------------------------------|---------------------|-------------------|
| 31 December 2001             | 0                   | 0                 |
| 31 December 2002             | 924,182.25          | 462,091.12        |

**16- Non-tax-deductible expenses**

In accordance with the provisions of Article 223 quarter of the General Tax Code, we point out that the financial statements of the year elapsed do not support non-tax-deductible expenses.

**17- Table of results for the five previous financial years**

Attached to this annual report is a table of results in compliance with Article 148 of the Decree of 23 March 1967.

**18- Auditors' Report**

In accordance with legal and regulatory provisions, we make available to you the reports of the Auditors.

We would ask you, in accordance with Article L 225-40 of the Commercial Code to approve the agreements specified in Article L 225-38 of the same code and concluded or pursued during the past financial year after having been duly authorised by your Board.

The auditors were duly advised of these agreements, which they detailed in their special report.

We would also inform you that the list and purpose of current agreements concluded at normal conditions, on account of their purpose or financial implications being significant for the parties, were communicated to the Directors and the Auditors.

## 19- Mandates of the members of the Board of Directors

| <b>POSITION</b>                       | <b>DURATION OF MANDATE</b> | <b>COMPANY</b>                        | <b>EXPIRY DATE<br/>(Shareholder meeting ruling on the financial statements for the last financial year)</b> |
|---------------------------------------|----------------------------|---------------------------------------|---|
| <b>Jacques Mottard</b>                |                            |                                       |   |
| Chairman and CEO                      | 3 years                    | SWORD GROUP                           | 31.12.03  |
| Chairman and CEO                      | 6 years                    | SWORD SA                              | 31.12.08  |
| Chairman                              | unlimited                  | SWORD CONSULTING                      | Unlimited duration  |
| Chairman                              | unlimited                  | SWORD DDS                             | Unlimited duration  |
| Chairman                              | unlimited                  | FIRCOSOFT                             | Unlimited duration  |
| Manager                               | unlimited                  | LE DAVID                              | Unlimited duration  |
| Chairman                              | unlimited                  | SWORD SAS                             | Unlimited duration  |
| Manager                               | unlimited                  | SCI FI                                | Unlimited duration  |
| Chairman                              | unlimited                  | DDS EUROPE Ltd                        | Unlimited duration  |
| Chairman                              | unlimited                  | SWORD Inc                             | Unlimited duration  |
| Chairman                              |                            | SWORD CREATION INFORMATIQUE Ltd       |   |
| Director                              |                            | SWORD SOUTH AFRICA Ltd                |   |
| Chairman                              | 1 year                     | SWORD SUISSE                          | 31.12.03  |
| Chairman                              | 6 years                    | SWORD TECHNOLOGIES SA                 | 31.12.08  |
| Chairman                              | unlimited                  | FIRCOSOFT Inc                         | Unlimited duration  |
| Chairman                              | unlimited                  | SWORD ECM Ltd                         | Unlimited duration  |
| Chairman                              |                            | SWORD SECURITY SA                     |   |
| <b>Nicolas MOTTARD</b>                |                            |                                       |   |
| Director                              | 3 years                    | SWORD GROUP                           | 31.12.03  |
| <b>21 CENTRALE PARTNERS</b>           |                            |                                       |   |
| Director                              | 3 years                    | SWORD GROUP                           | 31.12.03  |
| <i>Mandates held outside of SWORD</i> |                            |                                       |   |
|                                       | 3 years                    | LE GOUT DE LA VIE                     | 31.12.06  |
|                                       | 6 years                    | ASTEEL                                | 31.12.07  |
|                                       | 1 years                    | EMINENCE (supervisory committee)      | 31.12.04  |
|                                       | 6 years                    | CARRERE GROUP (supervisory committee) | 31.12.07  |
|                                       | 1 year                     | FINATHEM                              | 31.12.04  |
|                                       | 6 years                    | LE PUBLIC SYSTEME                     | 31.12.05  |
|                                       | 6 years                    | EGIDE                                 | 31.12.05  |
|                                       | 4 years                    | HARMONY                               | 31.12.05  |
|                                       | 6 years                    | SAFIG                                 | 31.12.06  |
|                                       | 3 years                    | COTHERM                               | 31.12.05  |
|                                       | 6 years                    | FAP (supervisory committee)           | 31.12.04  |
|                                       | 6 years                    | AFE                                   | 31.12.04  |
|                                       | 6 years                    | FONTAINE PAJOT                        | 31.08.06  |
|                                       | 6 years                    | MECCANO                               | 31.12.08  |
|                                       | 6 years                    | GROUPE ELECTROPOLI                    | 31.12.08  |
|                                       | 6 years                    | FINANCIERE IMPALA                     | 31.12.08  |

**20- Remuneration of executive officers**

Total remuneration for the members of the Board of Directors stood at €36,587.76.

This table gives the total remuneration, excluding benefits in kind, plus the director's fees paid to each executive officer over the year.

| <b>EXECUTIVE OFFICER</b>                  | <b>REMUNERATION</b>   | <b>DIRECTOR'S FEES</b>  |
|---|---|-------------------------|
| Jacques Mottard                           | By the company: €36,587.76<br>By companies controlled as per Article L°233-16 of the Commercial Code: 0 | By the company: €14,000 |
| 21 CENTRALE PARTNERS                      | By the company: 0<br>By companies controlled as per Article L°233-16 of the Commercial Code: 0          | By the company: €15,000 |
| François Barbier permanent representative | By the company: 0<br>By companies controlled as per Article L°233-16 of the Commercial Code: 0          | By the company: 0       |
| Nicolas Mottard                           | By the company: 0<br>By companies controlled as per Article L°233-16 of the Commercial Code: 0          | By the company: €2,000  |

**21- Status of Directors' appointments**

The Directors' appointments of:

- Mr Jacques Mottard,
- Mr Nicolas Mottard,
- 21 CENTRALE PARTNERS,

expire at this Meeting, we propose that these be renewed for a further period of 6 years, until the Shareholders' Meeting called to rule on the accounts for the financial year ending 31.12.2009.

**22- Increase of capital: Authority of the Board of Directors**

1 – We would bring to your attention that since the start of the financial year, the company's business has proceeded as follows:

In respect of the financial year 2003, we refer you to the presentation of business activities and the Company's results, made above. Since the end of the financial year, the SWORD GROUP has continued its task of leading the Group in its growth transactions, particularly with the 100% acquisition of the stock of FI SYSTEM BELGIUM.

2 – We propose that the renewal of the authorisations for the Board of Directors agreed to by the Shareholders Meeting on 27 February 2002, which expire on 27 April 2004, to increase the capital by the offering of every sort of security and stock. The same ceiling of €5,000,000, exclusive of premiums, shall be retained.

Moreover, subject to the adoption of the resolutions that will be submitted to you, the Meeting may:

- assign to the Board of Directors full authority to proceed, in one or several times, by way of a public offering on the Stock Exchange, in amounts and at dates that it will determine, both in France and abroad, to the offering of Company's shares and all securities of whatever sort, that provide immediate and/or eventual access to the Company's shares;
- decide that the nominal amount of increase in capital that can be carried out with or without retaining preferential subscription rights, cannot exceed a global

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ceiling of €5,000,000, to which could be added if required the nominal value of new shares to be issued in order to preserve, in accordance with the law, the rights of holders of securities that assure capital stock;

- decide that if subscriptions (if the right of preferential subscription is not cancelled, for application as of right for new shares, and if the Board authorises such not as of right), do not take up all the share or security offerings as defined above, the Board could use, in the order in which it so determines, one and/or other of the following possibilities:
  - limit the offering to the value of subscriptions received, subject to these reaching at least three-quarters of the offering;
  - share freely, to the subscribers, whether or not shareholders at its choice, all or part of the unsubscribed shares and/or securities.
  - offer the public all or part of the unsubscribed shares and/or securities.
- decide that the Board can also automatically and in every case limit the offering to the amount reached where the unsubscribed shares and/or other securities represent less than 3% of the said offering;
- decide, in accordance with Article L 228-93 and/or L 228-95 of the Commercial Code, so that aforementioned authorisation shall include, of right, for the benefit of holders of securities that, upon maturity, become shares in the Company that can be issued as part of this authority, the renunciation by holders of preferential subscription right shares to shares to which such securities would entitle;
- decide that in the event of the offering of independent equity warrants, the company can intervene, whether by a subscription offer according to the terms specified above, or by free allocation of old shares to shareholders;
- decide, in accordance with the law, to cancel shareholders' preferential subscription rights for shares that will be issued by conversion of debentures or by the exercise of same;
- decide that the Board should have full authority, with possibility of sub-delegation to the Chairman in accordance with the conditions determined in law for the implementation of such delegation, in order in particular to set the dates and methods of the offer, the date of entitlement to stocks, to set the manner of paying up of shares or other securities and, if applicable, to have the possibility of suspending the rights of allocation of shares attached to securities that upon maturity provide shares of the Company, all in accordance with legal and regulatory rules;
- decide that the Board or its Chairman can proceed, as applicable, to any application on the premium of the costs incurred by the offering. It may make all proper arrangements and make all agreements to ensure the successful outcome of the planned offerings. It shall have full authority to determine the increase/s in capital caused by the use of this authority and can address changes to the by-laws as well as subsequent formalities;
- decide that in the event of the offering of debentures or other debt securities, the Board shall have full authority including the possibility of sub-delegation to the Chairman, in particular to determine their subordinate or otherwise nature, fix the interest rates, period, redemption price, methods of amortisation and the conditions in which these debentures and/or other debt securities shall provide rights to the Company's shares.
- decide that the maximum, nominal value of debt securities on the company that can be issued based upon this resolution cannot exceed €100,000,000.

In order to be able to make offerings with or without cancellation of preferential subscription rights, two resolutions will be submitted one after the other for a vote, specifying that in the event of the cancellation of preferential subscription rights, the Board may confer upon shareholders the possibility of priority subscription on all or a part of the offering during the period and in according to the conditions that it will set, except that it has recourse to a sub-delegation of authority to the Chairman.

We hereby state that your Board is in favour of the resolutions in question.

### **23- Increase in capital for employees**

In accordance with the provisions of Article L 225-129-VII of the Commercial Code, we shall present a resolution to authorise the Board to make an increase in capital for employees of the Company who are members of a Partners Saving Plan (PPE) or a Voluntary Employees' Partners Saving Plan (PPESV) and to sub-delegate this authority to the Chairman.

We hereby state that your Board is in not favour of adopting this resolution.

### **24- Harmonisation of the by-laws with the law on financial security**

We hereby inform you of the content of various texts that have recently altered the legal and regulatory provisions applicable to limited companies. It would be appropriate to harmonise the Company's by-laws with the recent provisions, and in particular with those resulting from Law No 2003-706 dated 1 August 2003.

This provides in respect of regulated agreements:

- the holdings threshold from which a shareholder is subject to the procedure when s/he contracts with the company is henceforth fixed at 10% of the voting rights,
- are excluded from the control procedure for current agreements that are not significant for any of the parties.

It also provides in respect of the Auditors:

- his/her appointment must be accompanied by a statement sent by him/her to the shareholders, describing the tasks in which s/he has been involved within the group;
- the Auditor must be invited to all Board Meetings that deal with the accounts, whether of the company or consolidated, annual or periodic;
- the Auditor shall draw up a report in respect of internal monitoring procedures, particularly in regard to the preparation and processing of accounting and financial information;
- it is forbidden for a firm of auditors, or for an individual auditor, to certify the accounts of publicly quoted companies for more than six consecutive financial years.

This text also stipulates that the Chairman is to draw up a report and submit it to the Annual Ordinary General Meeting. In this report, s/he describes the internal procedures employed, the operation of the Board, and the limitations it has imposed on the powers of the Managing Director.

Accordingly, we propose to proceed with the harmonisation of the by-laws, modifying them as follows:

(i) Adding a paragraph 7 to Article 13: *"The Chairman of the Board of Directors prepares accounts under his responsibility and submits to the Shareholders' Meeting for approval of the accounts, a report on the internal control procedures within the company, the operation of the Board and limitations on powers imposed by the Board on the Managing Director."*

Modification to the first paragraph of Article 17:

Old text: *The Board authorises in accordance with legal conditions, the agreements between the company, its Chairman, its Directors, its Managing Directors and its Deputy Managing Directors, those of shareholders holding more than 5% of the voting rights or acting for a corporate shareholder, the company that controls it in accordance with Article L 233-3 of the Commercial Code. Agreements that are direct or through another party are subject to prior authorization. Notification of this authorisation is brought to the attention of the Company's auditors within one month of the Board of Director's decision.*



New text: *The Board authorises in accordance with legal conditions, the agreements between the company, its Chairman, its Directors, its Managing Directors and its Deputy Managing Directors, those of shareholders holding more than 10% of the voting rights or acting for a corporate shareholder, the company that controls it in accordance with Article L 233-3 of the Commercial Code. Agreements that are direct or through another party are subject to prior authorisation. Notification of this authorisation is brought to the attention of the Company's auditors within one month of the Board of Director's decision.*

(ii) Addition of a fourth paragraph to Article 18, as follows: *"By derogation, the provisions in this Article do not apply to agreements that are not significant for any of the parties".*

Modification to the last paragraph of Article 22:

Old text: *Every Auditor is called to each Shareholders' General Meeting and to the Board Meeting that approves the accounts for the previous financial period.*

New text: *Every Auditor is called to each Shareholders' General Meeting and to the Board Meeting for which the agenda includes the consideration and approval of the corporate and consolidated accounts, both annual and periodic.*

#### **25- Directors' fees**

We suggest setting the directors' fees paid to the members of the Board at €42,000.

Your Board invites you after reading the reports presented by the Auditors, to adopt the resolutions submitted for the vote.

### **The Board of Directors**

Jacques Mottard  
Chairman and CEO  
SWORD GROUP

## RESULTS AND OTHER CHARACTERISTIC ELEMENTS OF THE COMPANY OVER THE LAST FIVE FINANCIAL YEARS

Order No 67-236 of 23-03-1967

|  | 31/12/2001   | 31/12/2002   | 31/12/2003   |
|--|--------------|--------------|--------------|
| Capital at financial year-end  |              |              |              |
| Capital stock  | 3,620,310.00 | 6,161,215.00 | 6,161,215.00 |
| Number of ordinary shares  | 724,062      | 1,232,243    | 1,232,243    |
| Number of (non-voting) preference shares in existence  |              |              |              |
| Maximum number of shares to be issued in the future  |              |              |              |
| - Through bond conversion  |              |              |              |
| - By exercising subscription rights  |              |              |              |
| <b>Operations and results for the financial year</b>   |              |              |              |
| Turnover excluding tax   | 228,675.00   | 903,642.00   | 2,026,557.69 |
| Profit before tax, employee stakes, depreciation and provisions                                | -62,209.34   | 1,307,908.53 | 2,768,159.43 |
| Income tax   |              | -457,280.00  | 26,386.00    |
| Employee profit-sharing  |              |              |              |
| Profit after tax, employee equity interest, depreciation and provisions                        | -62,209.34   | 1,413,287.26 | 3,077,041.38 |
| Distributed profit   |              | 924,182.25   | 1,109,018.70 |
| <b>Profit per share</b>  |              |              |              |
| Profit after tax and employee equity interest, but before depreciation and provisions          | -0.08        | 1.43         | 2.23         |
| Profit after tax, employee equity interest, depreciation and provisions                        | -0.08        | 1.15         | 2.50         |
| Dividend distributed   |              | 0.75         | 0.90         |
| <b>Personnel</b>   |              |              |              |
| Average number of staff employed over the financial year                                       | 4            | 4            | 7            |
| Total wage bill for the financial year   | 146,188.05   | 230,339.86   | 531,009.64   |
| Total amount paid in social benefits over the financial year (social security, social welfare) | 47,089.00    | 94,565.00    | 196,545.79   |

#### **4.4 Report by the Board of Directors on stocks options**

##### **SWORD GROUP**

Limited liability company with capital of 6,161,215 euros  
Head office: 9 avenue Charles de Gaulle  
69370 SAINT DIDIER AU MONT D'OR  
438 305 054 RCS LYON

#### **REPORT BY THE BOARD OF DIRECTORS ON STOCK OPTIONS**

#### **FINANCIAL YEAR ENDED 31 DECEMBER 2003**

Ladies and Gentlemen,

In accordance with the provisions of Article L 225-184 of the Commercial Code, adopted by the French law of 15 May 2001 relating to New Economic Regulations, we would like to bring to your attention the operations conducted in accordance with the provisions of Articles L 225-177 to L 225-186 of said Code regarding stock options.

In this regard, we would like to remind you that no stock options plan has been initiated at SWORD GROUP since it was founded.

In accordance with the provisions of paragraph II of Article L 225-180 of said Code, we would point out that during the financial year ended 31 December 2001, a Share Options Plan was inaugurated at SWORD SA.

In the past financial year, allottees applied for 1,500 shares in SWORD SA.

In 2000, a Shares Option Plan was also set up at FIRCOSOFT SAS. During the year ended 31 December 2003, no options were exercised by beneficiaries of the Plan.

Lastly, the Extraordinary General Meeting of the partners of FIRCOSOFT SAS of 17 December 2003 authorised its Chairman to allocate to certain members of the Company's staff, 1,500 new options.

In accordance with the exercise dates of the said options, none of these new options was taken up during the past financial year.

Done in Saint Didier au Mont d'Or  
The Board of Directors

## **4.5 General and special reports by the auditors**

### **GENERAL AUDITORS' REPORT**

#### **Annual financial statements – Financial year ending 31 December 2003**

1) Within the scope of the task that has been entrusted to us by your general shareholder meeting, we will now present our report relating to the financial year ending 31<sup>st</sup> December 2003, on:

- our examination of SWORD GROUP's annual financial statements, which are attached to this report,
- the specific checks and information stipulated by law.

The annual financial statements have been drawn up by the board of directors. Our role is to express an opinion on these financial statements based on the audit we have carried out.

#### **1. OPINION ON THE ANNUAL FINANCIAL STATEMENTS**

We have carried out our audit in compliance with the professional standards applicable in France; these standards require that due diligence be practiced so as to obtain reasonable assurances that the annual financial statements include no significant anomalies. An audit is conducted by examining the probative elements, obtained through surveys, that back up the data contained in these financial statements. It also involves appraising the accounting principles practiced and any significant estimates employed in drawing up the financial statements, as well as assessing the overall presentation. We consider that these assessments provide a reasonable basis for the opinion expressed below.

We certify that, from the point of view of French accounting rules and principles, these annual financial statements are consistent and sincere, and provide a faithful representation of results from the company's operations over the financial year in question, as well as its financial situation and assets at the end of the financial year.

#### **Substantiation of our opinion**

In accordance with the provisions of Article L 225-235, paragraph 1 of the Commercial Code in respect of the substantiation of our opinion, given for the first time for this financial year, we would bring to your attention the following points:

As is stated in note 1.3 in the Annexe to the annual accounts, the stocktaking value of the equity shares is based principally upon the valuation of intangible assets.

As part of our audit of the annual accounts to 31 December 2003, we have deemed, among the accounts that are subject to significant accounting appraisal and that require proof of our evaluation, that this includes the equity shares.

We have relied, in the evaluation of these equity shares, on the conclusions of the independent expert commissioned by the Company, at the end of each financial year, to make an evaluation of the intangible assets of the various SWORD GROUP subsidiaries. In this matter, and in accordance with professional standards in France in respect of accounting evaluations, we have assessed the data, examined the hypotheses that underpinned this evaluation, and have monitored the calculation process. We have compared the accounting valuations of previous periods with corresponding performance, have examined Management's approval procedures for these valuations, and have reviewed events subsequent to the end of year. The valuation of these assets necessarily rests on hypotheses that are, by their very nature, uncertain, with actual performance sometimes varying considerably from the provisional data employed.

This work is part of the due diligence required to prepare our opinion on the SWORD GROUP's annual accounts in general, and do not change the opinion expressed above.

## **2. SPECIFIC CHECKS AND INFORMATION**

In accordance with the professional standards applicable in France, we have also carried out the specific checks provided for by the law.

We have no remarks to make regarding the sincerity and consistency of the information provided in the board of directors' management report and in the documents sent to shareholders regarding the financial situation and annual financial statements, with that provided in the annual financial statements.

In application of the law, we have made sure that all information relating to the acquisition of stakes and control and to the identity of those who hold the corresponding capital has been provided for you in the management report.

Lyon and Villeurbanne, 3 March 2004

The Auditors

**FIGEREC**

**Deloitte Touche Tohmatsu**

Georges Bonnepart

Alain Descoins

## **SPECIAL AUDITORS' REPORT ON REGULATED AGREEMENTS**

### **Financial year ending 31 December 2003**

1) In our capacity as auditors of your company, we will now present our report on regulated agreements.

Our role is not to detect the existence of any other agreements, but to provide you with the main characteristics and terms of those we have been advised of, based on the information we have been given, and without us being required to express an opinion as to their utility and validity. It is your responsibility to assess the advantage of establishing these agreements with a view to approving them, in accordance with the provisions of Article 92 of the Decree of 23 March 1967.

### **AGREEMENTS AUTHORISED DURING THE FINANCIAL YEAR**

We would inform you that we have not been notified of any agreement concluded during the financial year and referred to on Article L 225-40 of the Commercial Code.

### **AGREEMENTS APPROVED OVER THE COURSE OF PREVIOUS FINANCIAL YEARS AND WHOSE IMPLEMENTATION CONTINUED DURING THE FINANCIAL YEAR**

In addition, in application of the Decree of 23 March 1967, we have been informed that the execution of the following agreements, which were approved in previous financial years, continued during the last financial year.

#### **1. Services provided by SWORD DDS France**

*Type and purpose:* SWORD DDS France places a range of services at the disposal of SWORD GROUP, including the letting of well-equipped offices at company headquarters, as well as various related secretarial and telecommunications services

*Terms:* services invoiced to your company during the financial year 2003 amount to €60,000.

#### **2. Guarantee for the benefit of SWORD DDS France**

*Type and purpose:* on 19 November 2001, the board of directors authorised your company to become financial guarantors for the company ESPACE CRECY, renamed SWORD DDS France, in its contract with the SICOMI Rhône-Alpes (property leasing firm), for the entire duration of the long-term contract relating to a piece of property located in Saint-Didier au Mont d'Or, to which an office extension of around 1,238 m<sup>2</sup> has been added.

*Terms:* as of 31 December 2003, the various commitments to SICOMI Rhône Alpes amounted to €2,384,000.

#### **3. Guarantee for the benefit of SWORD SA**

*Type and purpose:* on 20 December 2001, your board of directors authorised your company to secure the commitments of SWORD SA to the banks Crédit Agricole Loire Haute-Loire, Banque Rhône-Alpes and Lyonnaise De Banque, resulting from loans worth a total of €9,147,000 (spread equally between the three banks providing the loans) contracted by SWORD SA to finance the acquisition of the shares of the companies SWORD Inc., SWORD CREATION INFORMATIQUE Ltd, SWORD SUISSE, DDS EUROPE Ltd and FIRCOSOFT, as well as several Business Units.

*Terms:* of the three lines of bank credit available, a total sum of €9,147,000, €7,318,000 had been used by SWORD SA as of the 31 December 2003.

We have carried out our work in accordance with the professional standards applicable in France; these standards require that due diligence be practiced in order to verify the consistency of the information we have been given with that held in the documents from which it originates.

We also submit our report on the agreements referred to in Article L 225-42 of the Commercial Code.

We can inform you that agreements as per Article L 225-240 were not the subject of prior authorisation by your Board.

Based upon the information received, we must inform you, apart from the features and main lines of these agreements, of the circumstances in which the authorisation procedure was not followed.

### **1. Management services to subsidiaries**

*Type and purpose:* SWORD GROUP provides its subsidiaries with assistance in terms of commercial policy, communication, strategy, purchasing, management controls and organisation.

*Terms:* the method of calculation for remuneration for these services was modified on 1 January 2003. They are now invoiced on the basis of a fixed charge of €600 per employee per month for French subsidiaries, and €150 for foreign companies. The sums invoiced during the financial year 2003 are as follows (in Euros):

| Subsidiary         | Individuals concerned   | Amount (€) |
|--------------------|---|------------|
| SWORD SA           | Jacques Mottard<br>Sté 21 CENTRALE PARTNERS<br>Nicolas Mottard<br>SWORD GROUP | 1,423,500  |
| SWORD CONSULTING   | Jacques Mottard<br>SWORD GROUP  | 263,250    |
| FIRCOSOFT          | Jacques Mottard<br>SWORD GROUP  | 78,000     |
| SWORD INC.         | Jacques Mottard<br>SWORD GROUP  | 9,450      |
| D.D.S. EUROPE Ltd  | Jacques Mottard<br>SWORD GROUP  | 36,450     |
| SWORD ECM Ltd      | Jacques Mottard<br>SWORD GROUP  | 40,050     |
| SWORD SUISSE       | Jacques Mottard<br>SWORD GROUP  | 9,900      |
| SWORD TECHNOLOGIES | Jacques Mottard<br>SWORD GROUP  | 166,500    |

**2. IT services provided by SWORD S.A.**

*Type and purpose:* as part of the transfer of the group IT network from SWORD SA to SWORD GROUP during 2003, SWORD SA supplied SWORD GROUP with the following IT services:

*Terms:* services for the audit, maintenance and development of the IT network were invoiced to a total sum of €200,000 exclusive of VAT.

The agreements referred to in paragraphs 1 and 2 above did not receive prior approval on account of an omission.

Lyon and Villeurbanne, 3 March 2004

The Auditors

**FIGEREC**

**Deloitte Touche Tohmatsu**

Georges Bonnepart

Alain Descoins

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NB Since 31/12/2003, no new agreement has been made.



## **AUDITORS' REPORT – Consolidated financial statements**

### **Financial year ending 31 December 2003**

#### **Opinion on the consolidated financial statements**

Within the scope of the task that has been entrusted to us by your general shareholder meeting, we have examined the consolidated financial statements of SWORD GROUP relating to the financial year ending 31 December 2003, which are attached to this report.

The consolidated financial statements have been drawn up by the board of directors. Our role is to express an opinion on these financial statements based on the audit we have carried out.

We have conducted our audit in compliance with the professional standards applicable in France; these standards require that due diligence be practiced so as to obtain reasonable assurances that the consolidated financial statements include no significant anomalies. An audit is conducted by examining the probative elements, obtained through surveys, that back up the data contained in these financial statements. It also involves appraising the accounting principles practiced and any significant estimates employed in drawing up the financial statements, as well as assessing the overall presentation. We consider that these assessments provide a reasonable basis for the opinion expressed below.

We certify that, from the point of view of French accounting rules and principles, these consolidated financial statements are consistent and sincere, and provide a faithful representation of the assets, the financial situation and of the results achieved by the entire group of consolidated companies.

#### **Substantiation of our opinion**

In accordance with the provisions of Article L 225-235, paragraph 2 of the Commercial Code in respect of the substantiation of our opinion, given for the first time for this financial year, we would bring to your attention the following points:

As part of its external growth, the Company is acquiring units in the market within its area of technical competence. These acquisitions are either direct purchases of businesses, or indirect by acquiring control of competitors.

The manner in which assets are treated on the balance sheet and the valuation at the end of the period (validation of loss of value) of these intangible assets that have not been amortised, are described in note 1.7 of the Annex to the consolidated accounts.

As part of our audit of the annual accounts to 31 December 2003, we have deemed, among the accounts that are subject to significant accounting appraisal and that require proof of our evaluation, that this includes the market shares.

We have relied, in the evaluation of these market shares, on the conclusions of the independent expert commissioned by the Company, at the end of each financial year, to make an evaluation of these various assets. In this matter, and in accordance with professional standards in France in respect of accounting evaluations, we have assessed the data, examined the hypotheses that underpinned this evaluation, and have monitored the calculation process. We have compared the accounting valuations of previous periods with corresponding performance, have examined Management's approval procedures for these valuations, and have reviewed events subsequent to the end of year. The valuation of these assets necessarily rests on hypotheses that are, by their very nature, uncertain, with actual performance sometimes varying considerably from the provisional data employed.

This work is part of the required due diligence required to prepare our opinion on the SWORD GROUP's annual accounts in general, and do not change the opinion expressed above.

**Specific checks**

We have also verified the group data provided in the management report, in compliance with the professional standards that apply in France. We have no observations to make in respect of their truthfulness and their agreement with the consolidated accounts.

Lyon and Villeurbanne, 3 March 2004

The Auditors

**FIGEREC**

**Deloitte Touche Tohmatsu**

Georges Bonnepart

Alain Descoins

#### 4.6 Auditors' fees for members of their networks covered by SWORD GROUP in 2003

| <i>Financial year 2003</i>                            | <i>Deloitte Touche Tohmatsu</i> |             | <i>Figerec</i> |             |
|---|---------------------------------|-------------|----------------|-------------|
|   | €                               | %           | €              | %           |
| <b>Audit</b>  |                                 |             |                |             |
| <i>Auditor</i>  |                                 |             |                |             |
| Audit of annual and consolidated financial statements | 123,010                         | 100%        | 18,700         | 100%        |
| <i>Other auditing tasks</i>                           |                                 |             |                |             |
| Audit of intermediate situations (companies acquired) | 0                               | 0%          | 0              | 0%          |
| <b>Subtotal audit</b>                                 | <b>123,010</b>                  | <b>100%</b> | <b>18,700</b>  | <b>100%</b> |
| <i>Other services</i>                                 |                                 |             |                |             |
| Fiscal  | 0                               | 0%          | 0              | 0%          |
| <b>Subtotal other services</b>                        | <b>0</b>                        | <b>0%</b>   | <b>0</b>       | <b>0%</b>   |
| <b>Grand total</b>                                    | <b>123,010</b>                  | <b>100%</b> | <b>18,700</b>  | <b>100%</b> |

The difference in auditors' fees is related to the area covered and the services provided by each firm: Figerec provides some audit services for the holding company, whereas Deloitte provides audit services for all subsidiaries in France and abroad, as well as for part of the holding company.

## Chapter 5

### 5 Administration – Management

#### 5.1 Chairman's Report, in accordance with Article L 225-37 of the Commercial Code **SWORD GROUP**

Limited Liability Company with capital of 6,161,215 euros  
Head office: 9 avenue Charles de Gaulle  
69370 SAINT DIDIER AU MONT D'OR  
438 305 054 RCS LYON  
SIRET 438 305 054 00019

#### **CHAIRMAN'S REPORT IN COMPLIANCE WITH ARTICLE L 225-37 OF THE COMMERCIAL CODE**

Dear Shareholders,

We have drawn up the Report covering the preparation and organisation of the work of the Board of Directors, as well as the Company's internal control procedures: the provisions in this respect of Article L 225-37 of the Commercial Code apply for the first time on the occasion of the approval of the accounts for the first financial year commencing 1 January 2003.

This document has been prepared after many discussions with Management: it follows the guidelines set out by AFEP, MEDEF and ANSA.

As a starting point, it would be perhaps helpful to give a general overview of the organisation of our company, before going into the main procedures employed and, subsequently, the way in which the Board is run.

#### **I – HOW SWORD GROUP OPERATES**

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##### 1 – THE GROUP'S MANAGEMENT ENTITIES

SWORD GROUP is organised in such a way as to be responsive while still retaining a sturdy structure for consistent management and monitoring. We consider it important to set out the role of four major bodies:

1. **The Board of Directors**, made up of three people, of whom two are particularly active: the Chairman and the 21 CENTRALE PARTNERS company, represented by Mr François Barbier.

The budgets are submitted annually to the Board, which also receives monthly management accounts and quarterly financial statements.

The Board is informed in advance of each projected acquisition, start of an activity, and more generally of all significant financial transactions.

2. **The Board Management Committee**, which determines annual directives, controls activities and defines long-term strategy consists of:

- |                          |                  |                                       |
|--------------------------|------------------|---------------------------------------|
| <input type="checkbox"/> | Jacques Mottard  | Chairman and CEO                      |
| <input type="checkbox"/> | Françoise Fillot | Administrative and Financial Director |
| <input type="checkbox"/> | Christian Tapia  | Managing Director                     |

3. **The Operating Committee**, whose task is to set policy for the year, manage the annual budget and supervise the profit centres, known as "Business Units", consists of six "Directors of Operations":

- Philippe Franchet
- Jean-Marc Sonjon
- Patrick Verrier
- Patrick de la Haye
- Per Rosand
- Heath Davies

Each Director of Operations is at the same time the Director of a Business Unit. In this way, only the three members of the Board Management Committee are not directly involved in a profit centre.

4. **The Executive Committee**, made up of the Operations Committee enlarged to include all the Business Unit Directors.

The Group's organisational philosophy is based in practice on the limitation of hierarchies: there are only two tiers that is the Director of the Business Unit, and the Board Management Committee.

## 2.- THE BUSINESS UNIT, PROFIT CENTRE AROUND WHICH THE GROUP IS ORGANISED

The Business Unit is a profit centre run according to principles laid down in an internal management manual. The main management principles of this genuine SME are as follows:

1. **Analysis**, based on:

- a budget submitted before the start of the year, an analytical report prepared at the end of each month and sent to the Management Committee, which includes a breakdown of activities, a summary of the projects, the distribution of activities, an analysis of "work in progress" and "prepayment invoices", as well as an analysis of progress per site.
- feedback to the Business Unit by the Management Committee on the operating cost accounts.

2. **General accounting**

- Each entity has its own accounts department, which report directly to the Administrative and Finance Department.
- The Finance Department ensures central management of the cash requirements of the various companies in the group. If the cash flow of one serves to finance another subsidiary, the holding company manages the repayment of loan capital so that the borrowing subsidiary receives interest on its borrowings.

3. **Commercial**

- Each week all members, regardless of the committee to which they belong, fill out the same weekly report as the sales engineers, which is attached to the report on sales contacts made that week, and is sent to their respective managements.
- These reports, which are then consolidated at Group level, facilitate:
  - . managing the activities carried out by different players at the same clients;
  - . quantifying the number of new projects being quoted;
  - . quantifying the number of new contracts signed;
  - . monitoring the number and value of deals lost;
  - . clarifying the number of persons who have submitted their candidature for positions, and the number of employment contracts signed.
- The Operations Committee is responsible for coordinating all the commercial players, which includes the Business Unit Directors.

#### 4. Technical

Each proposal is put together by Project Leaders. It is then monitored by the Technical Department, regarding the number of days required, and by the Director of the Business Unit, regarding the financial factors involved. The Director of the Business Unit is authorised to enter into commitments of up to €150,000 (compared with €500,000 for the Director of Operations). Above that limit the Management Committee must be consulted.

Each project is run by a Project Leader, who performs the monthly reporting that allows analysis of progress on the project and possible deviations from the initial estimates.

All project follow-up files are monitored by the Technical Department. A summary of the state of progress and of deviations is prepared at Group level, on an operation-by-operation basis.

All delays (on-site projects) must be immediately attributed. All gains (advances on the initial estimates) are attributed at the end of the project.

Any project which is more than 5% late is subject to an audit by the Technical Department of another operation.

All non-invoiced days by billable parties can only be allocated to one of the following three areas: training, management, subcontracting.

Any increase in the number of non-invoiced days per month in a Business Unit, will be the subject of detailed analysis in order to insure the proper allocation of the commercial concession.

### 3. – REPORTING, MEETINGS, AUTHORISATIONS

#### 1. Reporting

A Business Unit prepares:

- its projected payments on the tenth of each month,
- its analysis reports the last working day of each month, before midday,
- the sales situation the evening of the first working day of each month,
- report on travel expenses the fifth of each month.

Each Business Unit Director will prepare every half year, with the assistance of the Technical Department, a summary of career management and of the salaries of its staff, including proposals for salary increases, training or career development for each member of staff, as preparation for the twice-yearly Remuneration Committee. Each case is examined together with the Directors of Operations and the Management Committee.

Each Business Unit Director prepares, prior to 15 November each year, a proposed budget for the coming year which will be examined by the Annual Budget Committee.

#### 2. Meetings

Each week the Business Unit Director holds a meeting with his sales and technical managers to supervise the management of his profit centre, at the sales, technical and managerial levels, based on the weekly reports.

Each Director of Operations holds a meeting once a month with his Business Unit Directors, both sales and technical, in order to check the actions taken by each unit, and to coordinate the Business Units.

Every two months, the Operations Committee and the Board Management Committee meet to:

- summarise items transacted between the Board Management Committee and the Operations Committee over the previous two months,
- check on progress of the Business Units,
- define strategy for the year and possible corrective action.

Every month, the Board Management Committee meets for a day to review all the summaries received, to propose corrective action to the Operations Committee, and to define acquisitions strategy.

Once a year, all group employees must meet their manager for an in-depth discussion of their career and salary, this being additional to daily exchanges between the Director and staff. Twice a year the Board Management Committee, the Operations Committee and the Executive Committee meet as a "Careers Committee".

Once a year a "Budget Committee" is added to the "Careers Committee".

### 3. Authorisations

- A Sales Engineer is authorised to represent the Company at clients and to sign contracts that meet Group profitability ratios.
- A Project Leader is authorised to manage his staff from the technical point of view and control the timeline progress of each project, without interfering with the trading results.
- The Technical Director manages the Project Leaders, and personally manages major projects (over €300,000).
- The Business Unit Director is authorised to recruit, within the framework of his budget and in accordance with group procedures, to make commitments for expenses included within his/her budget, and to sign contracts with clients up to the sum of €150,000. If his/her expenses exceed the approved budget, his authorisations are suspended until the situation is rectified. In such case, he must ask permission prior to committing to expenses or recruiting.

A Business Unit Director cannot undertake investment expenses, for which a purchase requisition must be submitted to the Management Committee, nor to commit to expenses that may have a long-term impact, such as rent, for which an equivalent procedure exists.

- A Director of Operations may commit the Company on contracts up to a limit of €500,000, and has the powers previously awarded to Business Unit Directors if they lose their authorisations.

In general, no one may decide to commit to expenses and at the same time arrange for their payment: the profit centre manager signs his approval on supplier manufacturers, while it is the Finance Department that deals with payments.

### 4. Staff Committees

An employee is recruited in accordance with a specific procedure (profile definition, interviews with two separate persons, tests). New employees are inducted on their first day, and the secretary of the unit gives them the welcome booklet and the management manual.

That is followed by the Project Leader and/or Technical Director, who in due course must provide an opinion on their development potential.

Each quarter, employees attend a unit meeting, to provide them with information on the Company. Each half-year his/her case is reviewed by the "Careers Committee". Once a year, at the least, s/he has a formal interview.

**II – INTERNAL CONTROLS**

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**A – DEFINITION OF INTERNAL CONTROLS – TYPE OF INFORMATION SUPPLIED**

1 – We would remind you that the purposes of the internal control procedures in force in our company are:

- to monitor that management, the implementation of operations and the behaviour of staff are in accordance with the guidelines for businesses as laid down by the company's managing bodies, by the applicable laws and regulations, and by the values, standards and internal rules of the company;
- and to verify that the accounting, financial and managerial information provided to the company's managing bodies truly reflects the activities and the position of the company.

One of the purposes of the internal control system is to prevent and control risks arising from the business's activities, and risks from errors or fraud, particularly in the accounting and financial areas. As with all control systems, it cannot provide a total guarantee that such risks are totally eliminated.

We would point out that the information contained in this report is in compliance with the new provisions, and is essentially descriptive.

We would also point out that it is for the Auditors to prepare an additional report, specifically on the internal controls in respect of the preparation and processing of financial and accounting information.

**B – SUMMARY DESCRIPTION OF ESTABLISHED MONITORING PROCEDURES****1. Internal monitoring procedures in respect of the preparation and processing of financial and accounting information.**

The most relevant procedures in this regard are:

**Reporting**

|                                    |   |
|------------------------------------|---|
| Objectives/Principles:             | Retain control of the operational progress of contracts, and the recording at the accounting and financial level of the results of progress on contracts  |
| Work in progress:                  | Preparation of analyses, including: <ul style="list-style-type: none"> <li>- breakdown of activities</li> <li>- summary by site</li> <li>- summary of work in progress and of advance invoicing</li> <li>- analysis of progress per site</li> </ul> |
| Control over proper implementation | Monthly control by the Management Committee with feedback to the Business Unit Directors.   |
| Persons and departments involved:  | Business Unit Directors, Management Committee and the Administration & Finance Department   |



### Monitoring of holdings

|                                    |  |
|------------------------------------|--|
| Objectives/Principles              | Maintain control of the activities and results of subsidiaries. Subsidiaries can be made up of one or several Business Units. Monitoring of holdings works largely through the monitoring of the Business Units, and thus through control by reporting |
| Work in progress:                  | Preparation of analytical reports (cf. Reporting)<br>Reporting of general management prepared by the Administrative and Financial Department   |
| Control over proper implementation | Monthly control of Business Unit analytical reports by the Management Committee, with feedback to the Business Unit.<br>Creation of monthly/quarterly accounts   |
| Persons and departments involved:  | Directors of Business Units / subsidiaries<br>Accountants of subsidiaries<br>Administrative & Finance Department<br>Management Committee   |

### Procedure for preparing consolidated accounts

|                                    |  |
|------------------------------------|--|
| Objectives:                        | To produce consolidated financial statements, which reflect the true economic situation, are correct and provide a reliable view of the group.   |
| Principles:                        | Complies with French accounting principles, in particular with the provisions of Regulation No 99-02 of the Accounting Regulation Committee  |
| Work in progress:                  | Quarterly accounts by the Administrative & Finance Department and the Management Committee, assisted by external consultants   |
| Control over proper implementation | Control by the external consultants<br>Control by the Auditors   |
| Persons and departments involved:  | Administrative & Finance Department<br>External consultants<br>Management Committee<br>The Auditors, who only check the half-yearly (limited check) and annual (audit) accounts, in accordance with correct legal requirements for quoted companies. |

## 2. Other internal control procedures

The following procedure is also important in respect of our business.

### Personnel

|                       |  |
|-----------------------|--|
| Objectives/Principles | <p>Organisation of the "Personnel" function, as part of the objectives set by the Management Committee, facilitating in particular:</p> <ul style="list-style-type: none"> <li>- control of the timeliness of staff requirements</li> <li>- control of recruitment procedures as being suitable for the requirements</li> <li>- control and monitoring of individual files</li> <li>- control of payment of salaries</li> <li>- compliance with legal and regulatory provisions</li> </ul> |
|-----------------------|--|

|                                    |   |
|------------------------------------|---|
| Work in progress:                  | Requests from Business Unit Directors, monitored by the Management Committee<br>Definition of profiles, personal interviews, tests<br>Periodic evaluation of staff<br>Wage scales set by Business Units<br>Salaries fixed by the HR Department  |
| Control over proper implementation | Monthly review of analysis reports<br>Control by the Administrative & Financial Department and by the Management Committee.   |
| Persons and departments involved:  | Timeliness of requirements: Management Committee<br>Recruitment procedures: Business Unit Director and the Management Committee<br>Review of individual files: Administrative & Financial Department and by the Management Committee.<br>Review of salaries: HR Department and the Administrative & Financial Department<br>Legal & regulatory provisions: HR Department and Management Committee |

### **III – PREPARATION and organisation of the Board’s work**

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#### **A – COMPOSITION**

The by-laws of your company provide for a Board of Directors made up of three to eighteen members, each of whom must hold at least one share.

Currently, it is made up of the following members:

| Name and Forename or company name of the member                   | Date first nominated | Date mandate expires | Main position held at the company | Main position held outside the company      | Other mandates and positions held in companies   |
|---|----------------------|----------------------|-----------------------------------|---|--|
| <b>Jacques Mottard</b>  | 22.06.2001           | 31.12.2003           | Chairman and CEO                  | Chairman and CEO of SWORD SA                | <ul style="list-style-type: none"> <li>- Chairman and CEO of SWORD SA</li> <li>- Chairman of SWORD CONSULTING SAS</li> <li>- Chairman of SWORD NORD, registered in 2004</li> <li>- Chairman of SWORD DDS SAS</li> <li>- Chairman of FIRCOSOFT SAS</li> <li>- Manager of LE DAVID (EURL)</li> <li>- Chairman of DDS EUROPE LIMITED</li> <li>- Chairman of SWORD INC</li> <li>- Chairman of SWORD CREATION INFORMATIQUE SA</li> <li>- Chairman of SWORD SUISSE</li> <li>- Chairman of SWORD TECHNOLOGIES</li> <li>- Chairman of FIRCOSOFT INC</li> <li>- Chairman of ACRAMAN LTD</li> <li>- Chairman of SWORD ECM LTD</li> <li>- Chairman of SWORD SAS</li> <li>- Chairman of SWORD SECURITY SA</li> </ul> |
| <b>Nicolas Mottard</b>  | 22.06.2001           | 31.12.2003           | Director                          | None  | None   |
| <b>21 CENTRALE PARTNERS SA represented by Mr François Barbier</b> | 22.06.2001           | 31.12.2003           | Director                          | Director or member of the Supervisory Board | <ul style="list-style-type: none"> <li>- Director of LE GOUT DE LA VIE</li> <li>- Director of ASTEEL</li> <li>- Member of the Supervisory Board of EMINENCE</li> <li>- Member of the Supervisory Board of CARRERE GROUP</li> <li>- Director of FINATHEM</li> <li>- Director of LE PUBLIC SYSTEME</li> <li>- Director of EGIDE</li> <li>- Director of HARMONY</li> <li>- Director of SAFIG</li> <li>- Director of COTHERM</li> <li>- Member of the Supervisory Board of FAP</li> <li>- Director of AFE</li> <li>- Director of FONTAINE PAJOT</li> <li>- Director of MECANNO</li> <li>- Director of GROUPE ELECTROPOLI</li> <li>- Administrator of FINANCIERE IMPALA</li> </ul>                            |

In accordance with the Bouton Report of September 2002, there was no “independent board member” at the end of the financial year. None of the above holds any significant holding in the capital of clients or suppliers of the SWORD GROUP, or in its subsidiaries.

No member of the Board is pending ratification of co-option by the General Meeting.

There is no Director elected by the employees.

#### B - OPERATION

- The board meets, carries out its work and adopts resolutions in compliance with applicable legal and regulatory provisions, and with the by-laws of your company: as of today, there are no internal regulations or censors.

In the absence of an employees’ joint consultative committee, no representative of the employees of the company or the group attends board meetings on a regular basis.

- The Board receives the budgets once a year; management accounts monthly; and financial statements quarterly. The Board is informed in advance of each projected acquisition, creation of an activity, and more generally of all financial transactions.
- The Board is assisted by the following specialist committees (cf. part I): the Management Committee, the Operations Committee, the Executive Committee.
- During the course of the financial year no specific task was delegated to a member of the Board.

#### C – BOARD MEETINGS

The by-laws of our company provide for the holding of board meetings as often as the company’s interests require.

During the 2003 financial year, the Board met eight times. The average number of directors present was two out of the three board members.

We make use of our legal counsel to call board meetings, which generally take place at the company’s head offices, and to assist the Chairman in the preparation of minutes.

#### D – REMUNERATION OF MANAGEMENT & DIRECTORS

The remuneration of members of the board and of management are as follows.

The gross remuneration of the members of the Board of Directors of the SWORD GROUP was € 36,587 for the 2003 financial year, together with a company car: in fact, Mr Jacques Mottard received, in his capacity as the company’s legal representative, a remuneration in this sum.

A sum of €31,000 was set by the General Meeting for directors’ fees allocated for the year ending 31 December 2002, distributed in the following manner:

21 Centrale Partners: €15,000  
Mr Jacques Mottard: €14,000  
Mr Nicolas Mottard: €2,000

All members of the management and operations committees together received, during the 2003 financial year, a gross remuneration of €743,000.

#### IV- LIMITATIONS TO THE AUTHORITY OF THE MANAGING DIRECTOR

The powers of the Managing Director are not limited: the by-laws, the act of appointment of the Managing Director, nor any decision by the General Meeting or by the Board of Directors has applied any limitation to the powers derogated by law to the company’s legal representative, whether by internal or other regulation.

THE CHAIRMAN

**5.2 Report by the auditors on the Chairman's Report**

**AUDITORS' REPORT**

**(Drawn up in compliance with the last paragraph of Article L 225-235 of the Commercial Code, on the Report of the Chairman of SWORD GROUP, in respect of the internal monitoring procedures for the preparation and processing of accounting and financial information)**

In our capacity as Auditors of the SWORD GROUP and in compliance with the provisions of the last paragraph of Article L 225-235 of the Commercial Code, we hereby submit our report on the Chairman's Report in compliance with the provisions of Article L 225-37 of the Commercial Code for the year ending 31 December 2003.

Under the responsibility of the Board of Directors, it is for Management to define and set up adequate and effective internal monitoring procedures. It is for the Chairman to detail in his report the conditions of the preparation and organisation of the working of the Board of Directors, and the internal monitoring procedures employed within the company.

It is for us to inform you of such observations as are called for by ourselves, in respect of the information and declarations contained in the Chairman's Report concerning the internal monitoring procedures for the preparation and processing of accounting and financial information.

We have, in accordance with accepted practice in France, taken note of the objectives and general organisation of the internal controls, as well as to the internal monitoring procedures for the preparation and processing of accounting and financial information, as presented in the Chairman's Report.

Since this is the first financial year for the application of the provisions introduced by law no 2003-706 dated 1 August 2003, and in the absence of recognised practice in respect of the content of the Chairman's Report, this does not include a consideration of the adequacy and effectiveness of the internal monitoring procedures for the preparation and processing of accounting and financial information. Accordingly, this limitation applies equally to our diligence and to the content of our own report.

Beyond the aforementioned limitations, and based on the work done, we have no observations to make concerning the information and declarations in respect of the company's internal monitoring procedures for the preparation and processing of accounting and financial information, as contained in the Chairman's Report, prepared in accordance with the last paragraph of Article L 225-37 of the Commercial Code.

Lyon and Villeurbanne, 3 March 2004

The Auditors

**FIGEREC**

Georges Bonnepart

**Deloitte Touche Tohmatsu**

Alain Descoins

### **5.3 Management participation**

**This section deals with the stakes held by company managers in the issuer's capital, the capital of the company they control, that of a subsidiary, or that of a client or major supplier.**

Outside of the companies in the Group, the company managers of SWORD GROUP do not have any significant holding, whether directly or through a third party, in a client or supplier.

On 31 December 2003 the company managers had no stakes in the subsidiaries or sub-subsidiaries of SWORD GROUP, with the following exceptions:

Jacques Mottard:

- DDS EUROPE LTD: 1 share out of the 1,024 shares that make up the equity capital
- SWORD SUISSE: 2 shares out of the 250 shares that make up the equity capital
- SWORD CONSULTING: 1 share out of the 2,500 shares that make up the equity capital
- FIRCOSOFT SAS: 5 shares out of the 15,000 shares that make up the equity capital
- SWORD SA: 1 share out of the 684,000 shares that make up the equity capital (after taking into account the options exercised as of 31/12/03)

Nicolas Mottard:

- SWORD SA: 1 share out of the 684,000 shares that make up the equity capital (after taking into account the options exercised as of 31/12/03)

### **5.4 Operations agreed with members of the administrative and directors' board**

There are no transactions carried out with members of the Board of Directors other than those stated in the special report of the Auditors in respect of point 4.5.

### **5.5 Loans and guarantees granted or set up for administrative boards**

No loan has been made to any person who is a member of the management bodies.

No guarantees have been established in favour of any such person.

### **5.6 Employee participation**

#### **5.6.1 Profit-sharing and stakeholding contracts**

In compliance with the provisions of Article L 225-102 para. 1 of the Commercial Code, we are obliged to inform you of the stake of employees in the company's capital at the end of the financial year.

At the end of the financial year, employees held no stake in the Company's capital as part of joint management.

#### **5.6.2 Options awarded to staff for shares of the company.**

See Chapter 2.2.4.2. Stock options

**TIMETABLE OF PUBLICATIONS AND OTHER SWORD GROUP FINANCIAL EVENTS OVER 2004/2005**

**PUBLICATIONS:**

|                  |                                       |
|------------------|---------------------------------------|
| <b>08/04/04:</b> | 1 <sup>st</sup> quarter 2004 turnover |
| <b>08/07/04:</b> | 2 <sup>nd</sup> quarter 2004 turnover |
| <b>08/09/04:</b> | 2004 half-yearly financial statements |
| <b>12/10/04:</b> | 3 <sup>rd</sup> quarter 2004 turnover |
| <b>13/01/05:</b> | 4 <sup>th</sup> quarter 2004 turnover |
| <b>08/03/05:</b> | 2004 annual financial statements      |

**OTHER EVENTS:**

|                  |   |
|------------------|---|
| <b>09/09/04:</b> | SFAF (French Association of Financial Analysts) meeting in Paris (half-yearly financial statements) |
| <b>09/03/05:</b> | SFAF meeting in Paris (annual financial statements)   |
| <b>29/04/05:</b> | Annual shareholder meeting at the group's head office   |