



# REFERENCE DOCUMENT 2004



This document was filed with the financial market authorities on 12 May 2005 in accordance with articles 211.1 to 211.42 of their general regulations. It can be used in support of a financial transaction if it is completed by an operations memorandum approved by the financial market authorities



## SYNOPSIS OF THE REFERENCE DOCUMENT

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## **1 PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT, AND AUDITORS OF THE FINANCIAL STATEMENTS**

### **1.1 PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT**

Mr. Dimitris SABATAKAKIS, Chairman of the Board of Directors  
Address: La Grande Arche, 1 Parvis de La Défense  
92 044 PARIS LA DEFENSE Cedex

"To the best of our knowledge, the information contained in this reference document is accurate and complete and contains all the information necessary for investors to make an informed judgement on the assets, activity, financial condition, income and prospects of the SYSTRAN Group. It contains no omission that could alter its scope."

Paris La Défense, 12 May 2005

Dimitris SABATAKAKIS  
Chairman of the Board of Directors

### **1.2 AUDITORS OF THE FINANCIAL STATEMENTS**

#### **Statutory auditors**

RSM SALUSTRO REYDEL, 8 avenue Delcassé, 75008 Paris,  
represented by Mrs. Claire GRAVEREAU and Mr. Bernard PAULET  
Statutory auditor of the Company appointed by the General Shareholders Meeting of 6 March 2000 for a term of six fiscal years expiring after the General Shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2005.

AMYOT EXCO – GRANT THORNTON, 100 rue de Courcelles, 75017, PARIS,  
represented by Mr. Victor ANSELEM,  
Statutory auditor of the Company appointed by the General Shareholders Meeting of 31 May 2002 for a term of six fiscal years, that is, until the General Shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2006.

#### **Substitute statutory auditors**

Mr. Patrick IWEINS, 13 avenue de l'Opéra, 75001 Paris,  
Substitute statutory auditor of the Company appointed by the General Shareholders Meeting of 6 March 2000 for a term of six fiscal years expiring after the General shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2005.

Mr. Gilles HENGOAT, 100 rue de Courcelles, 75017 PARIS  
Substitute statutory auditor appointed by the General Shareholders Meeting of 31 May 2002 for a term of six fiscal years, that is, until the General Shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2006.

### 1.3 STATUTORY AUDITORS OPINION

#### FISCAL YEAR ENDING 31 DECEMBER 2004

In our capacity as statutory auditors of the SYSTRAN company and pursuant to article 211-5-2 of the general regulations of the financial markets authorities, we conducted, in accordance with the applicable professional standards in France, the audit of the information relating to the financial situation and the historical financial data included in this reference document.

This reference document was drawn up under the responsibility of the Chairman of the Board of Directors of SYSTRAN S.A. Our role is to express an opinion on the sincerity of the information it contains dealing with the financial situation and the financial statements.

We conducted our audit in accordance with professional standards applicable in France, in order to assess the sincerity of the information dealing with the financial situation and the financial statements, to verify their consistency with the financial statements subject to a report. It also consisted in reviewing the other information contained in the reference document, to identify any significant inconsistencies with the information corresponding to the financial situation and the financial statements, and to identify any clearly incorrect information we might find, based on our general knowledge of the company acquired within the framework of our assignment.

The annual financial statements and consolidated financial statements for the fiscal years ending 31 December 2003 and 2004, as prepared by the Board of Directors, were subject to an audit at our behest, according to the professional standards applicable in France, and were certified with neither qualification nor comment, with the exception of the following:

- The comments made, respectively, in our auditors report on the annual financial statements and in our report on the consolidated financial statements for the fiscal year ending December 31, 2003, in which we draw attention to:
  - notes 1 and 2 of the appendix to the corporate financial statements, and 1 and 2.1 of the appendix to the consolidated financial statements, concerning a change in the method of accounting for the revenue from recurring licences granted to large accounts, and their accounting effects,
  - note 4.1 of the appendix to the annual financial statements and to the consolidated financial statements, which provides all necessary details on the methodology and assumptions applied for assessing the going-concern value of the company's business (dictionaries and know-how).
- The comment made, respectively, in our auditors report on the annual financial statements and in our report on the consolidated financial statements for the fiscal year ending 31 December 2004, in which we draw attention to notes 4.1 of the appendix to the annual financial statements and 4.2 of the appendix to the consolidated financial statements, which provide all necessary details on the methodology and assumptions applied for assessing the going-concern value of the company's business (dictionaries and know-how).

On the basis of our audit, we do not have any comments to make as to the sincerity of the information corresponding to the financial situation and financial statements, as presented in this reference document.

We draw your attention to paragraph 3.8 of the reference document relating to the change to IFRS, which states that only the main impacts of this change were costed by the company.

Paris, 12 May 2005  
The auditors

**Amyot Exco Grant Thornton**  
**Member of Grant Thornton International**

**Salustro Reydel**

Victor Amselem

Claire Gravereau

Bernard Paulet

#### Appendices

*In accordance with current legal provisions, the reference document includes:*

- *Appendix 1: Auditors Report (§4.6) on the corporate financial statements in which we justify our assessments;*
- *Appendix 2: Report on the consolidated financial statements (§ 4.3) in which we also justify our assessments;*
- *Appendix 3: Report, prepared pursuant to article L 225-235 of the Commercial Code (§5.2.2), on the report of the Chairman of the Board of Directors concerning internal control.*

#### **1.4 PERSON RESPONSIBLE FOR THE INFORMATION**

Dimitris Sabatakakis  
SYSTRAN S.A.  
La Grande Arche,  
1 Parvis de La Défense,  
92044 PARIS LA DEFENSE Cedex  
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Web site: [www.systransoft.com](http://www.systransoft.com)

## 2 GENERAL INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

### 2.1 INFORMATION ABOUT THE COMPANY

#### 2.1.1 *Company name*

The corporate name is SYSTRAN S.A.

#### 2.1.2 *Date of incorporation*

The company SOISY TRADUCTION, Société à responsabilité limitée [French limited liability company], was incorporated on 4 December 1985, and subsequently, on 30 December 1988, adopted the structure of *société limitée*, and the corporate name "SYSTRAN S.A."

#### 2.1.3 *Registered office*

La Grande Arche,  
1 Parvis de La Défense,  
92044 PARIS LA DEFENSE Cedex

#### 2.1.4 *Lifetime*

The lifetime of the Company is 99 years, to expire on 3 December 2084.

#### 2.1.5 *Legal form*

"*Société Anonyme*," which is a French public limited liability company governed by the law of 24 July 1966 on commercial corporations and its application decree.

#### 2.1.6 *Fiscal year*

Each fiscal year has a duration of a year, beginning 1 January and ending 31 December.

#### 2.1.7 *Object/Purpose (Article 2 of the by-laws)*

The Company's purpose, directly or indirectly, in France and abroad, is the following:

- Development, use, promotion and sale of computer-based machine translation systems (software and hardware), for all natural language pairs.
- All activities corresponding to dictionaries and terminology data banks and all multilingual natural language processing applications.
- Management, acquisition, and commercial activities in the field of the language industries.

#### 2.1.8 *Trade and Corporate Registry*

334 343 993 R.C.S. NANTERRE

#### 2.1.9 *Activity code*

Activity code: 722 A - software developer

#### *2.1.10 Allocation and distribution of earnings (Article 27 of the by-laws)*

From each fiscal year's earnings, less any previous losses, five percent is first applied to the legal reserve fund; this deduction ceases being mandatory when the aforementioned fund reaches one-tenth of the capital stock; it resumes when, for any reason whatsoever, the statutory reserve falls below this fraction.

Any balance, increased if necessary by unallocated earnings, constitutes distributable earnings.

The Ordinary General Shareholders Meeting, at the proposal of the Board of Directors, may resolve on the allocation of all or part of these distributable earnings to the unallocated earnings fund or to the allocation of all reserve accounts, established or to be established, extraordinary, general or special reserve accounts, specifically pursuant to the tax provisions. The General Shareholders Meeting rules on the allocation or use of these funds. It may also entrust such allocation or use to the Board of Directors.

From the balance, if any, the required amount is applied to be used for all shares at an interest rate of five percent per year of their par value, paid-in and not amortised, as first dividend, without possibility, if the earnings for a fiscal year fail to allow complete payment of this first dividend, for the shareholders to claim it from the earnings of subsequent fiscal years.

The surplus may be disposed of by the General Shareholders Meeting, which is responsible for its allocation. To this end, it may allocate all or part of this sum to general or special reserves accounts, carry it forward, or distribute it to shareholders.

Any losses, after the approval of the financial statements by the General Shareholders Meeting, are posted to the balance sheet in a separate account.

The General Shareholders Meeting may resolve to distribute the amounts posted to reserve for which it has responsibility; in this case the decision expressly applies to postings of reserves for which provisions have been applied.

Apart from the case of capital reduction, no distribution may be made to shareholders when net assets are or would become lower than the amount of the capital increased by the reserves that the law does not allow to be distributed.

The General Shareholders Meeting may offer shareholders, for all or part of the dividend to be paid, an option between payment of the dividend in cash or in shares issued by the Company, under the conditions set or allowed by the legal or regulatory provisions.

#### *2.1.11 Payment of dividends and advances on dividends (Article 28 of the by-laws)*

When a balance sheet prepared during the course of or at the end of a fiscal year and certified by the statutory auditors shows that the Company has earned a profit since the end of the previous fiscal year, after deducting any necessary depreciation and provisions, and after deducting any previous losses and amounts to be applied to reserves, pursuant to the law and pursuant to the by-laws, it may make advances on dividends before approving the financial statements for the fiscal year.

The amount of these advances may not exceed the total earnings defined above.

They are distributed under the terms and according to the methods set by regulation.

Shareholders may be given, for all or part of the dividend advances distributed, an option between payment in cash or in shares.

### *2.1.12 General Shareholders Meetings (Article 23 of the by-laws)*

1°/ The shareholders' joint resolutions are made during General Shareholders Meetings classified as ordinary or extraordinary. An Ordinary General Shareholders Meeting is one that is required to take all decisions that do not change the by-laws.

It is held at least once a year, within six months of the end of the fiscal year just completed.

An Extraordinary General Shareholders Meeting is the only one authorised to change the by-laws in all their provisions, and to rule on the conversion of the Company to any other legal form, whether civil or commercial. It may not, however, increase the shareholders' commitments, subject to transactions resulting from a properly applied share consolidation.

General Shareholders Meetings are called either by the Board of Directors or, failing this, by the statutory auditors or a legal representative, according to the conditions stipulated by the law and regulations.

2°/ Any shareholder has the right, upon proving his identity, to take part in the meetings and to attend them personally, by returning an absentee ballot or by appointing a proxy in accordance with the applicable legal and regulatory provisions, provided that:

- registered shareholders be personally registered in the Company records;
- bearer shareholders file, at the location mentioned in the notice of convocation, a certificate issued by a qualified intermediary, noting the locking of their shares in their account until the date of the shareholders' meeting.

These formalities must be completed at least five (5) days before the meeting is held.

The Board of Directors may reduce the above period by a general measure benefiting all shareholders.

3°/ For any proxy sent to the Company by a shareholder, without agent's indication, the Chairman issues a vote in favour of adopting draft resolutions submitted or approved by the Board of Directors, and a vote against adopting all other draft resolutions.

4°/ [refer to the paragraph on double voting rights, cf. paragraph 2.1.15]

5°/ An attendance sheet is maintained at each meeting.

This attendance sheet, duly signed by the attending shareholders and proxies, is certified as accurate by the Meeting officers.

The Meeting is chaired by the Chairman of the Board of Directors, and failing this by a Director appointed to replace him.

The duties of the ballot-counters are filled by two shareholders, present and accepting, representing both on their own behalf and as proxies, the largest number of shares. These officers will appoint a Secretary, who cannot be a shareholder.

### *2.1.13 Quorum and majority (Article 24 of the by-laws)*

1°/ The Ordinary General Shareholders Meeting will be in valid session upon its first convocation only if the attending or represented shareholders hold at least one-quarter of the shares with voting rights. On the second convocation, no quorum is necessary.

It rules by a majority of votes cast by attending or represented shareholders. The Company itself cannot validly vote with its own shares, whether subscribed or acquired. Such shares are not counted in calculating the quorum.



2°/ The Extraordinary General Shareholders Meeting can resolve validly only if the attending or represented shareholders constitute at least one-third of voting shares on first convocation, and one-quarter on second convocation.

It rules by a majority of two-thirds of votes cast by attending or represented shareholders.

Notwithstanding the above provisions, a General Shareholders Meeting that approves a capital increase through the capitalisation of reserves, earnings or premiums can rule under conditions of quorum and a majority of an Ordinary General Shareholders Meeting.

A General Shareholders Meeting called to rule on the conversion of the Company does so under the majority conditions provided for in article L.225-245 of the Commercial Code which differ according to the new form to be resolved upon.

3°/ In the event of a postal ballot, this will be in paper form in accordance with the regulatory requirements.

In calculating quorum, account is taken only of the forms received by the Company before the holding of the General Shareholders Meeting, within the timeframes set by regulatory provision.

Forms giving no vote direction or expressing an abstention are considered negative.

#### *2.1.14 Exceeding of thresholds (Article 13 of the by-laws, as amended by the sixteenth resolution of the Mixed General Shareholders Meeting of 3 May 2000)*

Any party, operating alone or jointly, who comes to hold or ceases to hold, in any way, a percentage of shares equal to or greater than 3% of the capital stock and/or voting rights is required to inform the Company on the holding of each fraction of 3% of the capital and/or voting rights, up to 5%, within fifteen days of exceeding this threshold, by registered letter with request for acknowledgment of receipt addressed to its registered office, specifying the total number of shares or instruments giving access to the capital as well as the numbers of voting rights held, alone, indirectly or jointly.

In the event of a violation of this reporting obligation, one or more shareholders holding a portion of the capital or voting rights equal to at least three percent (3%) may request that the shares exceeding the portion that should have been declared be deprived of voting rights for any shareholders meeting that might be held within a two-year period following the date of regularisation of the notification. The request will be countersigned in the minutes of the General Shareholders Meeting. Under the same conditions, the voting rights corresponding to these shares that were not regularly declared may not be delegated by the violating shareholder.

To the reporting obligation below is added the obligation to report any surpassing of thresholds as provided for by law.

*2.1.15 Voting rights (Article 23 of the by-laws as amended by the eighteenth resolution of the Mixed General Shareholders Meeting of 3 May 2000)*

In addition to the voting right corresponding to the shares, a voting right double the one granted to the shares with regard to the proportion of the Company's capital they represent is granted to all fully paid-in and duly registered shares, once they have been held at least 4 years by the same shareholder, pursuant to article L.225-123 of the Commercial Code. The voting right belongs to the usufructuary in Ordinary General Shareholders Meetings, and to the remainderman in Extraordinary General Shareholders Meetings.

In the event of a capital increase by capitalisation of reserves, earnings or premiums, a double voting right is granted, upon their issuance, to registered shares granted gratis to a shareholder in proportion to the number of old shares benefiting from this right.

Any registered share converted to bearer (anonymous) form or transferred to ownership loses the double voting right. Nevertheless, transfer as a consequence of succession, liquidation of community property between spouses, or donation between living spouses to the benefit of a spouse or relative of inheritable relationship, does not cause the right to be lost and does not interrupt the deadlines provided for in article L.225-123 of the Commercial Code.

A merger by the Company has no effect on the double voting right, which may be exercised within the acquiring Company, if its by-laws so provide.

*2.1.16 Purchases by the Company of its own shares*

**a) Programme authorised by the General Shareholders Meeting of 25 June 2004**

The Company, whose shares are listed for trading on the Nouveau Marché of Euronext Paris, submitted a programme for the repurchase of its own shares for approval at the General Shareholders Meeting of 25 June 2004.

The aims of this programme are, in decreasing order of priority:

- the purchase and sale of Company shares as a function of market conditions,
- the purchase of Company shares to allocate them pursuant to articles L 225-177 and thereafter of the Commercial Code, or through a company saving plan,
- the purchase of Company shares which may specifically be used, in whole or in part, to be retained, sold, transferred or exchanged in order to encourage financial trading (including the remittance of shares during the exercise of rights attached to securities entitling the holder to Company shares through redemption, conversion, exchange, presentation of a warrant or in any other way), or for Company growth or to allocate them pursuant to article L 255-177 and thereafter of the Commercial Code, or through a company saving plan,
- the purchase of shares of the Company in order to cancel them, up to a maximum number not to exceed 10% of the capital stock, under the authorisation to reduce the capital stock as mentioned in the seventh resolution of the General Shareholders Meeting of 25 June 2004, in its extraordinary part.

A share repurchase programme prospectus complying with the provisions of articles 241-1 to 241-8 of the general regulations of the financial markets authorities is available from the Company.

**b) New programme subject to approval at the General Shareholders Meeting of 24 June 2005**

The Company, whose shares are listed for trading on the Nouveau Marché of Euronext Paris, seeks to implement a programme to repurchase its own shares, subject to approval at the General Shareholders Meeting of 24 June 2005.

The aims of this programme are, in decreasing order of priority:

- the purchase and sale of the Company's shares in order to stabilise prices through securities market trading, or according to market conditions,
- the purchase of Company shares which may specifically be used, in whole or in part, to be retained, sold, transferred or exchanged in order to encourage financial trading (including the remittance of shares at the time of exercise of rights attached to securities entitling the holder to Company shares, through redemption, conversion, exchange, presentation of a warrant or in any other way), or for Company growth or to allocate them pursuant to article L 255-177 and thereafter of the Commercial Code, or through a company saving plan,
- the purchase of Company shares for cancellation, up to a maximum number not to exceed 10% of the capital stock, under the authorisation to reduce the capital stock, to be submitted for approval pursuant to the ninth resolution of the General Shareholders Meeting of 24 June 2005, in its extraordinary part.

A share repurchase programme prospectus will be filed with the financial markets authorities.

### c) Assessment of previous programmes

Please be advised that the previous share repurchase programmes, approved by the General Shareholders Meetings of 3 May 2000, 9 November 2001, 27 June 2003, and 25 June 2004 enabled the Company to complete the transactions described below:

Type of transaction	Period	Number of shares purchased	Average purchase price (in euros)	Number of shares sold	Average price of sale (in euros)
Price stabilisation	03.05.00 to 31.12.00	25,981	3.94	360	4.10
<b>Balance at the end of the fiscal year</b>	<b>On 12.31.00</b>	<b>25,621</b> (0.26% of capital)	<b>3.94</b>	-	-
Price stabilisation	01.01.01 to 09.30.01	36,934	3.45	-	-
<b>Balance</b>	<b>On 30.09.01</b>	<b>62,555</b> (0.63% of capital)	<b>3.65</b>	-	-

Upon completion of its first repurchase programme authorised by the General Shareholders Meeting of 3 May 2000, the Company held 62,555 of its own shares.

The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 9 November 2001.

The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 27 June 2003.

The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 25 June 2004.

The Company did not proceed with any cancellation of shares over the course of the past twenty-four months.

The new programme will supersede the programme implemented by the General Shareholders Meeting of 25 June 2004.

On 31 March 2005, the Company was holding 62,555 of its own shares totalling 207,700 Euros, representing 0.63% of the capital.

#### 2.1.17 Access to the Company's documents

By-laws, minutes and other corporate legal documents can be accessed at the Company's registered offices.

## 2.2 INFORMATION CONCERNING THE CAPITAL STOCK

### 2.2.1 Capital stock

The capital stock is 15,086,735 Euros, divided into 9,896,250 shares of the same category. The capital is fully paid in.

## 2.2.2 History of the capital

Date	Type of transaction	Change in capital	Change in the issuance and/or contribution premium	No. shares before	No. shares after	Par value	Capital stock
Jan-86	Starting capital of S.A.R.L. SOISY TRADUCTION	50,000 FRF			500	100 FRF	50,000 FRF
Dec-88 (EGM of 30.12.88)	Capital increase by offset with receivables due and payable and conversion to SYSTRAN S.A.	550,000 FRF	110,000 FRF	500	6,000	100 FRF	600,000 FRF
Jun-89 (EGM of 30.06.89)	Reduction in face value	0	0	6,000	12,000	50 FRF	600,000 FRF
Jun-89 (ditto)	Capital increase by partial contribution of assets	300,000,000 FRF	145,844,423 FRF	12,000	6,012,000	50 FRF	300,600,000 FRF
Aug-90 (EGM of 26.10.89)	Capital increase by offset with receivables due and payable	1,700,000 FRF	544,000 FRF	6,012,000	6,046,000	50 FRF	302,300,000 FRF
Jun-91 (MGM of 28.06.91)	Capital increase by transfer of the contribution premium	100,766,650 FRF	-100,766,650 FRF	6,046,000	8,061,333	50 FRF	403,066,650 FRF
(ditto)	and by offset with receivables due and payable	46,933,350 FRF	0	8,061,333	9,000,000	50 FRF	450,000,000 FRF
Mar-00 (MGM of 6.03.00)	Allocation to the premium of a portion of losses carried forward from previous years	0	FRF -45,731,773	9,000,000	9,000,000	50 FRF	450,000,000 FRF
(ditto)	and capital decrease by reduction in the par value of each share *	-360,000,000 FRF	0	9,000,000	9,000,000	10 FRF	90,000,000 FRF
May-00 (MGM of 3.05.00)	Increase in reserved capital by offset from receivables, and conversion to Euros	1,350,000 FRF	0	9,000,000	9,135,000		EUR 13,926,217
Sep-00 (MGM of 3.05.00)	Capital increase applied during the IPO on the Nouveau Marché of the Paris Stock Exchange.	EUR 1,160,518	26,842,461 FRF	9,135,000	9,896,250		EUR 15,086,735

\* The Extraordinary General Shareholders Meeting of 6 March 2000 approved a write-off of the previous losses of SYSTRAN S.A., by allocation of losses carried forward of 488.3 MFRF at year-end 1999 at the rate of 45.7 MFRF on the issuance premium, as well a capital reduction of 360 MFRF by decreasing the par value of the shares from 50 FRF to 10 FRF. After this transaction, the Company's capital stock totalled 90 MFRF, consisting of 9,000,000 shares of 10 FRF, as shown in the following table:

In MFRF	Capital	Premiums	Carried forward	Income for the fiscal year	Total shareholders equity
Situation as of 31.12.99	450	45.73	-488.31	97.71	105.13
Allocation of premiums to losses carried forward		-45.73	45.73		-
Capital reduction	-360		360		-
Situation after the Extraordinary General Shareholders Meeting of 6 March 2000	90	-	-82.58	97.71	105.13

Since 14 September 2000, the date of its IPO on the Nouveau Marché of the Paris Stock Exchange, the company has not changed its capital.

### 2.2.3 Breakdown of the capital and voting rights

#### On 14 September 2000, after the IPO on the Nouveau Marché

	No. of shares	%	Voting rights	%
Jean Gachot (Director)	1,092,546	11.04%	2,185,092	15.11%
SOPI SA (1)	1,017,429	10.28%	1,132,815	7.83%
Dimitris Sabatakakis (Chairman)	873,467	8.83%	1,693,773	11.71%
Valfinance SA	300,000	3.03%	300,000	2.07%
Denis Gachot (Director)	233,474	2.36%	244,622	1.69%
Scheffer SA	101,403	1.02%	101,403	0.70%
Norbert Von Kunitzki (Director)	90,000	0.91%	90,000	0.62%
Pierre Musman	45,000	0.45%	45,000	0.31%
Members of the Board of Directors and affiliated companies	<b>3,753,319</b>	<b>37.93%</b>	<b>5,792,705</b>	<b>40.06%</b>
SOPREX AG (2)	1,420,719	14.36%	2,841,438	19.65%
<b>Public</b>	<b>4,722,212</b>	<b>47.72%</b>	<b>5,826,200</b>	<b>40.29%</b>
<b>TOTAL</b>	<b>9,896,250</b>	<b>100%</b>	<b>14,460,343</b>	<b>100%</b>

\* Double voting rights granted to shares held for more than 4 years by the same shareholder (before the General Shareholders Meeting of 9 November 2001, this period was 5 years)

(1) SOPI, 26bis, avenue de Paris 95230 Soisy sous Montmorency. S.A.R.L (limited company) with registered capital of 550 KEUR. Manager: Mrs. GACHOT. Shareholders: SOPREX AG (76.30%) and Jean GACHOT (23.65%).

(2) SOPREX AG, Malzgasse 18, 4052 Basel (Switzerland). Swiss financial company, wholly owned by DEXIA Banque Privée, with head office in Zurich.

#### On 31 March 2005

	No. of shares	%	Voting rights	%
Jean Gachot (Director)	1,092,546	11.04%	2,085,092	13.66%
SOPI SA	1,017,429	10.28%	1,781,766	11.68%
Dimitris Sabatakakis (Chairman)	873,467	8.83%	1,746,934	11.45%
Valfinance SA	344,924	3.49%	644,924	4.23%
Norbert Von Kunitzki (Director)	90,000	0.91%	90,000	0.59%
Members of the Board of Directors and affiliated companies	<b>3,418,366</b>	<b>34.54%</b>	<b>6,348,716</b>	<b>41.60%</b>
SOPREX AG	1,420,719	14.36%	2,841,438	18.62%
<b>Public</b>	<b>4,994,610</b>	<b>50.47%</b>	<b>6,071,059</b>	<b>39.78%</b>
Treasury shares (*)	62,555	0.63%		
<b>TOTAL</b>	<b>9,896,250</b>	<b>100%</b>	<b>15,261,213</b>	<b>100%</b>

(\*) The Company acquired its own shares on the market, under the share repurchase programmes authorised by the Extraordinary General Shareholders Meetings of 3 May 2000, 9 November 2001 and 27 June 2003. On 31 December 2004, the Group held 62,555 shares of SYSTRAN S.A.

To the Company's knowledge, no other shareholder holds over 5% of the capital or voting rights, either directly or indirectly.

The Company comprises approximately 2,000 public shareholders, according to Euroclear.

## 2.2.4 Changes in the breakdown of the capital over the last three years

### Changes in the shareholder base over 2 years

Shareholders concerned	Share purchases	Date	Sales of shares	Date
Norbert Von Kunizki	90,000	03/05/2002		
Pierre Musman	45,000	03/05/2002		
Valfinance SA	44,924	2002		
Valfinance SA	10,000	2003		

May 2000: increase in reserved capital by incorporation of receivables to earnings of Mr. Norbert Von Kunitzki (90,000 shares) and Mr. Pierre Musman (45,000 shares) through the issuance of 135,000 shares. This capital increase was carried out based on a share price of EUR 13.72.

September 2000: capital increase in cash of 761,250 shares, as part of the Company's IPO on the Nouveau Marché of the Paris Stock Exchange, issued at a share price of EUR 6.90.

### 2.2.5 Shareholders' agreements

None

### 2.2.6 Shareholders' commitments

Since 13 March 2001, the commitment to retain shares, taken by major shareholders on the occasion of the Company's IPO on the Nouveau Marché, has expired. However, these shareholders committed not to sell their shares under the share repurchase programme as described in paragraph 2.1.16. The shareholders did not enter into other commitments.

The situation on 31 March 2005 of the number of shares they held is shown in paragraph 2.2.3.

## 2.2.7 Potential capital

### Stock options

The Ordinary and Extraordinary General Shareholders Meetings of 6 March 2000, 9 November 2001 and 25 June 2004 authorised the Board of Directors to implement a stock option plan ("Stock Options") within the current limit of 20% of the Company's capital, with this threshold being evaluated on the date the stock options are awarded by the Board of Directors. The Board of Directors meetings of 6 March 2000, 1 February 2001, 9 November 2001, 4 February 2002, 13 March 2003 and 23 December 2003 used this authorisation as follows:

Status of stock options awarded to the Group's employees						
Date of the General Shareholders Meeting	06.03.2000		09.11.2001			
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03
Total number of shares that can be subscribed or purchased	970,000	101,000	100,000	80,000	100,000	100,000
Of which, shares that can be subscribed or purchased by members of the Executive Committee	750,000	0	0	0	100,000	100,000
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11
Strike price (EUR)	7.60	4.60	1.64	1.94	1.21	4.61
Conditions of exercise	Options will be permanently vested to the recipients only by equal thirds on the date of the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> anniversaries of their granting by the Board of Directors and provided that, for each allocation, the recipient is still a Director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the meeting of certain performance targets.					
Number of shares subscribed as of 31/12/2004	-	-	-	-	-	-

If all the options were exercised, the result would be a maximum potential dilution of 14.7%, representing 1,472,667 shares.



## 2.2.8 Capital authorised but not issued

### a) Increase in unreserved capital with pre-emptive subscription rights

The General Shareholders Meeting of 25 June 2004 resolved, in its ninth resolution, to renew the authorisation given to the Board of Directors to increase the capital stock by issuance of shares, warrants, bonds and/or any securities giving access immediately or in the long term, at any time or on a fixed date, to the Company's capital, in a maximum par value not to exceed a ceiling of 15,000,000 Euros (fifteen million Euros), with or without issuance premium, to be subscribed and fully paid-in in cash at the time of subscription, with such new shares to be subject to all the Company's statutory provisions and to be assimilated to the old shares, and to enjoy the same rights as of the first day of the fiscal year in which they were created and issued. Moreover, this authorisation is subject to a ceiling of 300,000,000 Euros (three hundred million Euros), including issuance premium.

The General Shareholders Meeting has, furthermore, resolved that this delegation applies *ipso jure* to the earnings of holders of securities giving future access to Company shares, an express waiver by the shareholders of their preferential right of subscription to the shares to which these securities entitle them. In the event of issuance with maintenance of the shareholders' preferential right of subscription, the Board of Directors may grant the shareholders a reduced preferential right.

The General Shareholders Meeting also resolved that if subscriptions did not represent the entirety of a share or security issuance as defined above, the Board of Directors may use one or more of the following authorisations, in the order it decides:

- to limit the issuance to the value of the subscriptions under the condition that it total at least three-quarters of the approved issuance;
- to resolve that any balance of the issuance not subscribed, be allocated completely or partially by the Board of Directors.

As a consequence of the authorisation granted above, the General Shareholders Meeting granted to the Board of Directors and by delegation, to its Chairman, all powers necessary to undertake, under the terms stipulated in the laws and regulations, one or more increases in the Company's capital stock or other securities issuances, within twenty-six (26) months, on one or more occasions, with use of the aforementioned authorisation being partial or total, setting their terms, confirming completion and undertaking the corresponding amendment of the by-laws. Specifically, the General Shareholders Meeting resolved that the Board of Directors will have all authority, specifically to resolve on the number of securities to be issued, the issue price, as well as the total premium that may be required at the time of issuance.

The General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have all powers to enforce this authorisation, under the terms set by the law, for the purposes of offsetting the expenses related to the capital increases with the value of the corresponding premiums and to deduct from this amount the required sums allocated to bringing the statutory reserve up to one-tenth of the capital stock after each increase.

More generally, the General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have full power to approve all agreements, particularly in order to achieve the aims of the intended issuance, take all measures and carry out all due formalities for the issuance and financial servicing of these shares through this authorisation, as well as the exercise of the rights corresponding thereto, confirming the capital increase made through use of this authorisation, and amending the by-laws accordingly.

The General Shareholders Meeting has noted that the Board of Directors will give an account of the use made of this authorisation to the next General Shareholders Meeting.

This capital increase authorisation has rendered ineffective all previous delegations of the same type, and in particular, that granted in the seventh resolution of the Ordinary and Extraordinary General Shareholders Meeting of 31 May 2002.

To date, this authorisation has not been used by the Board of Directors.

*b) Increase in unreserved capital without pre-emptive subscription rights*

The General Shareholders Meeting of 25 June 2004 resolved, in its tenth resolution, to authorise the Board of Directors to increase the capital stock through issuance of shares, warrants, bonds and/or any securities giving access immediately or in the long term, at any time or on a fixed date, to the Company's capital, in a maximum par value not to exceed 15,000,000 Euros (fifteen million Euros), with or without issuance premium, to be subscribed and fully paid-in in cash at the time of subscription, with such new shares to be subject to all the Company's statutory provisions and to be assimilated to the old shares, and to enjoy the same rights as of the first day of the fiscal year in which they were created and issued. Moreover, the ceiling of this authorisation is 300,000,000 Euros (three hundred million Euros), including premium. These amounts will also be charged to the values of the shares issued directly or indirectly, by virtue of the ninth resolution of the meeting of 25 June 2004.

The General Shareholders Meeting resolved to cancel the preferential right of subscription to the shares to be issued, on the understanding that the Board of Directors may grant priority to the shareholders for subscribing all or part of the issuance for the period and under the terms that it will set. This subscription priority will not give rise to the creation of negotiable rights but may, if the Board of Directors deems appropriate, be exercised on both a reducible and irreducible basis, noting that following the priority period the unsubscribed securities will be up for public placement.

The General Shareholders Meeting has resolved that this delegation applies ipso jure to the earnings of holders of securities giving future access to Company shares, an express waiver by the shareholders of their preferential right of subscription to the shares to which these securities entitle them.

The General Shareholders Meeting resolved that the sum allocated or to be allocated to the Company for each of the shares issued as part of the aforementioned delegation, will be at least equal to the average opening prices of the Company's shares noted on 10 consecutive trading days chosen from the 20 trading days prior to the start of issuance of the aforementioned securities.

The General Shareholders Meeting further resolved that if subscriptions did not represent the entirety of a share or security issuance as defined above, the Board of Directors may use one or more of the following authorisations, in the order it decides:

- to limit the security issuance to the value of the subscriptions provided that it totals at least three-quarters of the approved issuance;
- to resolve that any balance of the issuance not subscribed be completely or partially allocated by the Board of Directors.

As a consequence of the authorisation granted above, the General Shareholders Meeting has delegated to the Board of Directors and by delegation, to its Chairman, all powers necessary to undertake, under the terms stipulated in the laws and regulations, one or more increases in the Company's capital stock or other securities issuances, within twenty-six (26) months, on one or more occasions, with use of the aforementioned authorisation being partial or total, setting their terms, confirming completion and undertaking the corresponding amendment of the by-laws.

Specifically, the General Shareholders Meeting resolved that the Board of Directors will have all powers, specifically to resolve on the number of securities to be issued, the issue price, as well as the total premium that may be required at the time of issuance.

The General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have all powers to enforce this authorisation, under the terms set by the law, for the purposes of offsetting the expenses related to the capital increases with the value of the corresponding premiums and to deduct from this amount the required sums allocated to bringing the statutory reserve up to one-tenth of the capital stock after each increase.

More generally, the General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have full power to approve all agreements, particularly in order to achieve the aims of the intended issuance, take all measures and carry out all due formalities for the issuance and financial servicing of these shares through this authorisation, as well as the exercise of the rights corresponding thereto, confirming the capital increase made through use of this authorisation, and amending the by-laws accordingly.

The General Shareholders Meeting has noted that the Board of Directors will give an account of the use made of this authorisation to the next General Shareholders Meeting.

To date, this authorisation has not been used by the Board of Directors.

### *c) Increase in capital reserved for company employees*

The General Shareholders Meeting of 25 June 2004 also resolved, pursuant to article L. 225-129 VII of the Commercial Code and article L. 443-5 of the Labour Code, not to delegate to the Board of Directors the authority to increase the capital stock, on one or more occasions, by a maximum par value of 300,000 Euros through the issuance of new shares to be subscribed in cash. This increase would have been reserved for Company employees and the employees of companies affiliated with it in accordance with applicable legal provisions.

### *2.2.9 Pledging of shares and guarantees (SYSTRAN S.A. and subsidiaries)*

The Company has neither pledged nor mortgaged any intangible, tangible or financial assets.

On 31 December 2004, the status of guarantees given by the SYSTRAN Group was as follows:

Date	Expiration	Creditor	Subject	Amount (Euros)
20.01.98		Banque Générale du Luxembourg	Overdraft facility	248,000
24.10.02	Jul-05	The European Commission	MUSA contract	69,000
12.12.04	Jul-05	Spanish Patent and Trademark Office	Spanish Patent Office contract	1,000

SYSTRAN S.A. gave guarantees as part of contracts co-funded by the European Commission. The value of the guarantees corresponds to the value of the advance received at the beginning of the contract.

In addition, SYSTRAN S.A. has provided two guarantees aiming to cover an overdraft facility for its subsidiary, SYSTRAN Luxembourg, and a leasing contract with the company Eurolease Factor.

### *2.2.10 Dividends and policy of distribution*

The Company has not distributed dividends over the last five fiscal years.

Dividends not claimed within five years after their payment date revert to the French Government.

### 2.2.11 Changes in the stock price

The Company was listed on the OTC market of the Paris Stock Exchange on 14 February 1992. The first traded quote was of 16.00 FRF (EUR 2.44). On 11 June 1998, SYSTRAN S.A. shares were transferred to the new OTC of the Paris Stock Exchange. On 14 September 2000, SYSTRAN S.A. was listed on the Nouveau Marché of the Paris Stock Exchange, with a stock price of EUR 6.90.

The SYSTRAN share (ISIN code: **FR0004109197**) is continuously listed. SYSTRAN is a member of the NextEconomy segment of Euronext. Market trends in the share since 1 January 2003 has been as follows:

Date	Opening	High	Low	Closing	Aver. vol.	Adjusted closing prices*
Mar-05	3.57	3.72	3.11	3.32	3,385	3.32
Feb-05	3.50	4.20	3.31	3.56	14,052	3.56
Jan-05	2.94	3.64	2.94	3.50	7,898	3.50
Dec-04	3.02	3.30	2.50	3.16	3,737	3.16
Nov-04	2.86	3.20	2.54	3.20	4,816	3.20
Oct-04	3.51	3.85	2.70	2.86	5,822	2.86
Sep-04	3.58	3.89	3.38	3.81	1,384	3.81
Aug-04	4.00	4.00	3.30	3.58	791	3.58
Jul-04	4.19	4.20	3.36	4.00	1,550	4.00
Jun-04	4.07	4.70	3.91	4.19	2,211	4.19
May-04	4.90	4.90	3.79	4.85	1,636	4.85
Apr-04	4.77	5.15	4.62	4.90	1,634	4.90
Mar-04	4.90	4.96	4.40	4.75	4,225	4.75
Feb-04	4.90	5.43	4.23	5.03	4,048	5.03
Jan-04	5.20	5.20	4.65	4.90	3,708	4.90
Dec-03	4.20	5.35	4.10	5.05	4,944	5.05
Nov-03	3.85	4.47	3.70	4.35	7,127	4.35
Oct-03	3.15	3.89	2.90	3.74	6,427	3.74
Sep-03	3.24	3.50	2.84	2.85	3,141	2.85
Aug-03	3.00	3.40	2.71	3.25	3,347	3.25
Jul-03	2.97	3.10	2.50	3.00	5,092	3.00
Jun-03	2.00	2.96	1.80	2.93	7,150	2.93
May-03	1.97	2.00	1.64	2.00	3,932	2.00
Apr-03	0.99	1.96	0.99	1.70	3,210	1.70
Mar-03	1.00	1.30	1.00	1.10	1,977	1.10
Feb-03	0.90	1.43	0.90	1.30	3,272	1.30
Jan-03	0.89	1.16	0.89	1.04	2,762	1.04

Source: Euronext

### 3 INFORMATION ON SYSTRAN BUSINESS

#### 3.1 GENERAL PRESENTATION OF SYSTRAN S.A.

SYSTRAN: A world leader in machine translation technologies enjoying significant competitive advantages, thanks to over thirty years' experience in its market.

SYSTRAN has conducted an intensive R&D policy that has enabled it to develop its software publishing business as an offshoot of its historical business as a language service provider to the European and American public administrations.

SYSTRAN is continuing its efforts by maintaining a constant level of R&D constant and by offering new pairs of languages every year to expand its catalogue, which is the largest on the market.

##### 3.1.1 SYSTRAN's assets

Its substantial linguistic resources, the quality of its translation engines, the technological choices it has adopted and its installed base are SYSTRAN's main assets.

**SYSTRAN has considerable intangible capital thanks to the vast number of language combinations and specialist dictionaries available.**

##### List of language pairs developed by SYSTRAN:

SYSTRAN's assets include over 40 language pairs and numerous specialised subject dictionaries, which are the result of 30 years of research and development co-financed by public administrations and multinational corporations.

	Language pairs available and marketed	Language pairs available and not marketed	Language pairs being developed
<b>Western Europe</b>			
English <> French	✓		
English <> Spanish	✓		
English <> German	✓		
English <> Dutch	✓		
English <> Italian	✓		
English <> Portuguese	✓		
English <> Greek	✓		
English <> Danish		✓	
English <> Finnish		✓	
English <> Swedish	✓		
English <> Norwegian		✓	
English <> Polish		✓	
English <> Hungarian		✓	
English <> Czech		✓	
Albanian > English		✓	
Serbo-Croat > English		✓	
French <> Spanish	✓		
French <> German	✓		
French <> Dutch	✓		
French <> Greek	✓		

French <> Italian			
French <> Portuguese			
Hungarian > French			
Polish > French			
<b>Asia</b>			
English <> Simplified Chinese			
English <> Traditional Chinese			
English <> Japanese			
English <> Korean			
French <> Chinese			
French <> Japanese			
Japanese <> Korean			
Japanese <> Chinese			
<b>Eastern Europe</b>			
English <> Russian			
<b>Middle East</b>			
French <> Arabic			
English <> Arabic			
English > Farsi	2005		
English > Urdu			

**List of specialised dictionaries developed by SYSTRAN:**

Aeronautics	Shipping
Business	Mathematics
Farming and food industry	Mechanics
Automobile	Medicine
Chemistry	Metallurgy
Defence	Photography
Law	Nuclear physics
Economics	Politics
Electronics	Earth Sciences
Information Technology	Life Sciences

Source: SYSTRAN S.A.

## **SYSTRAN is recognised for the quality of its software.**

Since its inception, SYSTRAN has been a service provider to public agencies whose principal objective is the quality of the translations:

- The translation departments of the European Commission,
- the US Department of Defense.

Since the beginning, various translation systems have been positioned in the general market as tools for comprehension, easy to use and with no claim as to the quality of the translations. The price of the SYSTRAN software also reflects its distinct positioning in relation to its competitors. SYSTRAN has also developed powerful linguistic customisation tools, thanks to its IntuitiveCoding technology, enabling users to build linguistic resources to produce translations that are as accurate as possible.

## **The technological options adopted by SYSTRAN meet the principles of consistency and open-endedness, thereby enabling the rapid development of new language pairs, and easy integration with market standards.**

All language pairs use the same translation engine, making it possible to optimise system use and administration. Since SYSTRAN has not grown by acquiring various technologies, it has developed all language pairs using its own methodology, hence its integrated and easy-to-manage solution.

Its modular architecture allows the creation of a new language combination within a very short time. Indeed, over the past two last years, SYSTRAN has dedicated most of its Research and Development efforts to rationalising the development cycle and customising its technology in order to be able to offer professional solutions within deadlines tailored to its customers' new constraints.

SYSTRAN software comprises very advanced linguistic processing modules that allow their integration into office automation suites like Microsoft Office, as well as into real-time computer processes such as document research and analysis, or the update and multilingual processing of databases.

## **One of SYSTRAN's major assets is the size of its installed base.**

SYSTRAN is the system used by the European Commission and European institutions, the NAIC, US intelligence agencies, the US Air Force and numerous public agencies in Europe and the United States, all of which benefit from perpetual use licences in exchange for recurring financing<sup>1</sup>.

SYSTRAN innovated in 1998 by launching the first Internet translation service in partnership with AltaVista. Since then, SYSTRAN has been supporting virtually all Internet *Portals* that have incorporated machine translation, as well as thousands of Web sites with permanent links to "Powered by SYSTRAN" sites. SYSTRAN technology has proven its worth in environments as demanding in terms of traffic as the AltaVista, AOL, CompuServe, Apple, Google and Lycos search engines.

List of main Portals using SYSTRAN translation engines:

- Yahoo!
- Google
- Voila
- Wanadoo
- AOL
- Free
- Lycos

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<sup>1</sup> Including linguistic and automation development

SYSTRAN is also widely used by corporate customers in both Europe and the United States.

List of major corporate customers using SYSTRAN software:

- Bentley
- Bombardier
- Chemical Abstracts
- Cisco
- Ford
- France Telecom
- O.E.C.D.
- Daimler Chrysler
- Mercedes-Benz
- NEC (Japan)
- Philip Morris
- Saint-Gobain
- Sony
- Toyota
- Dassault

### *3.1.2 Background of SYSTRAN, from services to administrations, to software publishing*

#### **THE ORIGIN OF SYSTRAN: 1968-1996: DEVELOPMENT OF TRANSLATION SYSTEMS FOR THE AMERICAN AND EUROPEAN GOVERNMENTS.**

The idea of describing natural languages by mathematical techniques became reality after the Second World War. In the '50s, research on machine translation started with literal translation, generally known by the term word-for-word translation, without the use of linguistic rules.

In 1968, Dr. Toma created a company in La Jolla (California, United States) with software called SYSTRAN, the acronym for SYStem TRANslation. Shortly afterwards, the company was chosen to develop the Russian-to-English system for the US Air Force. The first system developed by SYSTRAN was tested in early 1969 at Wright-Patterson Air Base in Dayton (Ohio, United States), and since 1970 the system has been supplying translations for the Foreign Technology Division of the US Air Force. In 1996, SYSTRAN thus signed a contract with the US National Air Intelligence Center to develop several Eastern Europe language pairs. During the conflict in Yugoslavia, SYSTRAN developed the first Serbo-Croatian-to-English system for the US government.

SYSTRAN-patented technology was also used by NASA for the Apollo-Soyuz American-Soviet project in 1974-1975. This historical event laid the groundwork for implementing an initial English-to-French prototype for the European Commission. Shortly afterwards, SYSTRAN was chosen by the Commission to provide translation systems for all European language pairs. Currently, the Commission and numerous European institutions use 17 SYSTRAN translation systems.

#### **GROWTH OF SYSTRAN: FROM MAINFRAMES TO PERSONAL COMPUTERS (PC) AND BUSINESS APPLICATIONS.**

In 1992, SYSTRAN began migrating its technology for use on personal computers and public or private networks.

Thus in 1997 SYSTRAN launched SYSTRAN PROfessional for Windows in a standalone release for PCs and a Client/Server release. Since 1997, the Company has marketed six new software packages intended for home and corporate use.

In 1997, SYSTRAN signed a licence agreement with SEIKO Instruments, Inc. to support dictionaries for SEIKO's pocket translators. Pursuing this integration strategy, SYSTRAN supported its technology at the end of 1998 for the first online editor game, ELECTRONIC ARTS for its game "Ultima online: The Second Age".

In 2001, SYSTRAN developed a translation solution for the SONY Web-based games platform.



### ***THE OPENING OF ARCHITECTURE TO MEET BUSINESS NEEDS AND ADDRESS INTERNET-RELATED RESTRICTIONS***

In early 1998, SYSTRAN made the Internet community aware of the usefulness and capabilities of machine translation by providing its technology for the AltaVista translation service: Babelfish. By late 2002, SYSTRAN was used on most major Internet Portals: AltaVista, Google, Lycos, Wanadoo, Free, etc.

### ***INTEGRATION IN COMPANY INFORMATION SYSTEMS***

In 2002, SYSTRAN continued to provide the main Internet Portals and Corporate customers with its solutions.

SYSTRAN is now working to implement integrated solutions for corporate information systems, aimed mainly at two markets:

- Intranet translation tools (Saint-Gobain, OECD, Toyota, Dassault, etc.),
- translation of knowledge bases for corporate customers such as Ford or Cisco.

### ***3.1.3 Legal organisation of the group***

#### **LEGAL BACKGROUND**

**1986:** GACHOT SA, a French company, the principal activity of which is industrial valves and fittings and fluids control, acquires the two US companies, STS (formerly WTC) and LATSEC, behind the software development of the SYSTRAN technology, and the technology's sole owners, and 76% of the capital of the German company SYSTRAN INSTITUT GmbH.

1986 to 1988 are devoted to developing the system and SYSTRAN'S linguistic assets.

**1989:** In order to ensure efficient development, it is decided to give the Machine Translation activity an autonomous operational and legal structure. GACHOT S.A. transfers a portion of the assets from its "Translation" division to SYSTRAN S.A. This contribution is offset by the issuance of SYSTRAN S.A. shares to GACHOT S.A., which then holds 99.9% of the capital of SYSTRAN S.A.

**1992 (Feb):** SYSTRAN S.A. is listed on the OTC Market of the Paris Stock Exchange.

**1994 (Nov):** GACHOT S.A. transfers to its shareholders the shares of SYSTRAN S.A. that it holds. From this point on, the two companies no longer have a direct legal affiliation.

**1995 (Aug):** To rationalise and reduce administrative costs, LATSEC takes over STS. The new entity resulting from the merger takes the corporate name SYSTRAN SOFTWARE Inc. (SSI).

**1998:** SYSTRAN S.A. is associated with the Luxembourg corporation TELINDUS Luxembourg and its management, within the new corporation SYSTRAN Luxembourg S.A., which works primarily with European administrations and especially the European Commission.

In December 1998, TELINDUS sells its shares in SYSTRAN Luxembourg S.A., i.e. 30% of the capital stock, and SYSTRAN S.A. reduces its interest in its Luxembourg subsidiary company to 78.4%.

**2000 (March):** SYSTRAN S.A. repurchases the minority shareholders' stake in SYSTRAN Luxembourg S.A.

**Legal organisation chart of the group (on 31 December 2004)**

<b>Company</b>	<b>Holding (%)</b>	<b>Acquisition date</b>	<b>Staff</b>	<b>Capital</b>	<b>Business</b>
SYSTRAN S.A. (France)	Parent company	-	26	15.08 MEUR	1. Software publishing and marketing 2. Professional services (European companies and administrations)
SYSTRAN USA (United States)	100%	03/1986	0	0.05 MUSD	Holding company. Holds 100% of SYSTRAN Software Inc.
SYSTRAN SOFTWARE Inc. (United States)	100%*	01/1986	40	4.07 MUSD	1. Software publishing and marketing 2. Professional services (US companies and administrations)
SYSTRAN Luxembourg S.A. (Luxembourg)	100%	1998	0	5.0 MLUF	Development contracts with European administrations

\* Indirect stake held by SYSTRAN USA

An information table on the subsidiary companies and financial investments is presented at the end of Chapter 4.5

**Links between subsidiary companies**

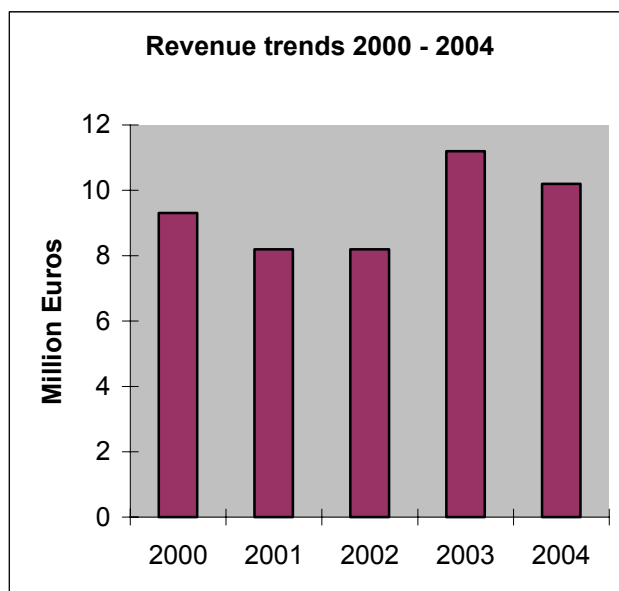
There are few economic flows between the companies of the SYSTRAN group. SYSTRAN S.A. has subcontracted to SYSTRAN Software Inc. in contracts with Cisco and the US government. SYSTRAN S.A. also grants cash advances to its subsidiary companies to accelerate their commercial growth.

### 3.1.4 Key figures of the group

#### Key figures for SYSTRAN (consolidated data)

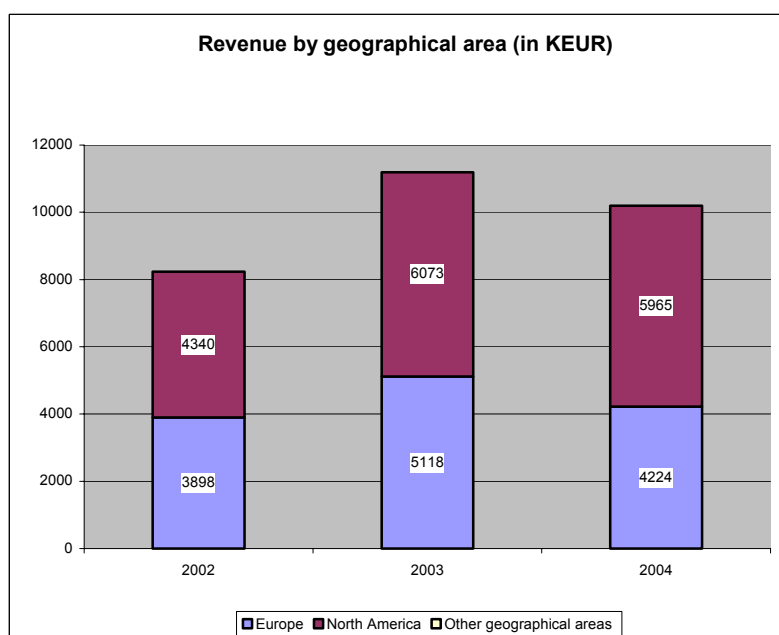
##### Revenue

	2000	2001	2002	2003	2004
MEUR	9.3	8.2	8.2	11.2	10.2



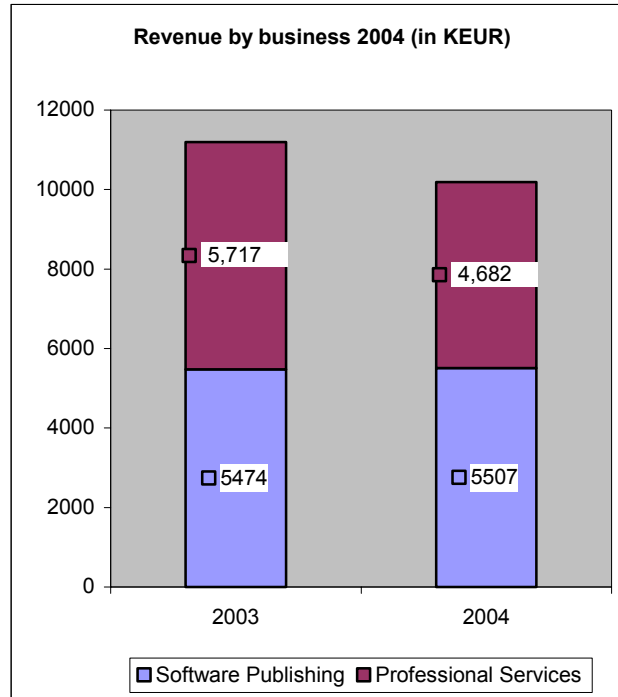
##### Revenue by geographical area

KEUR	2004	2003	2002
Europe	4,224	5,118	3,898
North America	5,965	6,073	4,340
Other geographical areas			-



## Revenue by business

KEUR	2004	2003
Software Publishing	5,507	5,474
Professional Services	4,682	5,717
<b>Consolidated Revenue</b>	<b>10,189</b>	<b>11,191</b>

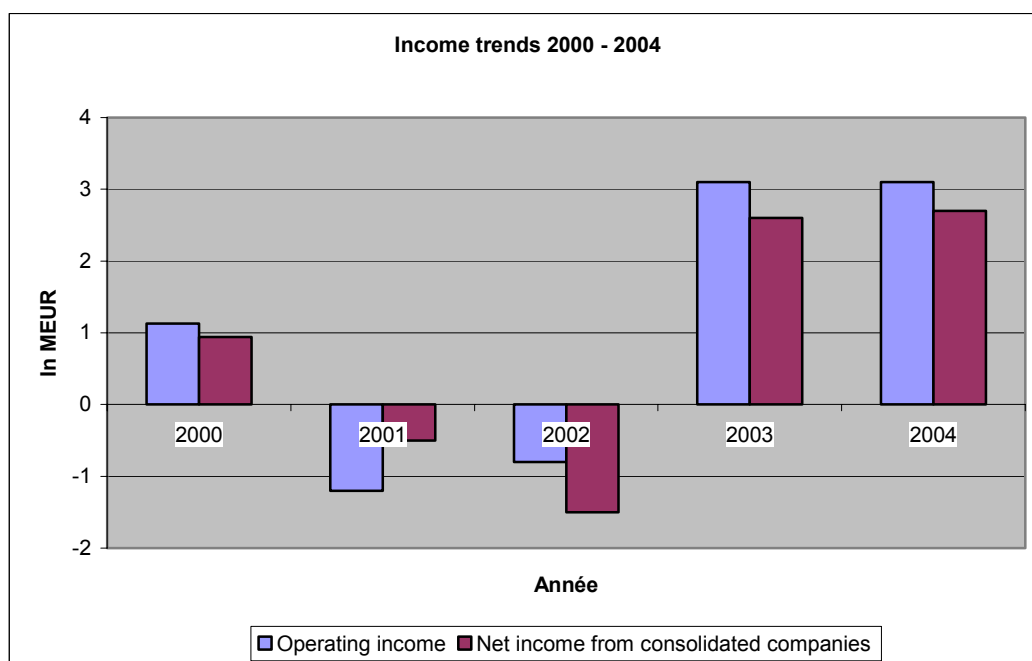


## Revenue by customer

<b>Consolidated and audited data (in thousands of Euros)</b>	<b>2004</b>	<i>As % of total</i>	<b>2003</b>	<i>As % of total</i>	<b>Change 2004/2003</b>
<b>Software Publishing</b>	<b>5,507</b>	<i>54.0%</i>	<b>5,473</b>	<i>48.9%</i>	<b>+0.6%</b>
Home & Small Business (HSB)	470	<i>4.6%</i>	601	<i>5.4%</i>	<b>-21.8%</b>
Corporate & Administrations	2,032	<i>19.9%</i>	2,296	<i>20.5%</i>	<b>-11.5%</b>
Resellers	1,726	<i>16.9%</i>	1,369	<i>12.2%</i>	<b>+26.1%</b>
Online Sales	1,279	<i>12.6%</i>	1,208	<i>10.8%</i>	<b>+5.9%</b>
<b>Professional Services</b>	<b>4,682</b>	<i>46.0%</i>	<b>5,717</b>	<i>51.1%</i>	<b>-18.1%</b>
Corporate & Administrations	3,273.1	<i>32.1%</i>	3,720	<i>33.2%</i>	<b>-12.0%</b>
Co-funded	1,409.0	<i>13.8%</i>	1,998	<i>17.9%</i>	<b>-29.5%</b>
<b>Consolidated revenue</b>	<b>10,189</b>	<i>100.0%</i>	<b>11,191</b>	<i>100.0%</i>	<b>-8.9%</b>

## Income Statement

MEUR	2004	2003
Operating income	3.1	3.1
Current income	3.1	2.9
Net income from consolidated companies	2.7	2.6
Net income, group share	2.7	2.6
Shareholders' equity, group share	23.9	21.5
Financial indebtedness	0.2	0.2
Cash	7.9	7.1



	2004	2003
Net income - Group share (in thousands of Euros)	2,682	2,651
Proforma financial revenue net of income tax	174	176
NET EARNINGS AFTER DILUTION (in thousands of Euros)	2,856	2,827
AVERAGE NUMBER OF SHARES AFTER DILUTION	11,284,695	11,306,362
NET INCOME PER SHARE AFTER DILUTION (IN EUROS)	0.25	0.25

The notes to the consolidated financial statements of 31 December 2004 (cf. paragraph 4.2 note 5.4) give exact details of the method used to calculate net earnings per share.

## 3.2 WORLD TRANSLATION MARKET

### 3.2.1 The Globalisation Market

The world market for Globalisation services includes different businesses:

- Internationalisation services that include all services relating to the internationalisation of software, Web services or content;
- Localisation services that include all services relating to the translation of Web sites, software interfaces and content;
- Human translation;
- Interpreting services, mainly consisting in services providing simultaneous or consecutive translation of speeches, conferences, etc.
- Globalisation software covering all automatic translation software or translation support software.

Market growth in these different segments is shown in the following table.

<b>BUSD</b>	<b>2005 (p)</b>	<b>%</b>	<b>2007 (p)</b>	<b>%</b>
Internationalisation	74.8	1.1%	91.1	1.0%
Software localisation	933.6	13.8%	1,144.2	12.8%
Web site localisation	1,119.6	16.6%	2,026.3	22.7%
Translation	4,190.5	61.9%	5,133.1	57.4%
Interpreting services	377.4	5.6%	430.6	4.8%
Globalisation software	70.3	1.0%	119.4	1.3%
<b>World translation market</b>	<b>6,766.2</b>		<b>8,944.7</b>	

Source: IDC.

This clearly shows that most growth is due to the growth in localisation and translation services, which is mainly due to an increase in the volume of content published by companies.

These increased translation and localisation volumes cause capacity problems, however, that can only be solved through greater use of globalisation software.

### 3.2.2 Machine translation

Machine translation is found in two main families of applications: those intended to help in understanding content in a foreign language, and those intended to publish content in a foreign language.

#### The understanding market

This market is dominated by the free translation services available on Internet, which translate approximately 20 million pages daily. These services, which have been adopted by all the Internet Portals and search engines, daily enable millions of Internet users to access pages that would otherwise be incomprehensible.

Faced with the growing success of these services, companies are deciding to provide their employees with identical services that they can access directly via their Intranet.

#### The corporate market

Today, machine translation goes to the heart of company information systems. Internal and external corporate communications are strongly influenced by globalisation and increased recourse to electronic media (e-mail, Intranets, extranets, and Web sites).

International companies feel linguistic barriers even more strongly as trade borders disappear.

To meet this need, SYSTRAN offers integrated translation solutions and a range of linguistic customisation, integration and training services.

Demand is, moreover, no longer limited only to translation departments but also extends to IT, marketing and communications departments, which seek to enable their users to make inquiries in real-time without incurring human translation costs. This change in mentality encourages us to expect very strong sales growth in this market segment.

### **Machine translation and human translation**

Human translation poses three major problems that limit its use and the growth of its market:

- Time: a human translator translates an average of 2,000 words per day.
- Cost: cost averages EUR 40 per translated page.
- Capacity: the volumes of information available electronically are beyond the capabilities of human translators.

In view of these constraints, machine translation is a technology we cannot do without in addressing this new demand. It firstly offers human translators considerable productivity gains, and secondly means that documents that otherwise could not have been translated can now be translated.

### **New applications**

New applications are currently developing with the growth of Internet and search engines. In particular, the first generation of large engines based on statistical technologies will be replaced by second-generation search engines that can handle multilingual document databases. It is with this in mind that the Google company has begun research on the automatic processing of languages in general, and automatic translation in particular.

### **Technology**

Machine translation is translation by computer from one natural language into another. The grammatical structure of each language is analysed using precise rules to transfer the source language (text to be translated) to the target language (translated text). In view of the complexity of natural languages, the development of translation software is a very complex process that requires a continuous effort:

- Each language has its own structure - this is the asymmetry of languages;
- There are numerous grammatical combinations and stylistic variations for each language, and the number of combinations increases as sentences become more complex;
- Translation software cannot understand the meaning of a sentence and must base their translations on information already integrated into the software.

In order to develop a translation system, bilingual linguistic resources must be built and analysed, the grammatical, syntactic and semantic rules of the source language and target language must be described, and algorithms created. This requires a high level of expertise in computational linguistics.



Given the volume of development costs, translation systems have long been reserved for major administrations or governments. The METEO system (translation system for English-French and French-English weather reports), developed in Canada in 1977, illustrated the utility of a limited-scope application in which translation was very effective. In 1993, the number words translated via computer by large-scale users was estimated at 380 million per year. This included the European Union, which alone translated 30 million words in thirteen language combinations, using SYSTRAN. This data more than doubled in 1998, to over 70 million words.

Extremely high investments are required to develop a translation system, but SYSTRAN possesses considerable competitive advantages since it offers the widest range of language pairs currently available.

### 3.2.3 *Competition*

The machine translation market is characterised by strong barriers to entry, given the investments required and the development time needed to implement this software.

The risk of newcomers being positioned in the market is therefore very low, and the probability of strategic alliances being formed is high.

Considering the barriers to entry, SYSTRAN's competition changes little, although the Language Weaver company, which was created in the US in 2002 and financed by the In-Q-Tel investment fund, has entered the market and the Microsoft and Google companies have begun research projects to develop machine translation software.

Aside from these market newcomers, the longstanding market players remain unchanged:

- ❑ In spring 2001, IBM launched a server-based translation solution, "WebSphere Translation Server" offering 11 language pairs.
- ❑ Logomedia, a subsidiary of Language Engineering Corp., is seeking to develop its business in the North American market, with limited success.
- ❑ In early 2001, SDL International, a British human translation company listed on the London Stock Exchange (code: SDL) took over the "Transcend" translation activity of Transparent Language, a US-based company.
- ❑ The German company "Sail Labs," founded in 2001 to take over the assets of Lernout & Hauspie, went bankrupt in February 2002, then merged with two other Swiss companies to form Compendium.
- ❑ The Russian company Prompt sells mass-market translation software for Windows in France through the French company Softissimo (Reverso software).

Within this context, SYSTRAN has four major advantages, namely:

- ❑ Its offering of 40 language pairs, the widest on the market, which enables it to develop new language pairs more quickly,
- ❑ The homogeneity of its technology, which optimises its use, particularly in networking,
- ❑ The quality of its linguistic systems and data banks,
- ❑ Its long experience in linguistic customisation to meet customer needs.

### 3.3 ACTIVITY OF SYSTRAN

Currently considered as being the premier global provider of translation solutions (Source IDC, 2004), SYSTRAN offers its customers a full range of software and services.

On the basis of its "historical" business of providing services to European and American administrations, since 1997 SYSTRAN has developed a software publishing business for the home and professional market which today accounts for over 54.0 % of its revenue.

Thus in 2004, its Software Publishing business represented a steady MEUR 5.5 in line with 2002, with the following breakdown:

- Desktop products, which generate MEUR 3.1 compared to MEUR 2.8, i.e. a growth rate of 11%;
- Client-Server products, accounting for MEUR 1.8 compared to MEUR 2.2, i.e. a decrease of 18%;
- e-Services, accounting for MEUR 0.5 compared to MEUR 0.45, i.e. a growth rate of 10%.

The drop in Client-Server solution sales is due to the delayed launch of version 5.0 for this product range (available in the first quarter of 2005). The growth in Desktop Product sales is due to the release of the new version, SYSTRAN 5.0, at the beginning of the third quarter of 2004.

The decrease in Services sales to companies (1.4 MEUR, compared to 1.9 MEUR in 2003) is due to the Cisco contract terminating during the financial year.

Corporate sales (Client-Server products and services to companies) amount to MEUR 3.0 compared to MEUR 3.9 in 2003.

## TABLE OF SYSTRAN PRODUCTS AND SERVICES

<b>Software publishing</b>	
Desktop products	SYSTRAN PDF Translator SYSTRAN WebTranslator SYSTRAN Personal SYSTRAN Office Translator SYSTRAN Standard SYSTRAN Premium
Client-Server products	SYSTRAN Enterprise SYSTRAN WebServer
e Services	SYSTRANLinks SYSTRANet SYSTRANBox
<b>Professional services</b>	Linguistic customisation Integration Training Development of new language pairs

Source: SYSTRAN S.A.

### 3.3.1 Software Publishing

SYSTRAN publishes a full range of software for personal (Desktop) and Client-Server use, and operates e-Services for both companies and the general public. In addition, SYSTRAN continues to supply its translation technology as part of OEM agreements.

#### **1/ DESKTOP PRODUCTS**

SYSTRAN offers a range of six Desktop software packages: SYSTRAN PDF Translator, SYSTRAN WebTranslator, SYSTRAN Personal, SYSTRAN Office Translator, SYSTRAN Professional Standard and SYSTRAN Professional Premium, which meet the needs of the general public, companies and translation industry professionals.

This software is easily integrated into office automation applications by means of a Microsoft Office plugin suite. The Desktop products incorporate linguistic customisation tools, in particular tools enabling users to create and import dictionaries.

This product range is marketed via a distributor network, which markets the complete range via consumer or business resellers. SYSTRAN also markets its software in online sales via three specialist distributors: Digital River in the US and Europe, T1 in Great Britain and Téléchargement.fr in France.

#### **Sales of products by distribution channel**

<b>In MEUR</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Direct and Distributor sales	2.2	1.5	1.6	1.6	1.7
Online sales	0.8	1.0	1.0	1.2	1.3
<b>Total</b>	<b>3.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>3.0</b>

## **2/ CLIENT-SERVER PRODUCTS**

SYSTRAN offers its corporate customers two Client-Server products: SYSTRAN Enterprise and SYSTRAN WebServer, which companies can install on their Intranet and potentially on their user workstations.

The roll-out of this software often involves customisation and integration services. However, SYSTRAN is developing tools for creating and managing linguistic resources for its Client-Server products to enable companies to do this work themselves.

SYSTRAN is developing direct sales and implementing a network of resellers, VAR (Value Added Resellers) and users (software editors, integrators, and consulting firms). However, the emerging nature of this market means that SYSTRAN must favour direct sales.

## **3/ E-SERVICES**

SYSTRAN has developed a full range of on-line services to meet the needs of its customers who do not wish to host the software themselves.

This range of e-Services includes the SYSTRANBox, SYSTRANLinks and SYSTRANet services, for which SYSTRAN offers basic versions designed for home and small business users, as well as "Corporate" versions.

- **SYSTRANBox**

SYSTRANBox is used to translate text and Web pages. The service is available on the Internet and is customised to meet individual customer needs.

SYSTRAN supplies SYSTRANBox to numerous well-known Portals such as Wanadoo, Voila, AOL, Terra, Lycos and Free, giving it a high profile on the Internet.

- **SYSTRANLinks**

With the aim of expanding the adoption of SYSTRAN by the Internet community and establishing a large base of regular users, SYSTRAN has developed a Website translation service.

- **SYSTRANet**

As with SYSTRANLinks, SYSTRAN will limit access to free translation functions via Intranet in order to increase its referenced user base and promote a paying SYSTRANet service currently under development.

SYSTRANet is a translation service intended for users who seek Internet access to a customised service without, however, installing the SYSTRAN software.

The free service is available from SYSTRAN at [www.systranet.com](http://www.systranet.com) and currently has 500,000 regular, registered users. It offers functionalities such as the translation of files while maintaining formatting, the use of specialised dictionaries (information technology, law, mechanics, medicine, etc.) and the application of user-created dictionaries.

## **4/OEM**

SYSTRAN has standardised its software and Application Programming Interface (API) and it can be integrated into all computer applications. SYSTRAN is developing OEM agreements with software publishers, integrators and computer manufacturers (SEIKO, Electronic Arts, OneRealm, SONY, etc.)

New contracts have been signed in this market segment, notably with Brother and Hexaglot.

### *3.3.2 Professional services*

Since its inception, SYSTRAN has provided services to American and European administrations seeking solutions for processing, extracting and translating large volumes of multilingual data.

The development of communications – particularly via the Internet – and increasing globalisation have given rise to a similar need for large companies that also want to benefit from these services.

Along with this conventional business providing services to administrations, SYSTRAN has developed a range of Professional services that meet the translation solution roll-out needs of large companies.

- **Services to companies: Corporate offerings**

The roll-out of a professional translation solution requires installation and integration services that are currently provided by SYSTRAN, but which in the long term should be provided by partner value-added resellers (VAR).

To address the quality problems of machine translation solutions, it is necessary to "customise" the system by providing it with information about the style of the documents to be translated and the specific terminology to be used.

Until now, the work required to adapt translations to a specific field was carried out entirely by SYSTRAN on behalf of its customers.

The range of new extraction, coding or updating tools available with SYSTRAN software now enables customers to perform some of these tasks.

If more substantial customisation work is required, SYSTRAN handles the analysis, creation and integration of specific terminology for its customers.

- **Services to government and administrations**

SYSTRAN maintains and upgrades systems used by government and administrations.

SYSTRAN also develops new language pairs for the US government and the European Commission.

### 3.4 DESCRIPTION OF SYSTRAN'S ORGANISATION

#### 3.4.1 Human resources

#### **ORGANISATION CHART OF THE SYSTRAN GROUP**

The SYSTRAN Group is composed of three companies, SYSTRAN S.A. being the parent company heading up the group's functional, technical and operational management.

#### **Organisation chart of the SYSTRAN Group**

<b>Dimitris Sabatakakis</b>
Chief Executive Officer

#### **GROUP MANAGEMENT COMMITTEE**

Chief Technical Officer	Pierre-Yves Foucou
CEO of SYSTRAN Software Inc.	Denis Gachot
Deputy CEO	Guillaume Naigeon
R&D Manager	Jean Senellart

Mr. Dimitris Sabatakakis is Chief Executive Officer of SYSTRAN Luxembourg S.A. and Chairman of the Board of Directors of SYSTRAN Software Inc. .

#### **WORKFORCE**

Most of the Group's current personnel is made up of computational linguists.

#### ***Changes in the Group's average headcount (2002-2004)***

<b>Profile</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Board of Directors	2	3	3
Computer experts (engineers)	28	14	15
Computational linguists*	40	36	32
Sales and marketing	11	7	7
Administrative staff	10	6	5
<b>Total</b>	<b>91</b>	<b>66</b>	<b>62</b>
<i>of which time-limited work contracts and apprenticeship contracts</i>	3	3	3
Average salary (thousands of Euros)	42	47	51

(\*) a large number of linguists, particularly in the United States, are employed on permanent contracts which may be terminated by the employer, notably upon completion of the projects to which they are assigned.

### ***Changes in SYSTRAN S.A.'s average headcount (2004)***

	<b>Permanent</b>	<b>Fixed term</b>	<b>Other</b>	<b>Total</b>
Headcount at the start of the fiscal year	21	2	3	26
New hirings	6	1	3	10
Terminations	3	3	1	7
<b>Headcount at the end of the fiscal year</b>	<b>24</b>	<b>0</b>	<b>1</b>	<b>25</b>

### **SUB-CONTRACTING AND CO-CONTRACTING**

In the case of projects co-funded by the European Commission, when SYSTRAN acts as project coordinator, it accounts for the total budget as revenue and the proportion reallocated to partners as co-contracting. In 2004, co-contracting totalled KEUR 885 compared to KEUR 1,326 in 2003.

In addition, from time to time SYSTRAN calls on sub-contractors to create multilingual dictionaries for itself or its customers. The amount paid in sub-contracting is negligible.

### **ORGANISATION OF WORKING TIME**

Working time differs for each company in the group and complies with the applicable laws in the country where it operates.

Since 1 January 2002, SYSTRAN S.A. has implemented measures to reduce working hours pursuant to the Aubry 35-hour week laws, by directly applying the National Work Time Agreement signed on 22 June 1999 within the SYNTEC Federation.

### **CURRICULUM OF THE EXECUTIVE BOARD OF SYSTRAN S.A.**

**Dimitris Sabatakakis, Chairman and CEO.** Born in 1962 in Athens, Greece. A graduate of Strasbourg University in Economic Sciences, he began his career in finance, then in industry. Joined by investors, he took over and managed the recovery of the Gachot company, which was sold to the KEYSTONE/TYCO Group in 1995. Mr. Sabatakakis has managed SYSTRAN since February 1997.

**Denis Gachot, CEO of SYSTRAN Software Inc.** Born in 1951, Mr. Gachot graduated from the Ecole Fédérale Polytechnique de Zurich and began his career in industry. Since 1986, he has been managing SYSTRAN'S US subsidiary.

**Guillaume Naigeon, Deputy CEO.** Born in 1972, Mr. Naigeon is a graduate of IEP (Institute of Political Studies) in Grenoble, has a DESS (postgraduate diploma) in Finance from the University of Paris – Dauphine and began his career in banking, before serving as CEO of Aurora from 1999 to 2001.

**Pierre-Yves Foucou, Chief Technical Officer.** Born in 1969. Thesis in Basic and Linguistic Information Technology, University of Paris VII, "A hypertext model for processing natural languages", completed in 1996. Research Engineer at the Computational Linguistics Laboratory of University of Paris XIII from 1997 to 1999. Mr. Foucou is the author of numerous studies and publications on the subject.

**Jean Senellart, R&D manager.** Born in 1972. Mr. Senellart graduated from the Ecole Polytechnique and holds a PhD in Computational Linguistics from the University of Paris VII – LADL. He began his career as a researcher and taught at the Ecole Polytechnique and University of Marne la Vallée.

### 3.4.2 Customers

Since its inception, SYSTRAN has been a service provider for public agencies. The US intelligence services, military agencies, as well as the European Commission have financed and used SYSTRAN from its beginning, which explains the relatively large presence of corporate customers such as the European Commission and the US Department of Defense. Under the agreement it signed in 2003 to sell licences to the US government, SYSTRAN now receives regular orders. As a result, the public sector accounted for a significant proportion of its consolidated revenue in 2004, i.e. approximately 37%.

The share of corporate customers in SYSTRAN's revenue has decreased slightly to approximately 30%. In 2004, the rate of renewal was excellent for its Software Publishing business, but SYSTRAN acquired few new customers and some development contracts reached their term.

The share represented by the 10 largest customers in the consolidated figure increased in 2004, compared with 2003:

<b>Rank</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Customer n°1	14.8%	17.0%	10.9%	24.5%	21.2%
Customer n°2	14.8%	13.5%	8.2 %	11.8%	9.3%
Customer n°3	12.2%	8.7%	7.5%	9.1%	6.3%
Customer n°4	9.9%	8.0%	7.0%	6.7%	5.6%
Customer n°5	9.2%	7.1%	5.7%	4.1%	4.0%
<b>Subtotal, Top 5</b>	<b>60.9%</b>	<b>54.3%</b>	<b>39.3%</b>	<b>56.2%</b>	<b>46.4%</b>
Customer n°6	3.9%	2.7%	3.2%	1.5%	3.5%
Customer n°7	3.2%	2.4%	2.6%	1.5%	3.4%
Customer n°8	1.5%	2.4%	2.2%	1.5%	2.3%
Customer n°9	1.2%	1.6%	1.1%	1.4%	1.4%
Customer n°10	1.1%	1.4%	1.0%	1.2%	1.1%
<b>Total, Top 10</b>	<b>71.9%</b>	<b>64.8%</b>	<b>49.5%</b>	<b>63.3%</b>	<b>58.1%</b>

Payment terms vary by customer type:

<b>Customer</b>	<b>Invoicing method</b>	<b>Payment terms</b>
Corporate	Licences: annual or lifetime fee Services: invoiced according to work progress or upon completion, depending on the contract	Licences: payment on order in proportions set by contract Services: 60 to 90 days
Distributors	Invoiced upon delivery of goods	60 days. Payment at 30days for online sales
Services to administrations	Invoiced based on contractual schedules (every 3 or 6 months depending on the contract)	Europe: 60 days United States: 90 to 120 days



Development contracts are invoiced as expenditures are incurred. When these are carried out with several partners, SYSTRAN, as project coordinator and integrator, posts all revenue, with the proportion allocated to the partners accounted for as an expense in the "Purchases and other external expenses" account.

### 3.4.3 Suppliers

The Company uses several subcontractors to provide the following in fulfilling its contracts:

- Supply of technical documentation or specialist dictionaries, particularly for US government contracts
- Post-editing in localisation contracts
- Software packaging

However, subcontracting remains limited compared to revenue; the largest subcontractor represents less than 2% of the group's consolidated revenue. The remaining suppliers correspond to consulting fees.

### 3.4.4 Premises

SYSTRAN owns no buildings or land. SYSTRAN's premises at Soisy sous Montmorency are rented from Techniques Nucléaires S.A., a subsidiary of Valfinance S.A., which belongs to management members Jean Gachot and Dimitris Sabatakakis. All other premises rented by the group's two entities belong to private companies connected neither legally nor financially with SYSTRAN and/or its management.

#### List of premises occupied by SYSTRAN in 2004

Company	Address	Floor space	Annual rent
SYSTRAN SA	1, rue du Cimetière - 95230 Soisy sous Montmorency - France	1500 m2	0.150 MEUR
SYSTRAN SA	La Grande Arche, 1, parvis de La Défense - 92044 Paris La Défense - France	700 m2	0.218 MEUR
SYSTRAN SOFTWARE Inc	9333 Genesee Avenue – San Diego - California – United States	600 m2	0.286 MUSD

SYSTRAN S.A. has leased premises at La Grande Arche at La Défense and has been granted 6 months' free rent.

The lease agreement for these new premises was signed in December 2003. The lease agreement with Techniques Nucléaires was terminated at the end of 2004.

### 3.5 INVESTMENT POLICY

SYSTRAN's investment policy consists of constant investment in research and development. These research and development expenses, which mainly consist of salaries, are fully accounted for as expenses during the current fiscal year.

In addition, SYSTRAN S.A. left its Soisy sous Montmorency premises to establish its head office in Paris La Défense. The costs and investments incurred at that time are as follows (in thousands of Euros):

- Amortisation of the residual net value of fittings in the Soisy sous Montmorency premises, recorded as an extraordinary operating expense in fiscal year 2004, amounting to 97,000 Euros;
- Fitting out the new premises in Paris La Défense, for 257,000 Euros. This expenditure has been immobilised.

SYSTRAN made no other significant investments in 2004.

In MEUR	2004	2003	2002	2001	2000
<b>R&amp;D EXPENDITURE</b>					
Self-financed R&D expenditure	0.8	0.5	0.9	1.1	0.9
Co-funded R&D expenditure	1.4	1.9	0.9	0.8	1.4
<b>ACQUISITIONS</b>					
Acquisition of Aurora				0.5	
Total	2.2	2.4	1.8	2.4	2.3

One of SYSTRAN'S major advantages is its linguistic assets, which allow the quick development of new language pairs and new specialised dictionaries.

SYSTRAN developed new language combinations, thus bringing the number of systems already available to 40, and offers more language combinations than all its competitors combined. The linguistic modules are now offered in 'packs,' which include the combinations involving one target language.

The Research and Development programme is based on three main goals: new generation translation engines, the development of linguistic customisation tools, and the development of new language pairs.

#### **SELF-FINANCED RESEARCH AND DEVELOPMENT**

Self-financed Research and Development expenditure totalled 0.8 million Euros in 2004, i.e. 7.9% of consolidated revenue (compared to 0.5 million Euros in 2003). This expenditure consists primarily of staffing expenses and external expenses.

These expenses are posted as expenses for the fiscal year in which they are incurred and, accordingly, are not subject to any capitalisation into balance-sheet assets.

## **CO-FINANCED DEVELOPMENT**

In the United States, SYSTRAN Software Inc. signed a contract with the US government to develop translation systems for English <> Arabic, Farsi and Urdu.

In Europe, SYSTRAN takes part in several development projects with the European Commission (IST, eCONTENT and INCO-MED Programmes). The co-funded share of these development contracts totalled 1.4 million Euros in 2004 (compared to 1.9 million Euros in 2003).

When SYSTRAN coordinates a project it posts the total budget as revenue; when it is a partner, only its share is recognised.

### **SYSTRAN AS COORDINATOR**

<b>Project</b>	<b>Subject</b>	<b>Budget (millions of Euros)</b>	<b>Dates</b>
<b>Crosslingual</b>	Development of multilingual information sites on the economic conditions of the European Union (Euractiv II)	1.2	Start: August 2002 End: July 2004
<b>Alma</b>	Development of a multilingual information site on water (Arabic)	1.2	Start: October 2002 End: September 2004
<b>Vicodi</b>	Contextualisation of digital content	1.0	Start: September 2002 End: August 2004

### **SYSTRAN AS PARTNER**

<b>Project</b>	<b>Subject</b>	<b>Budget (millions of Euros)</b>	<b>Dates</b>
<b>Musa</b>	Machine translation of film subtitles	0.17	Start: October 2002 End: February 2005
<b>Kom 2002</b>	Development of a multilingual information site on mental illnesses	0.2	Start: September 2002 End: July 2004

### **Development contracts with the French government**

<b>Project</b>	<b>Subject</b>	<b>Budget (millions of Euros)</b>	<b>Dates</b>
<b>Outilex</b> Ministry of Research	Development of semantic modules	0.3	Start: October 2002 End: October 2005
<b>Normalangue</b> Ministry of Education		0.02	Start: January 2003 End: December 2005
<b>Evalda – Cesta</b> Ministry of Education		0.008	Start: January 2003 End: December 2005
<b>Noms propres (proper names)</b> Ministry of Industry		0.87	Start: September 2003 End: September 2005

Research and development charges are not capitalised as a balance-sheet asset. They are posted as an expense in the fiscal year in which they are incurred.

### 3.6 ACTIVITY DURING THE LAST FISCAL YEAR

2004 was a watershed year for SYSTRAN. It included the Cisco contract reaching term and the launch of version 5.0 confirming SYSTRAN's market positioning as a software publisher, with this business generating 54% of its sales. Despite a drop in business mainly due to certain services contracts reaching term, the company has improved its operating margin, which is now over 30%.

#### 3.6.1 Market trends

As in 2003, the demand for Web site translation solutions, e-Services and online sales, remained steady and even increased, underlining e-Services market growth.

Demand for client-server translation solutions for corporate Intranets is now established, but the sales cycles for these Corporate solutions are often longer than 9 months.

Companies are increasingly taking the need for multilingual information management into account, but they have not yet begun to adopt customisation tools to any great extent.

Contrary to our expectations, no new development contracts have been signed with the European Commission Translation Service, despite the continued entry of new member countries. The high volume of business with the US government has remained steady owing to the demand for new language pairs related to the international situation: Arabic, Farsi and Urdu.

#### 3.6.2 2004 consolidated financial statements

##### 2004 consolidated income

<b>Consolidated figures in MEUR</b>	<b>2004</b>	<b>2003</b>	<b>Pro forma 2004/2003 change</b>
Revenue	10.19	11.19	-8.94%
Operating income	3.11	3.08	+ 0.97%
<i>Operating margin</i>	<i>30.5%</i>	<i>27.5%</i>	<i>+ 10.91%</i>
Net income Group share	2.68	2.65	+ 1.13%
<i>Net margin</i>	<i>26.3%</i>	<i>23.7%</i>	<i>+ 10.97%</i>

The year's revenue totalled €K 10,189, down 8.94% compared to 2003 on pro forma data and down 3.5% at a constant exchange rate.

The operating income was positive at €K 3,109, i.e. 30.5% of revenue, compared to 27.5% in 2003.

The net income per share amounted to 0.27 Euros per steady share compared to 2003.

## Consolidated balance sheet as of 31 December 2004

Shareholders' equity totalled 23.9 million Euros and the Group has practically no debt despite significant investments.

Net cash as of 31 December 2004 totalled 8.0 million Euros compared to 7.2 million Euros a year earlier.

### 3.6.3 Revenue trends by business

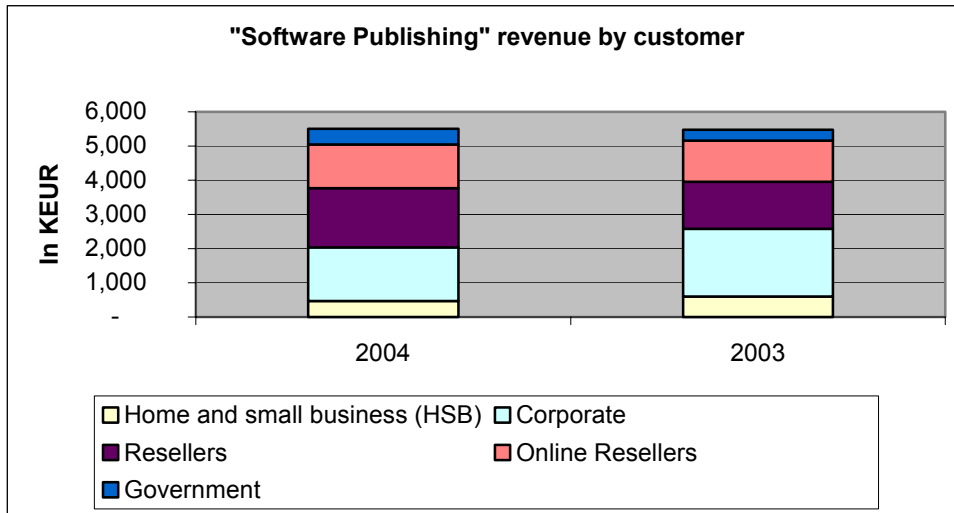
#### 1- Group business during the fiscal year

The Group's consolidated revenue totalled 10.2 million Euros, down 9% on 2003. It was divided between 5.5 million Euros for the Software Publishing business, and 4.7 million for the Professional Services business.

At a constant exchange rate, revenue amounted to 10.8 million Euros, down 3.5 % on 2003.

<b>Consolidated and audited data (in thousands of Euros)</b>	<b>2004</b>	<i>As % of total</i>	<b>2003</b>	<i>As % of total</i>	<b>Change 2004/2003</b>
<b>Software Publishing</b>	<b>5,507</b>	<i>54.0%</i>	<b>5,473</b>	<i>48.9%</i>	<b>+0.6%</b>
Home & Small Business (HSB)	470	<i>4.6%</i>	601	<i>5.4%</i>	<b>-21.8%</b>
Corporate & Administrations	2,032	<i>19.9%</i>	2,296	<i>20.5%</i>	<b>-11.5%</b>
Resellers	1,726	<i>16.9%</i>	1,369	<i>12.2%</i>	<b>+26.1%</b>
Online Sales	1,279	<i>12.6%</i>	1,208	<i>10.8%</i>	<b>+5.9%</b>
<b>Professional Services</b>	<b>4,682</b>	<i>46.0%</i>	<b>5,717</b>	<i>51.1%</i>	<b>-18.1%</b>
Corporate & Administrations	3,273.1	<i>32.1%</i>	3,720	<i>33.2%</i>	<b>-12.0%</b>
Co-funded	1,409.0	<i>13.8%</i>	1,998	<i>17.9%</i>	<b>-29.5%</b>
<b>Consolidated revenue</b>	<b>10,189</b>	<i>100.0%</i>	<b>11,191</b>	<i>100.0%</i>	<b>-8.9%</b>

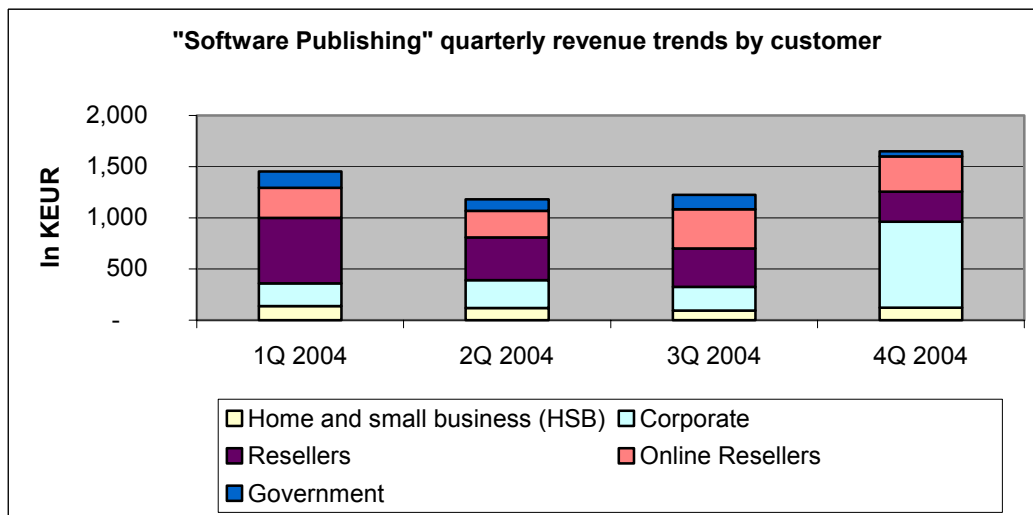
## 2.1 - Software Publishing



Software Publishing business remained steady relative to fiscal year 2003, and represented 54% of total revenue, compared to 49% in 2003.

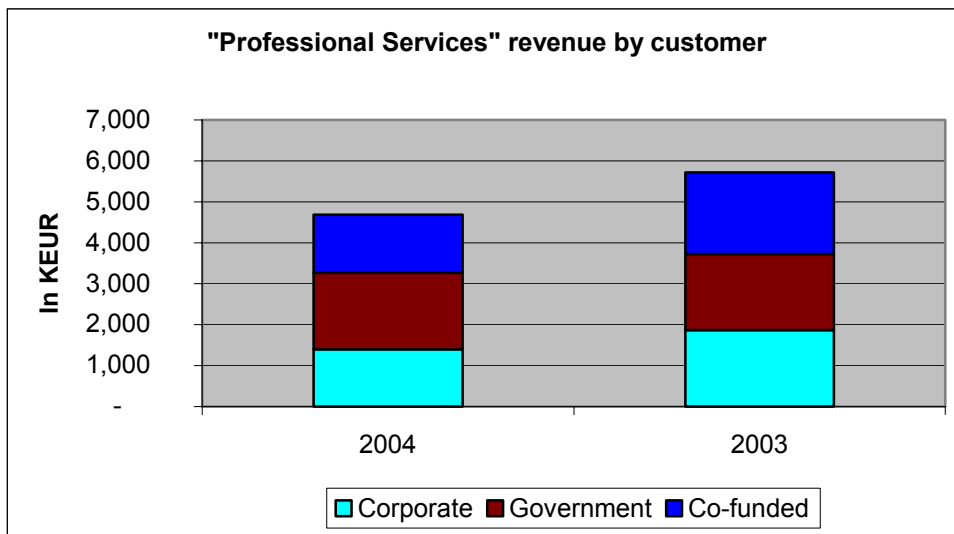
During the fiscal year SYSTRAN has launched its new 5.0 version, as well as its new products PDF Translator and Office Translator.

Version 5.0, the launch of which was initially scheduled for the second quarter of 2004, was finally launched in the summer of 2004, which explains its limited impact upon revenue.



Business in the first three quarters was stagnant due to the delay in bringing version 5.0 to market. The effects of the launch of version 5.0 can be seen in the fourth quarter, however, particularly in the Corporate segment.

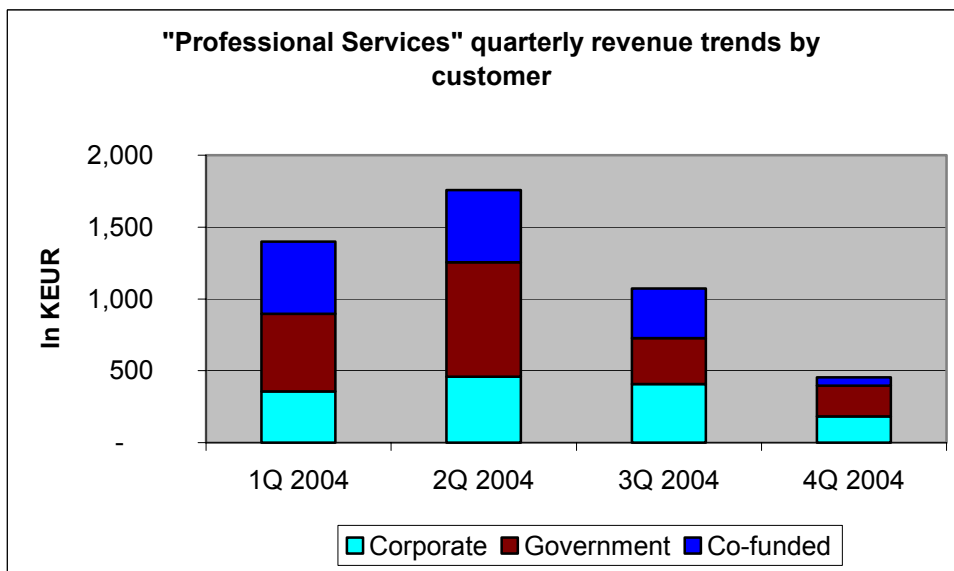
## 2.2 - Professional Services



Professional Services business was 18.1% down on fiscal year 2003, and represented 46% of total revenue, compared to 51% in 2003.

Apart from the Administrations segment which remained stable, revenue was down in the **Corporate & Administrations** and **Co-funded** segments.

SYSTRAN Inc. continues to receive development orders from the US government, whereas the co-funded contracts with the European Union reached term during the fiscal year.



## **2.3 - Analysis by products and solutions**

<b>In thousands of Euros</b>	<b>2004</b>	<b>As % of total</b>	<b>2003</b>	<b>As % of total</b>	<b>2004/2003 change</b>
<b>Software Publishing</b>					
Desktop Products	3,117	30.6%	2,793	25.0%	+11.6%
Client-Server solutions	1,857	18.2%	2,227	19.9%	-16.6%
e-Services	513	5.0%	448	4.0%	+14.5%
OEM	20	0.2%	6	0.1%	Ns
<b>Total Software Publishing</b>	<b>5,507</b>	<b>54.0%</b>	<b>5,474</b>	<b>49.0%</b>	<b>0.6%</b>
<b>Professional Services</b>					
Corporate	1,402	13.8%	1,873	16.7%	-25.2%
Administrations	1,871	18.4%	1,847	16.5%	+1.3%
Co-funded	1,409	13.8%	1,997	17.8%	-29.4%
<b>Total Professional Services</b>	<b>4,682</b>	<b>46.0%</b>	<b>5,717</b>	<b>51.0%</b>	<b>-18.1%</b>
<b>Consolidated revenue</b>	<b>10,189</b>	<b>100%</b>	<b>11,191</b>	<b>100%</b>	<b>-8.94%</b>

### **3- 2004 income was marked by an improvement in the operating margin**

Despite the decrease in revenue, the operating income remained stable at 3.11 million Euros compared to 3.08 million Euros in 2003. The operating margin continued to grow and amounted to 30.5% compared to 27.5% in 2003.

### **4- Prospects**

#### **Software Publishing**

In 2005, the Group will continue its efforts to develop its "Software Publishing" business by:

- Marketing a new version, version 5.0, for its Client-Server and e-Services ranges;
- Expanding online sales by launching e-Commerce sites in the major European countries;
- Developing new paying e-Services and continuing with its strategy of migrating users of free services to paying services;
- developing its distributor and VAR network.

Annual licences purchased but not posted in 2004 totalled approximately 0.9 million Euros.

#### **Professional Services**

On 31 December 2004, the US federal government order book totalled 0.7 million US Dollars.

Co-funded development contracts will generate revenue of 0.1 million Euros in 2005.



### **3.7 ANALYSIS OF SYSTRAN RISK FACTORS**

#### **Technology risks**

SYSTRAN's success will partly depend on its ability to market machine translation solutions, and in particular software adapted to the needs of companies, to meet the increasingly specific requirements of its present and future customers within strict time and budget constraints, to develop and adapt to progress in technology, new IT standards, the market environment and new offerings from its competitors.

However, the technology marketed by SYSTRAN has proven its quality since it was developed for public administrations concerned with translation quality, such as the European Commission or the U.S. Department of Defense. The SYSTRAN technology has also demonstrated its ability to operate in an environment as demanding as the Internet. This technology migrated successfully from mainframes to personal computers and then to the Internet.

The Company does not believe it is in a situation in which it depends on holders of patents or licences, supply, commercial or financial contracts, new manufacturing procedures and suppliers, or the public authorities to any large extent.

#### **Risks related to competition**

The machine translation market is a market in a startup stage. Competitors such as IBM or other software makers represent serious competition for SYSTRAN, especially as IBM has an overall commercial offering that includes speech technologies as well as translation.

The market is, however, protected by major barriers to entry. In order to develop a machine translation system, linguistic resources, grammatical, semantic and syntactic analysers must be built and algorithms created. This therefore requires a high level of expertise in linguistics and information technology.

In addition, the acquisition of know-how in this technological field takes time:

- IBM, which only entered this market in 2001, offers only a few language pairs developed 20 years earlier;
- Lernout & Hauspie ("L&H"), which has now disappeared, chose to approach this market through business acquisitions (including of Globalink and NeocorTech).

For its part, SYSTRAN has gained valuable and incomparable experience in providing turn-key technologies for major public administrations (the European Commission, US Department of Defense), major companies (Ford, SONY) and for sites and Portals with high traffic (Google, Altavista).

#### **Legal risk**

Generally speaking, computer programs are not patentable inventions. The Group retains all copyrights pertaining to its technology and products. To date, the Group is not engaged in any lawsuit pertaining to intellectual property rights.

Moreover, SYSTRAN has established a systematic policy to protect its brands worldwide.

There is no lawsuit or arbitration in the recent past liable to have or that has had a significant impact on the Group's financial situation, business or income.

#### **Industrial and environmental risk**

SYSTRAN produces intangible goods involving a production process that poses no industrial or environmental risk.

## **Securities risks**

SYSTRAN does not have a portfolio or shares in companies apart from those in its subsidiaries, and is therefore not open to any risk with regard to securities.

SYSTRAN currently holds 62,555 SYSTRAN shares amounting to 197,600 Euros at 31 December 2004. These were acquired on the Market under the share repurchase programme authorised by the Extraordinary General Shareholders Meeting of 3 May 2000, and subsequently renewed by the General Shareholders Meeting of 9 November 2001, by the General Shareholders Meeting of 27 June 2003, and by the General Shareholders Meeting of 25 June 2004.

Consequently, the securities-related risk is negligible given the risks of fluctuations in treasury share prices.

## **Customer risks**

SYSTRAN'S principal customers are major corporate customers (administrations and large companies), for which there is no bad debt to date. Their proportion of total revenue, i.e. 50%, played a defensive role in SYSTRAN's business during a period when it was proving difficult to acquire new customers in a difficult economic environment.

Overall, SYSTRAN has a very low level of bad debt due to the large share of large corporations and administrations. For all other customers, SYSTRAN applies a policy of payment with order, to avoid this type of risk.

## **Supplier risks**

There is no supplier related risk due to weakness in the revenue of subcontractors. The SYSTRAN group calls upon external service providers only exceptionally and in a marginal way.

## **Key person risks**

The future success of SYSTRAN will depend on retaining its commercial and technical staff. The group specifically comprises engineers specialised in developing the linguistic and engine resources. Until now, SYSTRAN has succeeded in attracting staff skilled in its traditional business as well as in its new activities through an ambitious and motivating development plan benefiting its employees. In the long term, all employees will receive stock options.

## **Risk of recruitment difficulties**

The growth of the group, especially with respect to corporate customers, is based in part on its capacity to attract, train, retain and motivate employees as well as technical and marketing teams. More specifically, SYSTRAN must be able to recruit computational linguists. Until 1999, openings for computational linguists were limited. Since 1999, however, competition has increased in the language processing field. A number of companies have been set up and foreign companies are recruiting massively. All these factors could slow the group's recruitment programme over the next three years.

However, SYSTRAN's listing on the Nouveau Marché of the Paris Stock Exchange associated with the implementation of a stock option plan, as well as the company's growing reputation, are key factors in the recruiting process. Similarly, the financial difficulties of numerous start-up businesses and some of SYSTRAN's competitors are enhancing its recruitment prospects.

## **Risk of decline in sales prices**

SYSTRAN will experience pressure on prices, specifically in its Software Publishing activity and particularly in its entry-level products. The group earns a large part of its revenue by providing Corporate solutions and added-value services that are less subject to competitive pricing pressure insofar as SYSTRAN is currently one of the few participants in this sector.

## Liquidity risk

The Company faces no liquidity risk given its available cash flow and low level of debt. The Company's net cash on 31 December 2004 totalled 7.9 million Euros.

During the fiscal year, cash flow increased by 0.8 million Euros, while financial debt remained stable at 0.2 million Euros.

Types of securities issued or loans raised	Fixed rate or variable rate	Overall amount of lines	Terms	Existence or absence of hedges
COFACE advance	0%	167 KEUR	Between 1 and 4 years	No
Bank debt	Fixed rate	21 KEUR		No
Financial lease commitments	Fixed rate	75 KEUR	Between 1 and 3 years	No
<b>Total</b>		<b>263 KEUR</b>		

## Rate risks

SYSTRAN'S financial debt is at a fixed rate. The Company is therefore not subject to the risk of interest rate fluctuations on its existing debt.

Moreover, its financial debt is quite low, as the company has no net debt.

## Exchange rate risks

SYSTRAN'S foreign subsidiary companies invoice their services in local currencies and incur costs that are also expressed in local currencies. The Company therefore does not consider itself exposed to exchange rate risk and has not applied any hedging instrument.

The parent company also does not assume the exchange rate risk related to intercompany transactions. Exchange rate risks related to intercompany flows are also not hedged because of their low amounts (outside the Euro zone).

## Extraordinary events and litigation

To the knowledge of the Company, there are, to date, no exceptional facts or litigation that might have or have had in the recent past a significant impact on the activity, results, financial situation or assets of SYSTRAN S.A. or its subsidiary companies.

## Provisioning and depreciation methods with respect to risks and litigation

SYSTRAN establishes provisions and depreciation for amounts needed to cover likely risks and expenses of events that have occurred or are pending and that are clearly specified as to their purpose, but for which the occurrence, expiration or amount are uncertain.

SYSTRAN has set up internal methods aimed at ensuring that the risks are assessed as fully and accurately as possible. These mainly concern customer risks that are reviewed every week at management meetings and are subject to provisions at their exact known value, i.e. at the full value of the receivable.

## Insurance

Risks covered	Premium (in thousands of Euros)	Coverage
<b>SYSTRAN S.A.</b>	<b>13.7</b>	
- company vehicles	4.2	Fully comprehensive insurance
- management liability	4.2	2 MEUR (at Group level)
- retirement / supplementary health insurance	Managerial staff: 1.5% on brackets A and B (retirement) and 4.35% on A (supplementary health)	SYNTEC provision for additional social welfare insurance
	Non managerial staff: 0.65% on bracket A and 1.0% on bracket B	
- employee business travel	0.2	Coverage for medical expenses, hospitalisation and repatriation
- premises and business liability insurance	5.1	Physical injury (4.5 MEUR per claim); material/immaterial damage (0.8 MEUR per claim); other (0.1 to 0.4 MEUR per claim and per year)
<b>SYSTRAN Luxembourg S.A.</b>	<b>1.6</b>	
- premises and business liability insurance	1.6	Business liability insurance: Physical injury and material damage (2.5 MEUR) / premises: from 0.75 to 5.3 MEUR depending on the claim
<b>SYSTRAN Software Inc.</b>	<b>21.2</b>	
- retirement / supplementary health insurance		100% of standard ceiling rate
- employee business travel		Coverage for medical expenses, hospitalisation and repatriation
- 401K retirement plan		0.4 MUSD
- employer liability		1 MUSD
- premises and business liability insurance		Physical injury (1 MUSD), material damage (0.3 MUSD), overall damage (2 MUSD)
- professional civil liability insurance		2 MUSD
- company vehicles		Fully comprehensive insurance

## Financial commitments

Contractual obligations <i>(amounts in thousands of Euros)</i>	Total 2003	Total 2004	Payments due per period	
			< 1 year	From 1 to 5 years
Long-term liabilities (*)	239	263	37	226
Direct rental agreements	2,334	2,296	416	1,880
Binding purchase agreements	0	0	0	0
Other long-term obligations	0	0	0	0
<b>Total</b>	<b>2,573</b>	<b>2,559</b>	<b>453</b>	<b>2,106</b>

(\*) including direct financing leases

Other commercial commitments <i>(amounts in thousands of Euros)</i>	Total 2003	Total 2004	Commitments per period	
			< 1 year	From 1 to 5 years
Lines of credit	0	0	0	0
Letters of credit	0	0	0	0
Guarantees	494	318	249	69
Buyback obligations		0	0	0
Other commercial commitments		0	0	0
<b>Total</b>	<b>494</b>	<b>318</b>	<b>249</b>	<b>69</b>

Details of the 318,000 Euros of guarantees granted by SYSTRAN are provided in note 5.1 of the consolidated financial statements.

This presentation has not omitted the existence of a large off balance-sheet liability and complies with applicable accounting standards.

### 3.8 INFORMATION ABOUT THE IFRS PROJECT

In accordance with the recommendations of the financial markets authorities, the costed impacts of the change to IFRS on its opening balance-sheet have been audited.

The main effects of this change to IFRS on the Group's consolidated accounts are as follows:

- As a result of applying IAS 12, the Group has recognised a tax credit of M€ 5.7 calculated based on the basis of the SYSTRAN group's goodwill;
- In accordance with IFRS 2, an expense has been posted for the stock options granted from 7 November 2002 onwards. This expense is equal to the proportion of the value of the benefit granted at the date of issue representing the portion of service provided by the employees concerned in 2003.

The SYSTRAN group has not capitalised development costs insofar as, at the changeover date, the projects concerned did not meet all of the criteria set by IAS 38 "Intangible fixed assets".

In addition, the first application of IFRS has not led the Group to change its net indebtedness, which is negative.

On the other hand, as in the past the SYSTRAN group will continue to perform the depreciation tests covered by IAS 36.

SYSTRAN will present the effect of IFRS on its half-yearly results on 30 June 2004, when its half-yearly accounts are published on 30 June 2005.

#### CHANGEOVER OF CONSOLIDATED SHAREHOLDERS EQUITY ON 01/01/2004 (FRENCH STANDARDS / IFRS)

	Thousands of euros
<b>Stockholders equity on 31 December 2003 under French standards</b>	<b>21,479</b>
Deferred taxes on intangible assets	(5,689)
Stock options	(7)
<b>Shareholders equity on 1st January 2004 under IFRS</b>	<b>15,783</b>

## 4 FINANCIAL SITUATION - RESULTS

### 4.1 CONSOLIDATED FINANCIAL STATEMENTS

#### CONSOLIDATED INCOME STATEMENT AS OF 31 DECEMBER 2004

<i>(in thousands of Euros)</i>	Notes	2004 (12 months)	2003 (12 months)
<b>Revenue</b>		<b>10,189</b>	<b>11,191</b>
Other revenue		10	10
<b>Operating revenue</b>		<b>10,199</b>	<b>11,201</b>
Purchases and other external expenses		(3,517)	(4,078)
Taxes, duties and similar payments		(81)	(50)
Personnel expenses		(3,198)	(3,919)
<b>EBITDA</b>		<b>3,403</b>	<b>3,154</b>
Depreciation and operating provisions, net of prior period adjustments		(294)	(74)
<b>Operating income</b>		<b>3,109</b>	<b>3,080</b>
Financial provisions		(129)	0
Other financial expenses and revenue		84	(135)
<b>Financial income</b>		<b>(45)</b>	<b>(135)</b>
<b>Current income</b>		<b>3,064</b>	<b>2,945</b>
Expenses and extraordinary revenue		(183)	(298)
<b>Extraordinary income and expenditure</b>		<b>(183)</b>	<b>(298)</b>
Income taxes		(199)	4
<b>Net income from consolidated companies</b>		<b>2,682</b>	<b>2,651</b>
Depreciation of goodwill		0	0
<b>Total consolidated net income</b>		<b>2,682</b>	<b>2,651</b>
Minority interests		0	0
<b>Net income (group share)</b>		<b>2,682</b>	<b>2,651</b>

<b>SYSTRAN net income per share</b>	2004	2003
Based on the average number of shares:		
- number of shares	9,833,695	9,833,695
- in Euros per share	0.27	0.27

## CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004

### ASSETS

<i>(in thousands of Euros)</i>	Notes	31.12.2004	31.12.2003
Goodwill		0	0
Intangible fixed assets		16,616	16,609
Tangible fixed assets		439	155
Financial assets		95	95
<b>Total fixed assets</b>		<b>17,150</b>	<b>16,859</b>
Inventory		0	2
Trade and other account receivables		2,904	2,676
Investment securities		3,272	627
Cash		4,723	6,563
Prepaid expenses		145	55
<b>Total current assets</b>		<b>11,044</b>	<b>9,923</b>
<b>Total assets</b>		<b>28,194</b>	<b>26,782</b>

### LIABILITIES

<i>(in thousands of Euros)</i>	Notes	31.12.2004	31.12.2003
Capital		15,087	15,087
Premium accounts		5,380	5,380
Consolidated reserves		1,432	(1,219)
Conversion adjustments		(636)	(420)
Income for the fiscal year		2,682	2,651
<b>Shareholders' equity (group share)</b>		<b>23,945</b>	<b>21,479</b>
Minority interests		0	0
Provisions for contingencies and expenses		458	406
Financial liabilities (excluding bank overdrafts)		263	239
Suppliers and other operating debts		2,625	3,336
Deferred revenue		903	1,322
<b>Total external liabilities</b>		<b>4,249</b>	<b>5,303</b>
<b>Total liabilities</b>		<b>28,194</b>	<b>26,782</b>



## CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2004

<i>(in thousands of Euros)</i>	<b>2004</b> <b>(12 months)</b>	<b>2003</b> <b>(12 months)</b>
Net income from consolidated companies	2,682	2,651
Elimination of, depreciation and changes in provisions	241	(77)
Elimination of deferred taxes		
Elimination of capital gains and losses and other	11	67
Gross margin from self-financing	2,934	2,641
Change in working capital requirements	(1,330)	3,525
<b>Net Cash flow from operating activities (1)</b>	<b>1,604</b>	<b>6,166</b>
Acquisitions of intangible assets	(498)	(108)
Transfers and changes in scope		8
<b>Cash flow from investing activities (2)</b>	<b>(498)</b>	<b>(100)</b>
New loans and financial liabilities	136	8
Refunds of loans and financial liabilities (excluding bank overdrafts)	(109)	(76)
Increases in capital (treasury shares)		
Conversion adjustment on cash	(328)	(507)
<b>Cash flow from financing activities (3)</b>	<b>(301)</b>	<b>(575)</b>
<b>Change in net cash (4) = (1) + (2) + (3) = (6) – (5)</b>	<b>805</b>	<b>5,491</b>
Cash	6,563	1,274
Investment securities	627	450
Bank overdrafts		(25)
<b>Net Cash at the beginning of the fiscal year (5)</b>	<b>7,190</b>	<b>1,699</b>
Cash	4,723	6,563
Investment securities	3,272	627
Bank overdrafts	0	0
<b>Net cash at year-end (6)</b>	<b>7,995</b>	<b>7,190</b>

## 4.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2004

### 1- Important events during the fiscal year

SYSTRAN S.A. left its Soisy sous Montmorency premises to establish its head office in Paris La Défense. The costs and investments incurred at that time are (in thousands of Euros):

- amortisation of the residual net value of fittings in the Soisy sous Montmorency premises, recorded as an extraordinary operating expense in fiscal year 2004, amounting to 97,000 Euros;
- fitting out the new premises in Paris La Défense, for 257,000 Euros. This expenditure has been immobilised.

### 2- Accounting policies

#### **2.1- PRINCIPLES USED TO DRAW UP FINANCIAL STATEMENTS**

Consolidated financial statements are drafted in Euros. They are prepared in accordance with Regulation No. 99-02 of the French Accounting Regulation Committee, in accordance with the accounting principles of conservatism, historical cost, going-concern assumption, the accruals concept, and consistency of methods.

#### **2.2- SCOPE OF CONSOLIDATION**

Consolidated financial statements include the financial statements of SYSTRAN S.A. and its subsidiary companies.

Name	Registered office	Cons. method	% of control	% of interest
SYSTRAN S.A. SIREN: 334 343 993	1 Parvis de La Défense Paroi Nord - la Grande Arche 92044 Paris La Défense Cedex	OI	Parent company	Parent company
SYSTRAN USA*	9333 Genesee Avenue, San Diego CA 92121, USA	OI	100%	100%
Systran Software Inc. (SSI)	9333 Genesee Avenue, San Diego CA 92121, USA	OI	100%	100%
SYSTRAN Luxembourg	7, rue Pierre d'Aspelt L-1142 Luxembourg	OI	100%	100%

(\*) Holding company controlling 100% of SSI

OI: Overall integration

#### **2.3- EXCHANGE RATE USED**

The only currency used other than the Euro is the US Dollar.

Rate of the USD expressed in Euros	31 December 2004	31 December 2003
Opening rate of the fiscal year	0.7918	0.9536
Average rate on income statement	0.8041	0.8858
Closing rate	0.7342	0.7918

## **2.4- CONSOLIDATION METHODS**

All the companies are consolidated by the global integration method based on the financial statements of 31 December 2004 and restated, if necessary, consistently with the Group's accounting policies.

### **Translation of foreign subsidiaries accounts**

The balance-sheet items are converted to Euros at the exchange rate in force at the close of the fiscal year. The income items are converted based on the average exchange rate for the fiscal year. The conversion adjustments resulting from fluctuations in the exchange rate on the balance sheet and income states are posted under "Conversion adjustments" in shareholders' equity.

Exchange rate variances corresponding to cash items that, in substance, form an integral part of SYSTRAN'S net investment in its foreign subsidiaries, are also posted under "Conversion adjustments".

### **Goodwill**

The principle is to allocate the first-consolidation variances, which count as the difference between the acquisition cost of the shares of the consolidated companies and the proportion of shareholders' equity at the time of acquisition, to the various asset and liability items on the balance sheet of the acquired company.

The unallocated balance is applied to the assets of the consolidated balance sheet under "Goodwill" and depreciated over a period not exceeding 20 years. If necessary, goodwill may be subject to accelerated depreciation when the projected earnings or the structure of the companies so justifies.

### **Deferred taxes**

The Group defers taxes for all temporal differences between the tax and book values of the assets and liabilities to the consolidated balance sheet. Deferred tax assets on the temporal differences or on the tax losses carried forward and available tax credits are only posted when they are certain to be used.

### **Leasing contracts**

Fixed assets financed via leasing contracts are subject to a restatement in the consolidated financial statements to place them in a situation where the company would have acquired the assets concerned directly and financed them by loan.

Depreciation is calculated using the straight-line method, according to the expected lifespan provided for in the initial leasing contract.

### **Unrealised gains and losses on foreign currency transactions**

Unrealised foreign currency gains and losses are posted under consolidated income.

## **2.5 - MEASUREMENT METHODS**

### Revenue

Revenue is recognised as follows:

- Licence revenue is posted at the time of the physical or electronic delivery of the documents, or based on statements sent by the distributors. For temporary licences, revenue is posted *prorata temporis* over the licence period granted;
- Linguistic services are posted according to the completion method;
- Advertising revenue from Portals is recognised based on the statements sent by them;
- Development contracts are posted according to the completion of the expenditure incurred. If they are carried out with partners, SYSTRAN, as the project coordinator and carrier, accounts for all the services provided under "Revenue." The share allocated to the partners is posted under "Purchases and other external expenses".

### Income recognition

Income from linguistic service contracts is calculated according to the completion method. If a shortfall is projected, a provision for the loss upon completion is established on a reasonable basis, according to the most probable estimate of the forecast results, including, if necessary, rights to complementary income or claims.

### Current earnings

Current earnings reflect the operating activities of the companies included in the scope of consolidation and the financing cost of these activities. It does not take into account extraordinary items or those not directly related to the normal course of operations.

### Extraordinary income and expenditure

The concept of extraordinary income and expenditure adopted in the consolidated financial statements is that of the French General Accounting Chart of Accounts. It includes items for which fulfillment is not connected to the Group's current operations.

### Research and development costs

Co-funded research and development costs are posted under operating expenses according to work progress, and the financed portion is posted as revenue.

Self-financed research and development costs are posted as operating expenses when incurred.

### Concessions, patents and licences

Concessions, patents and licences mainly include software licences acquired by the Group. This software is depreciated on a straight-line basis over periods appropriate to each acquisition, not to exceed 5 years.

Created software, whether for internal or commercial use, is posted under operating expenses.

## Goodwill

Goodwill derives primarily from the partial contribution of assets in 1989 by Gachot S.A., SYSTRAN S.A.'s parent company at the time. It is posted to the balance sheet at contribution value. Moreover, during the repurchase from minority shareholders of SYSTRAN Luxembourg in 2000, the Group posted as "goodwill" a portion of the paid price, i.e. 1.6 million Euros, allocated to the subsidiary's linguistic assets.

Constituent components include:

- Customers whose evaluation was based on the projected profitability of the contracts,
- Linguistic assets i.e. the linguistic programs, language-pair dictionaries and utilities corresponding to the databases integrated into the marketed software, as well as the corresponding know-how.

The portion of the business relating to customers was depreciated over 8 years (multiple of 8 of projected income applied at the time to evaluate customers' contribution).

The residual part of the business (linguistic assets) is not depreciated, but may be subject to depreciation in the event of a permanent decline in its useful value.

## Tangible fixed assets

Principal depreciation periods:

Computer equipment	3 years
Other equipment and furniture	5 to 10 years
Fixtures and fittings	5 to 10 years

## Investment securities

Investment securities reflect the Group's interests in the equity of non-consolidated companies. They are carried on the balance sheet at acquisition cost. In the event of a permanent decline in their useful value, depreciation is applied.

Useful value is calculated according to the financial criteria most appropriate to each company's individual situation. The criteria generally selected are the proportion of net adjusted shareholders' equity and prospects for profitability and development.

## Inventory

Inventory primarily consists of packaging and user manuals for the marketed software.

The gross value includes the purchase price and related accessory costs (freight and various direct costs). It is calculated using the First In First Out (FIFO) method.

A provision for depreciation is established when the likely sale value is lower than the inventory value defined above.

## Provisions for contingencies and expenses

These are intended to cover the likely risks and expenses of events that have occurred or that are pending that are clearly specified as to their purpose, but for which the occurrence, expiration or amount are uncertain.

### Conditional advances

Conditional advances are advances granted by the Government to facilitate development of a project. Their repayment is subject to a number of elements defined by contract (success, break-even point, etc.). The result of such advances, depending on what was defined by contract, can be:

- Repayment of the advances granted, if the project is successful;
- Abandoning of the advances, if the project fails.

### Retirement obligations

At the time of retirement, certain Group employees must receive a retirement allowance. The corresponding obligations are valued according to the projected credit unit method and are calculated based on the career-end salary. These obligations, subject to provisions against operating expenses, are posted under "Provisions for contingencies and expenses."

## **3- Notes to the consolidated income statement**

### **3.1- BREAKDOWN OF REVENUE**

<b>By geographical area (in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Europe	4,224	5,118
North America	5,965	6,073
Other geographical areas	-	-
<b>Revenue</b>	<b>10,189</b>	<b>11,191</b>

<b>By type of revenue (in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Licences	5,520	5,474
Services	4,669	5,717
<b>Revenue</b>	<b>10,189</b>	<b>11,191</b>

### **3.2- PURCHASES AND OTHER EXTERNAL EXPENSES**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Co-contracting	885	1,326
Leases of land & buildings	573	517
Fees	764	682
Marketing, advertising	352	382
Other purchases	943	1,171
<b>Purchases and other external expenses</b>	<b>3,517</b>	<b>4,078</b>

### **3.3- PERSONNEL COSTS**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Wages and benefits	2,654	3,126
Welfare contributions	544	793
<b>Personnel expenses</b>	<b>3,198</b>	<b>3,919</b>

The Group's average headcount dropped from 66 to 62 people between 2003 and 2004, as shown in the following table:

<b>Profile</b>	<b>2004</b>	<b>2003</b>
Board of Directors	3	3
Computer engineers	15	14
Computational linguists	32	36
Sales and marketing	7	7
Administrative	5	6
<b>Total headcount</b>	<b>62</b>	<b>66</b>

Directors' pay totalled 270,000 Euros in 2004.

### **3.4- FINANCIAL INCOME**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Financial provisions	(129)	-
Interest expenses	(3)	(6)
Exchange rate gains and losses	27	(151)
Other financial expenses and revenue	60	22
<b>Financial income</b>	<b>(45)</b>	<b>(135)</b>

The market and book values of investment securities were identical on 31 December 2004. Depreciation of securities drafted in US Dollars was posted at the close of the fiscal year for 129,000 Euros.

### **3.5- EXTRAORDINARY INCOME AND EXPENDITURE**

In 2004, extraordinary income and expenditure mainly consisted of provisions for litigation, totalling 86,000 Euros net, and costs relating to moving the SYSTRAN SA head office to La Défense, totalling 97,000 Euros.

In 2003, the exceptional income and expenditure mainly consisted of provisions for litigation totalling 270,000 Euros, the expense of a tax adjustment for SYSTRAN S.A. totalling 51,000 Euros and various extraordinary revenue items totalling 21,000 Euros.

### **3.6- INCOME TAXES**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Current taxes	(199)	4
Deferred taxes	-	-
<b>Group tax income (expense)</b>	<b>(199)</b>	<b>4</b>

To be conservative, the Group does not recognise surplus deferred tax assets corresponding in particular to the tax loss carry-forward expiring in 2012, the sum of which totalled 189,000 Euros on 31 December 2004.

The differences between the actual corporate income tax posted and the theoretical tax obtained by applying the French tax rate are as follows:

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Pre-tax income	2,881	2,646
Theoretical tax expense at the parent company's rate	(989)	(908)
<i>Tax rate</i>	<i>34.33%</i>	<i>34.33%</i>
Effect on the theoretical tax:		
- of the use of tax losses from previous fiscal years	891	908
- of the research tax credit posted for the fiscal year	-	-
- unrealised tax savings on losses for the period		
- other (including variance in the tax rates)	(101)*	4
<b>Total</b>	<b>790</b>	<b>912</b>
Tax at the regular rate	(199)	4
Tax at the reduced rate	-	-
<b>Revenue (Expense) appearing in the income statement</b>	<b>(199)</b>	<b>4</b>

(\*) California state tax

### **3.7- RESEARCH & DEVELOPMENT EXPENDITURE**

Self-financed research expenditure totalled MEUR 1.5 in 2003 and 2004. This consists mainly of staff expenses and external expenses.



#### 4- Notes to the consolidated balance sheet

##### 4.1- INTANGIBLE FIXED ASSETS

(in thousands of Euros)	31/12/2003	Incr.	Decr.	Conversion adjustments	31/12/2004
<b>Research and development costs</b>	-				-
<b>Concessions, patents and licences</b>	10,494	80		(208)	10,366
- Gross values	(10,454)	(68)		203	(10,319)
- Depreciation					
- <b>Net values</b>	<b>40</b>	<b>12</b>	-	<b>(5)</b>	<b>47</b>
<b>Goodwill</b>					
- Customers	45,994				45,994
- Depreciation	(45,994)				(45,994)
- Dictionaries and know-how	16,569				16,569
-	-				-
- Provisions for depreciation					
- <b>Net values</b>	<b>16,569</b>		-		<b>16,569</b>
<b>Intangible fixed assets</b>	<b>16,609</b>	<b>12</b>	-	<b>(5)</b>	<b>16,616</b>

The **concessions, patents and licences** values primarily consist of software licenses of language pairs acquired by the Group. Their gross value as of 31 December 2003 and 31 December 2004 consisted of the following items:

- 7.6 million Euros of software acquired by Gachot S.A. and contributed to SYSTRAN S.A. in July 1989, fully depreciated today.
- 2.8 million Euros of software capitalised at SYSTRAN Software Inc, revalued at the time of the purchase of the company by Gachot S.A. in 1985 and completely depreciated.
- Management software acquired and not yet fully depreciated, totalling 47,000 Euros.

The **net value of the goodwill** on 31 December 2003 and 31 December 2004 totalled 16,600,000 Euros, corresponding to:

- the valuation of language-pair dictionaries, utilities, and corresponding know-how contributed in 1989 to SYSTRAN S.A. by Gachot S.A., its parent company at the time, for 15,000,000 Euros;
- the purchase in 2000 of the SYSTRAN Luxembourg shares held by minority shareholders, which made it possible to consolidate the Group's linguistic assets, for 1,600,000 Euros.

The Company is not applying in advance Regulation No. 2002-10 of the French Accounting Regulation Committee relating to the depreciation of assets. The methodology adopted to assess the useful value of these linguistic assets consists of drawing up discounted cash flow projections based on the following principal assumptions:

- Medium-term plans devised by Management over a 5-year horizon (2005-2009).
- Restating of the projected flows resulting from these plans at a rate representative of the Group's weighted average cost of capital ("WACC").
- Calculation of terminal value by infinite capitalisation of the last flow on the explicit forecast horizon at the rate representing the difference between the WACC and the long-term growth rate deemed appropriate for the business. This value is then restated using the Group's WACC.

The company value thus obtained on 31 December 2004 is higher than the shareholders' equity on the same date. However, the Group is still in the development phase and projections are therefore characterised by a level of uncertainty and so will require regular review to ensure that the assumptions adopted in 2003, the principal ones of which are stipulated below, are still valid in light of the real situation:

- The cash flow forecasts used are based particularly on the Group's current order book. Growth in EBITDA on the adopted forecast horizon is tending towards a normative rate of between 18 and 35% of revenue.
- The adopted discount rate is set at 13% to account for the Group's intrinsic risk premium.
- The long-term forecast growth rate is 1.5% based on a conservative estimate of growth expected in the relevant geographical areas (Europe and USA).

#### **4.2 - TANGIBLE FIXED ASSETS**

<b>(in thousands of Euros)</b>	<b>31/12/2003</b>	<b>Incr.</b>	<b>Decr.</b>	<b>Conversion adjustments</b>	<b>31/12//2004</b>
<b>Fixtures and fittings</b>					
- Gross values	142	227	(142)		227
- Depreciation	(96)	(60)	142		(14)
- <b>Net values</b>	<b>46</b>	<b>167</b>	<b>0</b>		<b>213</b>
<b>Facilities, Hardware and Tools*</b>					
- Gross values	393	53	(2)	(33)	411
- Depreciation	(340)	(25)	2	27	(336)
- <b>Net values</b>	<b>53</b>	<b>28</b>	<b>0</b>	<b>(6)</b>	<b>75</b>
<b>Other fixed assets*</b>					
- Gross values	365	135	(126)	(1)	373
- Depreciation	(309)	(29)	116		(222)
- <b>Net values</b>	<b>56</b>	<b>106</b>	<b>(10)</b>	<b>(1)</b>	<b>151</b>
<b>Tangible fixed assets</b>	<b>155</b>	<b>301</b>	<b>(10)</b>	<b>(7)</b>	<b>439</b>

\* including fixed assets acquired via financial lease contracts.

#### **4.3- FINANCIAL ASSETS**

<b>(in thousands of Euros)</b>	<b>31/12/2003</b>	<b>Incr.</b>	<b>Decr.</b>	<b>Conversion adjustments</b>	<b>31/12/2004</b>
<b>Investment securities</b>					
- Gross values			-	-	
- Provisions			-	-	
- <b>Net values</b>	-	-	-	-	-
<b>Related accounts receivable</b>					
- Gross values			-	-	
- Provisions			-	-	
- <b>Net values</b>	-	-	-	-	-
<b>Other financial assets</b>					
- Gross values	100	3	(1)	(2)	100
- Provisions	(5)				(5)
- <b>Net values</b>	<b>95</b>	<b>3</b>	<b>(1)</b>	<b>(2)</b>	<b>95</b>
<b>Financial assets</b>	<b>95</b>	<b>3</b>	<b>(1)</b>	<b>(2)</b>	<b>95</b>

#### **4.4- TRADE AND OTHER ACCOUNTS RECEIVABLE**

<b>(in thousands of Euros)</b>	<b>December 2003</b>	<b>December 2004</b>	<b>Of which less than one year</b>
Trade accounts receivable	1,747	2,553	2,553
Provisions for depreciation of trade accounts receivable	(189)	(275)	(275)
Accounts receivable from Government	1,027	528	528
Sundry debtors	91	98	98
Write-offs of sundry bad debts	-	-	-
<b>Trade and other account receivables</b>	<b>2,676</b>	<b>2,904</b>	<b>2,904</b>

#### **4.5- CHANGE IN SHAREHOLDERS' EQUITY (GROUP SHARE)**

<b>(in thousands of Euros)</b>	<b>Capital</b>	<b>Premiums and consol. reserves</b>	<b>Group income for fiscal year</b>	<b>Unrealised exchange gains or losses</b>	<b>Total Group shareholders' equity</b>
Situation as of 31 December 2002	15,087	6,047	(1,563)	(198)	19,373
Allocation of 2002 income	-	(1,563)	1,563	-	0
Income for fiscal year 2003	-	-	2,651		2,651
Change in method of posting revenue	-	(323)	-	-	(323)
Change in conversion reserve and sundry	-	1		(223)	(222)
Situation as of 31 December 2003	15,087	4,162	2,651	(421)	21,479
Allocation of 2003 income	-	2,651	(2,651)	-	-
Income for fiscal year 2004	-		2,682	-	2,682
Change in treasury shares	-			-	-
Change in conversion adjustments and sundry	-	(1)		(215)	(216)
Situation as of 31 December 2004	15,087	6,812	2,682	(636)	23,945

#### **4.6- PROVISIONS FOR CONTINGENCIES AND EXPENSES**

<b>(in thousands of Euros)</b>	<b>December 2004</b>	<b>December 2003</b>
Taxes	-	-
Provision for restructuring	-	5
Other	458	401
<b><i>Provisions for contingencies and expenses</i></b>	<b>458</b>	<b>406</b>

Provisions established for disputes and litigation totalled 353,000 Euros on 31 December 2004. They correspond to commercial and industrial lawsuits.

Provisions established for obligations with respect to customers (guarantees, product returns, penalties, and losses on current contracts) totalled 101,000 Euros.

The Group's retirement obligations were fully provided for at the close of the fiscal year. In view of the average age and seniority of the staff, the value of the obligations on 31 December 2004 is immaterial. The provision totalled 4,100 Euros at the close of the fiscal year.

#### **4.7- FINANCIAL LIABILITIES**

<b>(in thousands of Euros)</b>	<b>Gross amount as of 31/12/2003</b>	<b>Gross amount as of 31/12/2004</b>	<b>Under 1 year</b>	<b>1 to 5 years</b>
Repayable COFACE advances	192	167		167
Loans and financial liabilities	28	21	21	
Financial lease contracts	19	75	16	59
<b><i>Financial liabilities</i></b>	<b>239</b>	<b>263</b>	<b>37</b>	<b>226</b>

Loans under financial lease contracts correspond mainly to computer equipment.

#### **4.8- SUPPLIERS AND OTHER OPERATING DEBTS**

(in thousands of Euros)	Gross amount as of 31/12/2003	Gross amount as of 31/12/2004	Under 1 year
Supplier debts	1,752	1,747	1,747
Tax and social debts	862	456	456
Other liabilities	722	422	422
<b>Suppliers and other operating debts</b>	<b>3,336</b>	<b>2,625</b>	<b>2,625</b>

#### **4.9- DEFERRED REVENUE**

Deferred revenue results from applying the accounting rules on revenue as described in paragraph 2.5. On 31 December 2004, the breakdown of these was as follows (in thousands of Euros):

- licences	760
- professional services	<u>143</u>
Total	903

#### **5- Sundry information**

##### **5.1- OFF-BALANCE SHEET LIABILITIES**

Guarantees

On 31 December 2004, the status of guarantees given by the SYSTRAN Group was as follows:

Date	Expiration	Creditor	Subject	Amount (Euros)
20.01.98		Banque Générale du Luxembourg	Overdraft facility	248,000
24.10.02	Jul-05	The European Commission	MUSA contract	69,000
12.12.04	Jun-05	Spanish Patent and Trademark Office	Spanish Patent and Trademark Office contract	1,000

SYSTRAN is waiting for the European Commission to regularise the withdrawal of guarantees for some co-funded research contracts: Vicodi, Crosslingual and Kom 2002.

## **5.2- STOCK OPTIONS**

Status of the stock options awarded to the Group's employees						
Date of the General Shareholders Meeting	06.03.2000		09.11.2001			
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03
Total number of shares that can be subscribed or bought	970,000	101,000	100,000	80,000	100,000	100,000
Of which, shares that can be subscribed or bought by members of the Executive Committee	750,000	0	0	0	100,000	100,000
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11
Strike price (in Euros)	7.60	4.60	1.64	1.94	1.21	4.61
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1st, 2nd and 3rd anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfillment of certain performance targets.					
Number of shares subscribed as of 31/12/2004	-	-	-	-	-	-

If all options were exercised, the result would be maximum potential dilution of 14.7%.

## **5.3- SECTOR INFORMATION**

(in thousands of Euros)	Europe	North America	Unallocated/eliminated (*)	Consolidated
Operating income	1,794	1,316	-	3,110
Capital employed	8,199	5,126	14,870	28,195

(\*) unallocated net capital corresponds to the Group's intangible assets



#### **5.4- NET EARNINGS PER SHARE**

Net earnings per share are calculated on the basis of the weighted average number of shares outstanding in the current fiscal year. This is also shown after the impact of the exercise of all the stock options defined in note 5.2.

The average number of shares after dilution is calculated as follows:

	<b>2004</b>	<b>2003</b>
Average number of shares outstanding	9,833,695	9,833,695
Number of shares resulting from complete exercise of the stock options	1,451,000	1,472,667
<b><i>Average number of shares after dilution</i></b>	<b>11,284,695</b>	<b>11,306,362</b>

Net earnings after dilution for fiscal years 2003 and 2004 corresponds to the net incomes of the fiscal years as shown in the consolidated income statement plus the proforma financial revenue net of income taxes corresponding to investment of the cash likely to result from capital increases to come.

	<b>2004</b>	<b>2003</b>
Net income - Group share (in thousands of Euros)	2,682	2,651
Proforma financial revenue net of income tax	174	176
<b><i>NET EARNINGS AFTER DILUTION (IN THOUSANDS OF EUROS)</i></b>	<b>2,856</b>	<b>2,827</b>
Average number of shares after dilution	<b>11,284,695</b>	<b>11,306,362</b>
<b><i>NET INCOME PER SHARE AFTER DILUTION (IN EUROS)</i></b>	<b>0.25</b>	<b>0.25</b>

## **4.3 AUDITORS REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FISCAL YEAR ENDING 31 DECEMBER 2004**

In accordance with our appointment as auditors by your General Shareholders Meeting, we have audited the accompanying consolidated financial statements of Systran for the fiscal year ended 31 December 2004.

The consolidated financial statements were prepared by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

#### **1. OPINION ON THE ANNUAL FINANCIAL STATEMENTS**

We have performed our audit in accordance with professional standards applicable in France; these standards require the taking of measures to allow us reasonable assurance that the financial statements contain no significant anomalies. An audit includes examining, by sampling, evidence supporting the data contained in the financial statements. It also includes assessing the accounting policies used and significant estimates made in preparing the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

We certify that the consolidated financial statements give a true and fair view of the financial position, the assets and liabilities, and income of the consolidated group in accordance with French accounting rules and principles.

Without calling into question the opinion expressed above, we draw your attention to note 4.1 of the appendix relative to intangible fixed assets, which provides all useful details on the methodology and assumptions used in valuing goodwill (dictionairers and know-how).

#### **2. JUSTIFICATION OF THE ASSESSMENT**

In application of the provisions of article L.225-235 of the Commercial Code relating to justification of our assessment, we bring the following points to your attention:

As mentioned in the first part of this report:

- the value of the business (dictionaries and know-how) has been examined by the company as described in note 4.1. of the appendix.

We have assessed the validity of the methodology used, examined the documentation prepared within this framework as appropriate, and assessed the consistency of the data used, particularly by comparing the forecasts for fiscal year 2004 with actual results.

This assessment is in keeping with our approach used to audit the overall consolidated financial statements and therefore helped us to form an unqualified opinion, which is expressed in the first part of this report.

### **3. SPECIFIC CHECKS AND INFORMATION**

We have also carried out the procedures required by law on the information given in the report of the Board of Directors. With the exception of the possible impact of the items described above, we have no other comments to make as to their sincerity and consistency with the consolidated financial statements.

Paris, 12 May 2005

**Amyot Exco Grant Thornton**  
**Member of Grant Thornton International**

**Salustro Reydel**

Victor Amselem

Claire Gravereau

Bernard Paulet

#### 4.4 CORPORATE FINANCIAL STATEMENTS

##### CORPORATE INCOME STATEMENT FOR FISCAL YEAR 2004

<i>(in thousands of Euros)</i>	Notes	2004 (12 months)	2003 (12 months)
<b>Revenue</b>		5,774	6,188
Other revenue		10	10
<b>Operating revenue</b>		<b>5,784</b>	<b>6,198</b>
Purchases and other external expenses		-2,205	-2,813
Taxes, duties and similar payments		-79	-50
Personnel expenses		-1,523	-1,868
<b>Gross operating income</b>		<b>1,977</b>	<b>1,467</b>
Net depreciation and operating provisions		- 194	43
<b>Operating income</b>		<b>1,783</b>	<b>1,510</b>
Net financial provisions		- 113	123
Other financial expenses and revenue		57	-6
<b>Financial income</b>		<b>- 56</b>	<b>117</b>
<b>Current income</b>		<b>1,727</b>	<b>1,627</b>
Net extraordinary provisions		- 38	936
Other extraordinary expenses and revenue		- 139	-64
<b>Extraordinary income and expenditure</b>		<b>- 177</b>	<b>872</b>
Income taxes		- 86	-4
<b>Net income</b>		<b>1,464</b>	<b>2,495</b>

## BALANCE SHEET AS OF 31 DECEMBER 2004

### ASSETS

<i>(in thousands of Euros)</i>	<b>31.12.2004</b>	<b>31.12.2003</b>
Intangible fixed assets	14,988	14,998
Tangible fixed assets	284	73
Financial investments	2,047	2,319
<b>Total fixed assets</b>	<b>17,319</b>	<b>17,390</b>
Inventory	74	2
Trade and other account receivables	3,872	4,183
Cash and investment securities	3,878	2,902
Prepaid expenses	87	37
Conversion adjustment for assets	10	74
<b>Total current assets</b>	<b>7,921</b>	<b>7,198</b>
<b>Total assets</b>	<b>25,240</b>	<b>24,588</b>

### LIABILITIES

<i>(in thousands of Euros)</i>	<b>31.12.2004</b>	<b>31.12.2003</b>
Capital	15,087	15,087
Premium accounts	5,380	5,380
Statutory reserve	122	122
Carried forward	- 191	-2,686
Income for the fiscal year	1,464	2,495
<b>Shareholders' equity (group share)</b>	<b>21,862</b>	<b>20,398</b>
Provisions for contingencies and expenses	410	406
Financial liabilities (excluding bank overdrafts)	168	192
Suppliers and other operating debts	2,396	3,004
Deferred revenue	388	561
Conversion adjustment for liabilities	16	27
<b>Total external liabilities</b>	<b>3,378</b>	<b>4,190</b>
<b>Total liabilities</b>	<b>25,240</b>	<b>24,588</b>

## 4.5 NOTES TO THE CORPORATE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2004

### 1- Important event during the fiscal year

SYSTRAN S.A. left its Soisy sous Montmorency premises to establish its head office in Paris La Défense. The costs and investments incurred at that time are (in thousands of Euros):

- amortisation of the residual net value of fittings in the Soisy sous Montmorency premises, recorded as an extraordinary operating expense in fiscal year 2004, for 97,000 Euros;
- fitting out the new premises in Paris La Défense, for 257,000 Euros. This expenditure has been immobilised.

### 2- Accounting policies

The corporate financial statements were prepared in accordance with the accounting principles of conservatism, historic costs, going-concern, independence of accounting periods, consistency of methods, according to the commercial law assessment methods.

#### Revenue

Revenue is recognised as follows:

- Licence revenue is posted upon the physical or electronic delivery of the documents or based on detailed reports sent by the distributors. For temporary licences, revenue is posted *pro rata temporis* over the licence period granted;
- Linguistic services are invoiced as expenses are incurred;
- Advertising revenue from Portals is recognised based on the statements sent by the latter;
- Development contracts are invoiced as expenses are incurred. If they are performed with partners, SYSTRAN, as project coordinator and carrier, posts the entire payment under "Revenue." The share corresponding to the partners is posted under "Purchases and other external expenses".

#### Income recognition

Income from linguistic service contracts is calculated according to the completion method.

If the projection shows a loss, a provision for the loss upon completion is established on a reasonable basis, according to the most probable estimate of forecast results, including, if necessary, rights to complementary income or claims.

#### Extraordinary income and expenditure

The definition of extraordinary income and expenditure under the French General Accounting Chart of Accounts is applied. This includes items for which fulfillment is not related to the company's current operations.

### Research and development expenses

- Co-funded research and development expenses are posted under operating expenses according to work progress, and the financed share is posted as revenue;
- Self-financed research and development costs are posted as operating expenses when incurred.

### Concessions, patents and licences

Concessions, patents and licences include primarily software licences acquired by the company. This software is depreciated on a straight-line basis over periods appropriate to each acquisition, not exceeding 5 years.

Created software, intended for internal or commercial use, is posted under operating expenses.

### Goodwill

Goodwill comes primarily from the contribution in kind of assets carried out by Gachot in 1989, SYSTRAN's parent company at the time. It is posted to the balance-sheet at contribution value.

Constituent components include:

- Customers whose evaluation was based on the projected profitability of the contracts,
- Language-pair dictionaries and utilities corresponding to the databases integrated into the marketed software, as well as the corresponding know-how.

The portion of the business relating to customers was depreciated over 8 years (multiple of 8 of projected income applied at the time to evaluate customers' contribution).

The balance of the business is by nature not depreciable, but may be subject to depreciation in case of a permanent decline in its use value.

### Investment securities

Investment securities are shown in the balance-sheet at acquisition cost. In the event of a permanent decline in their useful value, depreciation is applied.

Useful value is calculated according to the financial criteria most appropriate to each company's individual situation. The criteria generally selected are the proportion of restated shareholders' equity and prospects for profitability and development.

### Conditional advances

Conditional advances are advances granted by the Government to facilitate development of a project. Their repayment is subject to a number of elements defined by contract (success, break-even point, etc.). The result of such an advance, depending on what was defined by contract, can be:

- Repayment of the advances granted, if the project is successful;
- Abandoning of the advances, if the project fails.

### Provisions for contingencies and expenses

These are intended to cover the risks and burdens likely to result from events that have occurred or that are pending, which are clearly specified as to their object, but for which the occurrence, deadline or amount are uncertain.

## Retirement obligations

At the time of their retirement, certain Company employees must receive a retirement allowance. The corresponding obligations are valued according to the projected credit unit method and are calculated based on the career-end salary. These obligations, subject to provisions under operating expenses, are posted under "Provisions for contingencies and expenses."

### **3- Notes to the income statement**

#### **3.1- BREAKDOWN OF REVENUE**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Licences	2,318	2,029
Professional Services	3,456	4,159
<b>Revenue</b>	<b>5,774</b>	<b>6,188</b>

#### **3.2- PURCHASES AND OTHER EXTERNAL EXPENSES**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Purchases & change in inventory	31	143
Co-contracting	885	1,329
Sub-contracting	32	139
Leases of land & buildings	293	213
Equipment leases – Leasing contracts	64	96
Fees	589	396
Copyrights	(4)	33
Advertising	106	248
Business travel	119	104
Telecommunications	54	69
Others	36	43
<b>Purchases and other external expenses</b>	<b>2,205</b>	<b>2,813</b>

#### **3.3 PERSONNEL EXPENSES**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Wages and benefits	1,080	1,317
Social contributions	443	551
<b>Personnel expenses</b>	<b>1,523</b>	<b>1,868</b>

The average manpower number of the company changed from 26 to 24 persons between 2003 and 2004.

The total compensation and benefits of any kind allocated by the Company and its subsidiaries to the Company's Directors totalled 270,000 Euros in 2004.



### **3.4- FINANCIAL INCOME**

<b>(in thousands of Euros)</b>	<b>2004</b>	<b>2003</b>
Net provisions for exchange rate risks	47	(34)
Depreciation of marketable securities and investments	(160)	157
<b>Net financial provisions</b>	<b>(113)</b>	<b>123</b>
Interest on SYSTRAN Inc. advances	-	14
Capital surplus on VMP sale	24	12
Exchange rate gains and losses	33	(32)
<b>Other financial expenses and revenue</b>	<b>57</b>	<b>(6)</b>
<b>Financial income</b>	<b>(56)</b>	<b>117</b>

The financial depreciation includes depreciation of the marketable securities drafted in US dollars, totalling 129,000 Euros, and depreciation of the Company's shares held by itself, totalling 31,000 Euros.

### **3.5 - EXTRAORDINARY INCOME**

The extraordinary income and expenditure for the fiscal year 2004 consisted mainly of provisions for litigation, amounting to 86,000 Euros net, and costs relating to moving the SYSTRAN SA head office to La Défense, amounting to 97,000 Euros.

In 2003, the extraordinary income and expenditure was mainly affected by the reversal of provision on the negative financial situation of SYSTRAN Luxembourg (1,171,000 Euros), reduced by provisions for litigation (236,000 Euros), tax adjustment (51,000 Euros) and extraordinary expenses (12,000 Euros).

## **4- Notes to the balance sheet**

### **4.1 - INTANGIBLE FIXED ASSETS**

<b>(in thousands of Euros)</b>	<b>31/12/2003</b>	<b>Incr.</b>	<b>Decr.</b>	<b>31/12/2004</b>
<b>Research and development expenses:</b>				
- Gross values (1)	-			
- Depreciation				
- <b>Net values</b>	<b>-</b>			
<b>Concessions, patents and licences:</b>				
- Gross values (2)	7,684	40		7,724
- Depreciation	(7,672)	(50)		(7,722)
- <b>Net values</b>	<b>12</b>	<b>(10)</b>		<b>2</b>
<b>Goodwill:</b>				
- Customers	45,994			45,994
- Depreciation	(45,994)			(45,994)
- Dictionaries and know-how (3)	14,986			14,986
- Provisions for depreciation	-			-
- <b>Net values</b>	<b>14,986</b>	<b>-</b>	<b>-</b>	<b>14,986</b>
<b>Intangible fixed assets</b>	<b>14,998</b>	<b>(10)</b>		<b>14,988</b>

- (1) Until 31 December 1998, a portion of research and development expenses was posted to the balance-sheet and depreciated over three years. As of 1 January 1999, research and development expenses remain as expenses in the fiscal year they are incurred.
- (2) The "Concessions, patents and licences" item is essentially comprised of software licenses for language pairs acquired by Gachot S.A. and contributed to SYSTRAN in July 1989. This software is completely depreciated.
- (3) The net value of the business as of 31 December 2004 totalled 15,000,000 Euros, corresponding to the assessment of the language-pair dictionaries, related utilities and know-how contributed to SYSTRAN in 1989 by Gachot, its parent company at the time.

The Company is not applying in advance Regulation No. 2002-10 of the French Accounting Regulation Committee relating to depreciation of assets. The methodology adopted to assess the useful value of these linguistic assets consists in preparing restated net cash flow projections based on the following principal assumptions:

- Medium-term plans prepared by Management over a 5-year horizon (2005-2009);
- Restatement of the forecast flows resulting from these plans at a rate representative of the company's weighted average cost of capital ("WACC");
- Calculation of terminal value by infinite capitalisation of the last flow on the explicit forecast horizon at the rate representing the difference between the WACC and the long-term growth rate deemed appropriate for the business. This value is then restated using the company's WACC.

The company value thus obtained on 31 December 2004 is higher than the corporate shareholders' equity on the same date. However, the Group is still in the development phase and projections are therefore characterised by a level of uncertainty and so will require regular review to ensure that the assumptions adopted in 2003, the principal ones of which are stipulated below, are still valid in light of the real situation:

- The cash flow forecasts used are based particularly on the company's current order book. The growth in EBITDA on the adopted forecast horizon is tending towards a normative rate of between 18 and 35% of revenue;
- The adopted discount rate is set at 13% to account for the company's intrinsic risk premium;
- The long-term forecast growth rate is 1.5% based on a conservative estimate of expected growth.

#### **4.2 - TANGIBLE FIXED ASSETS**

<b>(in thousands of Euros)</b>	<b>31/12/2003</b>	<b>Incr.</b>	<b>Decr.</b>	<b>31/12/2004</b>
<b>Fittings and other fixed assets:</b>				
- Gross values	147	257	(147)	257
- Depreciation	(100)	(63)	146	(17)
- <b>Net values</b>	<b>47</b>	<b>194</b>	<b>(1)</b>	<b>240</b>
<b>Computer hardware and office furniture:</b>				
- Gross values	122	35	(21)	136
- Depreciation	(96)	(7)	11	(92)
- <b>Net values</b>	<b>26</b>	<b>28</b>	<b>(10)</b>	<b>44</b>
<b>Tangible fixed assets</b>	<b>73</b>	<b>222</b>	<b>(11)</b>	<b>284</b>

#### **4.3 - FINANCIAL INVESTMENTS**

<b>(in thousands of Euros)</b>	<b>Gross 31/12/04</b>	<b>Provisions depreciation</b>	<b>Net 31/12/04</b>	<b>Net 31/12/03</b>
<b>Investments (shares)</b>				
SYSTRAN USA (100%)	5,153	(3,435)	1,718	1,718
SYSTRAN Lux (100%)	1,950	(1,950)	-	-
<b>SUBTOTAL</b>	<b>7,103</b>	<b>(5,385)</b>	<b>1,718</b>	<b>1,718</b>
<b>Related accounts receivable</b>				
SYSTRAN USA	59	-	59	302
<b>SUBTOTAL</b>	<b>59</b>	<b>-</b>	<b>59</b>	<b>302</b>
Treasury shares	228	(31)	197	228
Deposits and guarantees	73	-	73	71
<b>SUBTOTAL</b>	<b>301</b>	<b>(31)</b>	<b>270</b>	<b>299</b>
<b>Financial investments</b>	<b>7,463</b>	<b>(5,416)</b>	<b>2,047</b>	<b>2,319</b>

The shares of the US companies (the holding company SYSTRAN USA and its subsidiary SYSTRAN Software Inc.) come from Gachot's contribution to SYSTRAN in 1989. The net value of these shares on the balance sheet was not changed in relation to the previous fiscal year.

SYSTRAN Luxembourg was "put to sleep" in 2003. Consequently, the shares are fully depreciated on the basis of the subsidiary's net situation as of 31 December 2004. The provision balance to cover the subsidiary's negative net situation totalled 64,000 Euros.

Finally, the company holds 62,555 of its own shares totalling 228,000 Euros, acquired on the market as part of the share repurchase programme authorised by the Extraordinary General Shareholders Meeting of 3 May 2000. Given the share price trends at the close of the fiscal year (3.16 Euros per share), a provision for depreciation of the shares has been posted, amounting to 31,000 Euros.

#### **4.4 - TRADE AND OTHER ACCOUNTS RECEIVABLE**

<b>(in thousands of Euros)</b>	<b>31/12/2004</b>	<b>31/12/2003</b>
Trade accounts receivable	3,560	3,316
Provisions for depreciation of trade accounts receivable	(218)	(159)
Other accounts receivable	530	1,026
<b>Trade and other account receivables</b>	<b>3,872</b>	<b>4,183</b>

#### **4.5 - SHAREHOLDERS' EQUITY**

The company's authorised capital amounts to 15,086,735 Euros, made up of 9,896,250 shares. Shareholders' equity may be broken down as follows:

<b>(in thousands of Euros)</b>	<b>Capital</b>	<b>Premiums and Reserves</b>	<b>Carried forward</b>	<b>Income for the fiscal year</b>	<b>Total shareholders equity</b>
Situation as of 31 December 2003	15,087	5,502	(2,686)	2,495	20,398
Allocation of income for 2003		-	2,495	(2,495)	-
2004 income		-		1,464	1,464
<b>SITUATION AS OF 31 DECEMBER 2004</b>	<b>15,087</b>	<b>5,502</b>	<b>(191)</b>	<b>1,464</b>	<b>21,862</b>

#### **4.6 - PROVISIONS FOR CONTINGENCIES AND EXPENSES**

<b>(in thousands of Euros)</b>	<b>31/12/2003</b>	<b>Incr.</b>	<b>Decr.</b>	<b>31/12/2004</b>
Provisions for litigation	271	133	(90)	314
Provision for product returns	15	13		28
Provision SYSTRAN Luxembourg *	69		(5)	64
Provision for foreign exchange loss	47		(47)	-
Provision for retirement obligations	4	-		4
<b>PROVISIONS FOR CONTINGENCIES AND EXPENSES</b>	<b>406</b>	<b>146</b>	<b>(142)</b>	<b>410</b>

(\*) see note 4.3

#### **4.7 - FINANCIAL LIABILITIES (EXCLUDING BANK OVERDRAFTS)**

<b>(in thousands of Euros)</b>	<b>Gross amount as of 31/12/03</b>	<b>Gross amount as of 31/12/04</b>	<b>At 1 year</b>	<b>1 to 5 years</b>
Repayable COFACE advances	192	167		167
Loans and financial liabilities	-	1		
<b>Financial liabilities (excluding bank overdrafts)</b>	<b>192</b>	<b>168</b>	<b>-</b>	<b>167</b>

#### **4.8 - SUPPLIERS AND OTHER OPERATING DEBTS**

<b>(in thousands of Euros)</b>	<b>Gross amount as of 31/12/03</b>	<b>Gross amount as of 31/12/04</b>	<b>Under 1 year</b>
Supplier debts	1,671	1,582	1,582
Tax and welfare debts	610	401	401
Other liabilities	723	413	413
<b>Suppliers and other operating debts</b>	<b>3,004</b>	<b>2,396</b>	<b>2,396</b>

#### **4.9- DEFERRED REVENUE**

Deferred revenue results from applying accounting rules on revenue as described in paragraph 2. On 31 December 2004, their breakdown was as follows (in thousands of Euros):

- Licences	377
- Professional services	<u>11</u>
Total	388

Deferred revenue on the licences includes deliveries made on consignment to distributors, totalling 73,000 Euros. As the contra, a debt has been posted to the assets for this revenue.

## 5- Sundry information

### 5.1- OFF-BALANCE SHEET COMMITMENTS

#### Guarantees

As of 31 December 2004, guarantees given to third parties by SYSTRAN S.A. relating to its own business were as follows:

Date	Expiration	Creditor	Subject	Amount (Euros)
24.10.02	Jul-05	The European Commission	MUSA contract	69,000

In addition, SYSTRAN is waiting for the European Commission to regularise the withdrawal of guarantees for some co-funded research contracts: Vicodi, Crosslingual and Kom 2002.

Lastly, the situation as of 31 December 2004 regarding SYSTRAN S.A.'s commitments to third parties on behalf of its Luxembourg subsidiary company was as follows:

Date	Expiration	Creditor	Subject	Amount (Euros)
20.01.98		Banque Générale du Luxembourg	Overdraft facility	248 KEUR

#### Retirement obligations

Given the low average age of Company's personnel, retirement obligations total 4,100 Euros. They are fully provided for.

## Financial leasing commitments

(in thousands of Euros)	Computer equipment
<b>Historical cost</b>	<b>130</b>
<b>Depreciation</b>	
- Total for previous fiscal years	44
- Current fiscal year	13
Total	57
<b>Net value</b>	<b>73</b>
<b>Paid leases</b>	
- Total for previous fiscal years	49
- Current fiscal year	14
Total	<b>63</b>
<b>Leases to be paid</b>	
- Maximum of one year	19
- One year to five years	59
- Over five years	
Total	<b>78</b>

## 5.2- FINANCIAL INSTRUMENTS

The company does not use financial instruments to reduce its exposure to rate risks.

## 5.3- STOCK OPTION PLAN

Status of the stock options awarded to the Group's employees						
Date of the General Shareholders Meeting	06.03.2000		09.11.2001			
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03
Total number of shares that can be subscribed or bought	970,000	101,000	100,000	80,000	100,000	100,000
Of which, shares that can be subscribed or bought by members of the Executive Committee	750,000	0	0	0	100,000	100,000
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11
Strike price (EUR)	7.60	4.60	1.64	1.94	1.21	4.61
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfillment of certain performance targets.					
Number of shares subscribed as of 31/12/2004	-	-	-	-	-	-

If all the options were exercised, the result would be maximum potential dilution of 14.7%.

#### **5.4 - ITEMS CONCERNING RELATED COMPANIES**

Related companies are those likely to be fully consolidated into the same scope of consolidation. Consequently, all SYSTRAN S.A. subsidiaries are related companies.

<b>(in thousands of Euros)</b>	<b>31/12/2004</b>	<b>31/12/2003</b>
Investments:		
- Gross value	7,103	7,103
- Provisions	(5,385)	(5,385)
- Net value	<b>1,718</b>	<b>1,718</b>
Related accounts receivable:		
- Gross value	59	302
- Provisions		
- Net value	<b>59</b>	<b>302</b>
Trade accounts receivable and related accounts	1,817	1,928
Supplier debts and related accounts	197	208
Financial revenue	-	14
Revenue from related business	1,567	1,059
Services	-	(6)
Purchase of goods	-	(3)

#### **5.5 - TABLE OF SUBSIDIARIES AND INTERESTS**

<b>Detailed information on each subsidiary company and investment (in thousands of Euros)</b>	<b>Capital</b>	<b>Other shareholders' equity</b>	<b>Share of capital held in %</b>	<b>Gross value of shares held</b>	<b>Net value of shares held</b>	<b>Loans and advances granted</b>	<b>Guarantees and backing given</b>	<b>Pre-tax rev. of fin. yr. ended 31.12.04</b>	<b>Results of the fiscal year ending 31.12.04</b>	<b>Dividends paid</b>	<b>Comments</b>
<b>1. Subsidiary companies (held share &gt; 50%)</b>											
Systran USA*	1,906	(90)	100%	5,153	1,718	59	-	-	-	-	Holding company controlling 100% of Systran Software Inc.
Systran Luxembourg S.A.	124	(377)	100%	1,950	-	52	248	-	6	-	
<b>2. Other investments (held share between 10% and 50%)</b>											
None	-	-	-	-	-	-	-	-	-	-	

(\*) Figures expressed in Euros. 1USD= 0.7342 Euro. Exchange rate as of 31 December 2004

**COMPANY INCOME DURING THE LAST FIVE FINANCIAL YEARS (IN EUROS)**

<b>TYPE OF INCOME ITEM</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Capital at year-end</b>					
a) Capital stock	15,086,735	15,086,735	15,086,735	15,086,735	*15,086,735
b) Number of shares					
- common	9,896,250	9,896,250	9,896,250	9,896,250	9,896,250
- preferred					
c) Maximum number of shares to be issued					
- by conversion of bonds					
- by subscription right					
<b>Transactions and Income</b>					
a) Revenue net of taxes	5,774,084	6,187,813	3,640,654	2,898,142	3,768,145
b) Income before taxes, profit-sharing, depreciation and provisions	1,894,898	1,397,900	(761,150)	(1,129,949)	277,270
c) Income taxes	85,750	3,811	(206,801)	(449,753)	
d) Employee profit-sharing					
e) Depreciation and provisions	486,790	397,147	3,608,398	58,960	148,930
f) Net income	1,464,283	2,495,037	(4,162,747)	(739,156)	128,340
g) Earnings distributed					
<b>Earnings per share</b>					
a) Income after taxes and profit-sharing, and before depreciation and provisions	0.20	0.29	(0.06)	(0.07)	0.03
b) Income after taxes, profit-sharing, depreciation and provisions	0.15	0.25	(0.42)	(0.07)	0.01
c) Allotted dividend			-	-	-
<b>Personnel</b>					
a) Average number of employees	25	26	33	42	25
b) Total wages	1,079,927	1,316,608	1,273,899	1,511,455	1,020,691
c) Amounts paid as social benefits (Social Security, etc)	442,797	551,709	453,975	579,377	407,492

\* 15,086,735 Euros after conversion of the capital to Euros by the GENERAL SHAREHOLDERS MEETING of 3 May 2000\*



## **4.6 AUDITORS' GENERAL REPORT**

### **FISCAL YEAR ENDING 31 DECEMBER 2004**

In accordance with our appointment by your General Shareholders Meeting, please find our report for the fiscal year ended 31 December 2004 on:

- the audit of SYSTRAN's annual financial statements, as attached to this report,
- justification of our assessment,
- the specific procedures and information required by law.

The annual financial statements have been prepared by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

#### **1. OPINION ON THE ANNUAL FINANCIAL STATEMENTS**

We have performed our audit in accordance with professional standards applying in France; these standards require the application of measures to obtain reasonable assurance that the annual financial statements contain no significant anomalies. An audit consists in examining, by sampling, evidence supporting the data contained in these financial statements. It also consists in assessing the accounting policies used and significant estimates made in preparing the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

We certify that the annual financial statements give a true and fair view of the financial position and the assets and liabilities of the Company and the results of its operations for the year then ended, in accordance with French accounting rules and principles.

Without calling into question the opinion expressed above, we draw your attention to note 4.1 of the appendix relative to intangible fixed assets, which provides all useful details on the methodology and assumptions used in valuing goodwill (dictionaries and know-how).

#### **2. JUSTIFICATION OF THE ASSESSMENT**

Pursuant to article L.225-235 of the Commercial Code relating to justification of our assessment, we bring the following points to your attention:

- The value of the business (dictionaries and know-how) has been examined by the company as described in note 4.1. of the appendix.

We have assessed the validity of the methodology used, examined the documentation prepared within this framework as appropriate, and assessed the consistency of the data used, particularly by comparing the forecasts for fiscal year 2004 with actual results.

- Moreover, on the basis of information available to date, our assessment of provisions for depreciation of investments and their adequacy is based on an examination of the situation and the prospects of the subsidiaries concerned. In particular, we have examined the value of the shares of the US subsidiary Systran USA, the 2004 results of which were better than in the past. This examination, together with analysis of the company based on that of its Board, reveals that the portion held in SYSTRAN USA's restated shareholders equity capital justifies maintaining the provision for depreciation which appears as an asset in your company's balance sheet.

This assessment is in keeping with our approach used to audit the overall annual financial statements and therefore helped us to form an unqualified opinion, which is expressed in the first part of this report.

### **3. SPECIFIC CHECKS AND INFORMATION**

We have also performed the procedures required by law, in accordance with professional practices applicable in France.

With the exception of any possible impact of the facts explained above, we have no other comments to make as to the fair presentation of the information given in the report on management of the group by the Board of Directors and in the documents sent to shareholders, on the financial situation and the annual financial statements.

Pursuant to the law, we have checked that the various information relating to the identity of the holders of the capital (or voting rights) has been provided to you in the report on the management of the group.

Paris, 12 May 2005  
The auditors

**Amyot Exco Grant Thornton**  
**Member of Grant Thornton International**

**Salustro Reydel**

Victor Amselem

Claire Gravereau

Bernard Paulet

## 4.7 AUDITORS' SPECIAL REPORT

### FISCAL YEAR ENDING 31 DECEMBER 2004

In our capacity as auditor of your company, we report to you on the related parties transactions, as defined by French law.

It is not our role to seek out transactions, but to inform you, on the basis of the information we have received, of the main characteristics and terms of those notified to us, without us having to give our opinion of their use or validity. According to the terms of article 92 of the decree of 23 March 1967, it is for you to judge the use related to the entering into of these transactions with a view to their approval.

We carried out our work according to the professional standards applicable in France. These standards require the taking of measures aimed at checking that the information provided to us is consistent with the basic documents from which it is derived.

### TRANSACTIONS AUTHORISED IN THE COURSE OF THE FISCAL YEAR

We have not been informed of any transaction concluded during the fiscal year, coming into the scope of article L 225-38 of the Commercial Code.

### TRANSACTIONS APPROVED IN THE COURSE OF PREVIOUS FISCAL YEARS WHICH CONTINUED INTO THE PRESENT FISCAL YEAR

In addition, pursuant to the decree of 23 March 1967, we were informed that the following transactions, approved in previous fiscal years, continued into the last fiscal year.

- Personal guarantee given within the limit of 152,449.02 Euros by the Chairman of your company, in guarantee of the refunding of all amounts due by it to Natexis Banque.
- Lease for the premises of the registered office, concluded between Systran S.A and Techniques Nucléaires S.A (the lessor), corresponding to rental of the 2nd and 3rd floors of the building situated at 1 rue du Cimetière in Soisy-Sous-Montmorency from 1 January 2004 to 2 April 2004. The annual rent is 150,000 euros, and the occupation expenses total 38,500 euros.

The Directors concerned are Mr. Dimitris SABATAKAKIS (Chairman of the Board of Directors of Techniques Nucléaires S.A.) and Mr. Jean GACHOT (Director of Techniques Nucléaires S.A.).

Paris, 12 May 2005

The auditors

**Amyot Exco Grant Thornton**  
**Member of Grant Thornton International**

**Salustro Reydel**

Victor Amselem

Claire Gravereau

Bernard Paulet

#### 4.8 TABLE RELATING TO STATUTORY AUDITORS' FEES

STATUTORY AUDITORS' FEES	RSM SALUSTRO REYDEL NETWORK		AMYOT-EXCO Grant Thornton	
	Amount (KEUR)	%	Amount (KEUR)	%
	2004		2004	
<b>AUDIT</b>				
Auditing (Certification and Examination of the individual and consolidated financial statements)	24		24	
Auditing of the US subsidiary SSI by McGladrey	12			
<b>Subtotal</b>	<b>36</b>		<b>24</b>	
<b>OTHER SERVICES</b>				
Legal, Tax, Welfare				
Information technology				
IFRS	5		5	
Internal audit				
Other				
<b>Subtotal</b>	<b>5</b>		<b>5</b>	
<b>TOTAL</b>	<b>41</b>		<b>29</b>	

## 5 CORPORATE GOVERNANCE

### 5.1 ADMINISTRATIVE AND MANAGEMENT BODIES

#### 5.1.1 Board of Directors

##### a) Composition of the Board of Directors

<b>Person</b>	<b>Assignment</b>	<b>Appointed</b>	<b>Duration</b>
Dimitris SABATAKAKIS	Chairman & CEO*	MGM of 27/06/03	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2008
Jean GACHOT	Director	(AGM of 28/07/99)	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2004
Jean GINISTY	Director	AGM of 28/07/99	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2004
Denis GACHOT	Director	AGM of 30/03/01	6 fiscal years, until the AGM ruling on the fiscal year ending 31.12.06
Norbert VON KUNITZKI	Director	AGM of 30/03/01	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/06
Patrick SELLIER	Director	AGM of 27/06/03	6 exercices, jusqu'à l'AGO qui statuera sur l'exercice clos le 31/12/2008

\*Appointed by the Board of Directors on 1 February 1997

Other positions of Mr. Dimitris SABATAKAKIS:  
Chairman of the Board of Directors of VALFINANCE S.A.  
Chairman of the Board of Directors of TECHNIQUES NUCLEAIRES S.A.  
Director of SCHEFFER S.A.

Other positions of Mr. Jean GACHOT:  
Director of VALFINANCE S.A.  
Director of TECHNIQUES NUCLEAIRES S.A.

Other positions of Mr. Jean GINISTY: None

Other positions of Mr. Denis GACHOT:  
Chairman (Chief Executive Officer) of INPROD Corp. (USA)

Other positions of Mr. Norbert von KUNITZKI:

Chairman of the Board of Directors of SYSTRAN Luxembourg S.A., ACCENTIS S.A. (Belgium), BLAGDEN S.A. (Belgium), LBF S.A. (Luxembourg), ARCOLD S.A. (Luxembourg), GESTOM S.A. (Luxembourg), EUROSIGNCARD S.A. (Luxembourg).

Vice-Chairman of the Board of Directors of TELINFO NV (Belgium), TELINDUS S.A. (Luxembourg), EUTAG SA & Co (Luxembourg).

Director of SIDMAR NV (Belgium), MOBISTAR S.A. (Belgium), E & Y CONSULTING S.A. (Belgium), CPI S.A. (Luxembourg), TELINDUS S.A. (France), TELINDUS S.A. (Spain), TELINDUS S.A. (Switzerland), TELINDUS GmbH (Germany), TELINDUS BV (Netherlands), TELINDUS Ltd (United Kingdom).

Other positions of Mr. Patrick SELLIER: None

Gross remuneration of the Board of Directors: attendance fees have been allocated to the Board of Directors for the fiscal year ended on 31 December 2003, totalling of 18,000 Euros.

The Board of Directors has three independent directors: Mr. VON KUNITZKI, Mr. Jean GINISTY and Mr. Patrick SELLIER.

Moreover, none of the directors are elected by the employees and no censor has been appointed.

The co-option of all Directors is subject to ratification by the General Shareholders Meeting.

The Board of Directors met twice during fiscal year 2004, on 10 February 2004 and 26 July 2004.

## **b) Operation of the Board of Directors**

In view of the limited number of Directors, the company has not yet set up specialised committees such as an audit committee or salaries committee, or drawn up rules of procedure or a procedure for assessing the work of the Board of Directors.

### *5.1.2 Executive Management*

The Group's Executive Management is composed of Mr. Dimitris SABATAKAKIS, Chairman and C.E.O. of SYSTRAN S.A. and the Group, Mr. Denis GACHOT, Chief Executive Officer of SYSTRAN Software Inc., and Mr. Guillaume NAIGEON, Deputy Chief Executive Officer.

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Director	Remuneration and benefits in kind posted in 2004
Dimitris SABATAKAKIS	€153,949
Denis GACHOT	\$155,779

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No new stock options were granted to Executive Management during the fiscal year. Similarly, the Executive Management did not exercise any option during this period.

The other directors and executive managers receive no remuneration, either directly or indirectly. Nor do they benefit from the stock option plan.

## **5.2 INTERNAL CONTROL**

### *5.2.1 Chairman's report on internal control*

#### **1. Summary of the purposes of internal control in the Company**

The internal control procedures in force in the Company have the following aims:

- Firstly, to ensure that management activities or operations and staff behaviour are in keeping with the guidelines set for Company business by the administrative bodies, laws and applicable regulations, and by the values, standards and internal regulations of the Company;
- Secondly, to ensure that the accounting, financial and management data provided to administrative bodies truly reflects the Company's business and situation.

One of the aims of the internal control system is to prevent and control risks resulting from the Company's business and exposure to error and fraud, in particular in accounting and finance. Like any control system, it cannot, however, provide absolute guarantees that these risks are totally eliminated.

#### **2. Description of the internal control's general organisation**

Organisation of internal control in the SYSTRAN Group is characterised by the active involvement of Executive Management in the process but also by a limited number of parties, given the size of the Group.

#### **2.1 - Persons or structures involved in control activities**

##### *2.1.1. Executive Management*

Given the size of the Group, internal control is largely based on Executive Management involvement:

- Dimitris SABATAKAKIS for all activities;
- Denis GACHOT for North-American business.

These two executive managers also have extensive experience in the Group (8 and 20 years, respectively).

Executive Management involvement particularly relates to:

- authorising investment spending,
- signing new contracts,
- monitoring the profitability of the Group's business units.

The Board of Directors has not set any limits on the authority of executive management other than those provided for by law or the regulations.

### *2.1.2. Delegations and authorisations*

The Group does not necessarily have the resources required in every field for this purpose, in terms of skills. Similarly, the Group does not have an internal audit department.

This is also why the decision-making process is largely centralised in Executive Management.

Signature delegation (delegation of signing authority and power of attorney for banking matters) is restricted to the Directors of each company.

### *2.1.3. Board of Directors*

On average, the Board of Directors meets 3 times a year. On average, each meeting is attended by three members.

The Company has not set up specialised committees such as an audit committee or salaries committee, nor drawn up rules of procedure or a procedure for assessing the work of the Board of Directors.

Moreover, none of the directors are elected by the employees and no censor has been appointed.

Among its prerogatives, the Board of Directors is responsible for:

- setting remuneration for the Directors and profit sharing for Executive Management;
- allocating stock options to the Group's directors and employees.



## **2.2 - Company references and internal regulations**

The Group has not yet laid down its procedures in a handbook. However, procedures on "*what to do*" exist for critical procedures:

- Purchase ordering and checking procedure;
- Procedure for drafting and reviewing contracts entered into with customers;
- Employee expense reimbursement procedure.

Similarly, the Group has laid down certain rules concerning "*what not to do*". Thus, the Group does not use financial instruments for managing foreign exchange or interest rate risk, as it feels it lacks the resources required in-house to monitor them effectively.

## **2.3 - Organisation of financial and accounting data preparation**

The main participants in internal control as regards financial and accounting data are:

- Dimitris SABATAKAKIS, Chairman and CEO of SYSTRAN S.A., is responsible for the reference document;
- Guillaume NAIGEON, the Deputy CEO of SYSTRAN S.A.

Their prerogatives include:

- supervising the preparation of internal reporting, individual financial statements and consolidated financial statements;
- relations with the Company's statutory auditors.

## **3. Information on existing procedures**

### **3.1 - Main existing procedures**

The main existing procedures concern:

- purchase ordering and checking;
- drafting and reviewing contracts with customers;
- reimbursing employee expenses.

Each of these three procedures is documented in a written memorandum.

The purchase ordering and checking procedure involves 3 internal controls: prior authorisation of the expenditure from Executive Management; checking of invoices against purchase orders issued and goods received; and authorisation to pay (or "approved for payment") stamped on the invoice by Executive Management.

The procedure for drafting and reviewing contracts involves 2 internal controls: the use of standard contracts ratified by specialist advisers, when preparing any new customer contract; and prior review and signing of all sizeable customer contracts by a Director.

The procedure for reimbursing employee expenses involves 3 internal controls: the use of a reimbursement schedule; the checking of expense bills; and approval of payment by a member of Executive Management.

Given that these procedures are highly centralised, there is no internal procedure for testing control procedures.

### **3.2 - Procedures for preparing accounting data**

The SYSTRAN Group pays particular attention to preparing its accounting data.

Firstly, each Group unit prepares a monthly activity report, including a full income statement, for Executive Management.

Secondly, the Group has set up an appropriate consolidation procedure to ensure the reliability of the financial data produced:

- It has defined an accounting plan and schedule shared by all Group units;
- All Group units use the same consolidation form;
- The consolidation process is managed using Cartésis SAFRAN/CARAT consolidation software;
- The data is consolidated quarterly;
- Each Group unit's financial statements and the consolidated accounts are reviewed quarterly by an accountant outside the company;
- The financial statements are audited by the statutory auditors prior to any publication.

## 5.2.2 Report of the auditors on internal control

### FISCAL YEAR ENDING 31 DECEMBER 2004

In our capacity as auditors of SYSTRAN S.A. and pursuant to the last sub-paragraph of article L 225-235 of the Commercial Code, we hereby present our report on the report drawn up by the Chairman of the Board of Directors of your company in accordance with article L 225-37 of the Commercial Code pertaining to the fiscal year ended 31 December 2004.

It is incumbent on the Chairman to include in his report, in particular, the conditions for preparing and organising the work of the Board of Directors and the internal control procedures set up within the company.

It is our role to pass on our observations about the information given in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial data.

We have carried out our work according to professional practice applicable in France. This practice requires taking measures to assess the sincerity of the information given in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial data. In particular, these measures involve:

- checking the aims and the overall organisation of internal control and the internal control procedures relating to the preparation and processing of accounting and financial data, as presented in the Chairman's report;
- checking the work underlying the information thus given in the report.

On the basis of this work, we have no comment to make as to the information given concerning the company's internal control procedures relating to the preparation and processing of accounting and financial data, as contained in the Chairman of the Board of Directors' report, drawn up pursuant to the last sub-paragraph of article L 225-37 of the Commercial Code.

Paris, 12 May 2005

The auditors

**Amyot Exco Grant Thornton**  
**Member of Grant Thornton International**

**Salustro Reydel**

Victor Amselem

Claire Gravereau

Bernard Paulet

### 5.3 EMPLOYEE PROFIT SHARING PLAN

#### Stock options

The Ordinary and Extraordinary General Shareholders Meetings of 6 March 2000, 9 November 2001 and 25 June 2004 authorised the Board of Directors to implement a stock option plan ("Stock Options") up to the current limit of 20% of the Company's capital, with this threshold being evaluated on the dates the stock options are granted by the Board of Directors. The Board of Directors meetings of 6 March 2000, 1 February 2001, 9 November 2001, 4 February 2002, 13 March 2003 and 23 December 2003 used this authorisation as follows:

Status of the stock options awarded to the Group's employees						
Date of the General Shareholders Meeting	06.03.2000		09.11.2001			
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03
Total number of shares that can be subscribed or bought	970,000	101,000	100,000	80,000	100,000	110,000
Of which, shares that can be subscribed or bought by members of the Executive Committee	750,000	0	0	0	100,000	100,000
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11
Strike price (EUR)	7.60	4.60	1.64	1.94	1.21	4.61
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1st, 2nd and 3rd anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfillment of certain performance targets.					
Number of shares subscribed as of 31/12/2004	-	-	-	-	-	-

No option was exercised during fiscal year 2004.

#### Profit sharing plans

None

#### Shares held by employees

None

#### **5.4 SPECIAL REPORT OF THE BOARD OF DIRECTORS ON THE DRAFT RESOLUTION AUTHORISING THE DISTRIBUTION OF FREE SHARES TO THE EMPLOYEES AND THE DIRECTORS, PRESENTED TO THE MIXED GENERAL SHAREHOLDERS MEETING OF 24 JUNE 2005**

In order to encourage the holding of shares by employees, the 2005 tax legislation has introduced a new purview for the free distribution of shares to employees and directors, coupled with beneficial tax and welfare measures. This purview, whose terms are enacted in articles L. 225-197-1 to L. 225-197-5 of the Commercial Code, concerns both listed and unlisted stock companies and has some similarities with the purview relating to stock options. The Extraordinary General Shareholders Meeting, after hearing the report of the Board of Directors and the auditors' special report, can therefore authorise the Board of Directors to distribute free shares that have been or will be issued, to salaried employees of the Company or certain categories of them. It sets the maximum percentage of the capital stock that can then be distributed. The distribution of shares to their recipients is definitive at the end of a period called the "acquisition period" whose length, which is set by the Meeting, cannot be less than two years. The Meeting also sets the minimum term for which the shares must be held, which also cannot be less than two years. In addition, in listed companies the transfer of the shares at the end of the obligatory share holding period is subject to restrictions identical to those applicable to stock option recipients, to prevent insider trading. It is incumbent on the Board of Directors to identify the recipients and set the conditions and, if necessary, the criteria for distribution of the shares. The Extraordinary General Shareholders Meeting defines the period, which cannot exceed 36 months, during which its authorisation can be used by the Board of Directors. Please note that the total number of free shares distributed cannot exceed 10% of the capital. Aside from the employees, the directors can also profit from this purview. Shares cannot be distributed to employees and directors who personally already hold more than 10% of the capital, however, and free shares cannot be distributed to employees and directors if this will result in their personally holding more than 10% of the capital stock.

## **5.5 DRAFT RESOLUTIONS OF THE MIXED GENERAL SHAREHOLDERS MEETING OF 24 JUNE 2005**

Eleven resolutions were put to the vote in the Mixed General Shareholders Meeting of 24 June 2005.

**The Board proposes, firstly, that eight resolutions be adopted by the Ordinary General Shareholders Meeting:**

### ***First resolution***

The first resolution covers the approval of the Company's consolidated and corporate financial statements for fiscal year 2004, after the reports of the Board of Directors and of the statutory auditors are heard.

### ***Second resolution***

The second resolution covers the allocation of the corporate income for fiscal year 2004 and dividends. The Board proposes to allocate the earnings of SYSTRAN S.A., totalling 1,464,283 Euros, in the form of 1,400,609 Euros to the carried forward account, and 63,674 Euros to the legal reserve. The Board of Directors notes that no dividend was distributed during the last three fiscal years.

### ***Third resolution***

In the everyday business of a company, agreements may arise directly or indirectly between the company and another company with which it has directors in common, or even between the company and its executive management, or else with a shareholder who holds more than 5% of its capital. This is the purpose of the third resolution.

### ***Fourth resolution***

The purpose of the fourth resolution is to renew the mandate of Mr. Jean GACHOT as Director.

### ***Fifth resolution***

The purpose of the fifth resolution is to renew the mandate of Mr. Jean GINISTY as Director.

### ***Sixth resolution***

The purpose of the sixth resolution is to create a new mandate as Director, and nominate Mr. Guillaume NAIGEON for this position.

### ***Seventh resolution***

The purpose of the seventh resolution is to set the annual amount of attendance fees to be allocated to the members of the Board of Directors.

### ***Eighth resolution***

The meeting, after having been read the report of the Board of Directors, authorises the Board to trade the Company's shares on the Stock Exchange pursuant to articles L. 225-209 of the Commercial Code, and consequently to proceed, in order of priority, with:

- managing the market making in the secondary market or the liquidity of the Company's share by means of an investment service provider, through a liquidity agreement that complies with the ethic charter recognised by the financial markets authorities;

- SYSTRAN buying shares to hold and subsequently tender in exchange or payment, in any external growth transactions;
- remitting shares during the exercise of rights attached to securities entitling the holder, through redemption, conversion, exchange, presentation of a warrant or in any other way, to acquire Company shares;
- distributing shares to employees of the company and group subsidiaries according to the conditions stipulated by the law, pursuant to articles L 225-177 and thereafter of the Commercial Code, or through a company savings plan;
- purchasing Company shares in order to cancel them, up to a maximum of 10% of the Company's capital stock, within the framework of the authorisation to decrease the capital stock as stated in the eighth resolution of the present meeting, in its extraordinary part.

These shares may be acquired, sold, transferred or exchanged, by any means, on the market or privately, including through the use of any financial derivative instrument negotiated on a regulated or private market. These means also include block acquisitions without limit to size.

The meeting resolves that:

- the maximum amount of the funds intended for the purchase of the Company shares may not exceed 5,151,354 Euros;
- the maximum number of shares the Company may acquire under this resolution must not exceed 10% of the capital stock, fixed by article L 225-209 of the Commercial Code, including shares purchased under purchase authorisations previously granted by the Ordinary General Shareholders Meeting.

The meeting resolves that the maximum and minimum purchase and sale prices will be as follows:

- maximum purchase price per share: €8, after rounding off, excluding acquisition fees;
- minimum sale price per share: €2, after rounding off, excluding acquisition fees. However, if all or part of the shares acquired pursuant to this delegation were used to grant stock options pursuant to article L 225-179 of the Commercial Code, the sale price would then be calculated in accordance with the legal provisions relating to the stock options.

In the event of a capital increase by the capitalisation of reserves and the distribution of free shares, as well as in the event of the split or regrouping of the shares, the prices noted above shall be adjusted by a multiplying coefficient equal to the ratio between the number of shares comprising the capital before the transaction, and the number after the transaction.

With a view to ensuring execution of this delegation, full powers are given to the Board of Directors to:

- draw up, submit for the approval of the financial markets authorities, and publish the memorandum relating to the share purchase programme, following its decision to proceed with launching the programme;
- pass all trading orders and enter into all agreements, notably with a view to keeping records of the share purchases and sales;
- make all declarations and fulfil all formalities and, in general, do all that is necessary.

This authorisation for the purchase and sale of shares cancels all previous delegations of the same type, and specifically the one granted in the fifth resolution of the Ordinary and Extraordinary General Shareholders Meeting of 25 June 2004.

This authorisation is granted for a period of 18 months from this day onwards.

The Board of Directors will inform the annual Ordinary General Shareholders Meeting of the transactions carried out pursuant to this resolution.

#### ***Ninth resolution***

The meeting, after having been read the report of the Board of Directors and the auditors' special report, within the framework of the authorisation for the Company to purchase its own shares as noted in the fifth resolution of the present meeting, in its ordinary part, resolves, in accordance with article L 225–209 of the Commercial Code, to authorise the Board of Directors to:

- reduce the capital stock by up to 10% of the capital stock through cancellation of all or part of the acquired shares in one or more stages;
- allocate the difference between the purchase value of the cancelled shares and the book value to premiums and available reserves.

For this purpose, the meeting gives the Board of Directors full powers to set the conditions and terms thereof, to settle any disputes, to note the reduction(s) in capital resulting from cancellation transactions authorised by the present resolution, to amend, as applicable, the by-laws accordingly, and more generally to do all that is necessary for the completion of these transactions.

This authorisation is granted for a period of 24 months from this day, and cancels all previous delegations of the same type, and in particular the one granted in the eighth resolution of the Ordinary and Extraordinary General Shareholders Meeting of 25 June.

#### ***Tenth resolution***

The tenth resolution covers:

- authorisation for the Board of Directors, after having been read the report of the Board of Directors and the statutory auditors' special report, pursuant to article L 225-197-1 of the Commercial Code, to distribute, in one or more stages, free shares for the Company's salaried employees and Directors, on the understanding that it shall be incumbent on the Board of Directors to identify the recipients and set the conditions for distribution of the shares;
- the total number of shares distributed freely, which cannot represent more than 10% of the company's capital, that the allocation of shares to their recipients shall only be final at the end of an acquisition period lasting a minimum of two years, and that the minimum term for which the shares must be retained by the recipient is set at two years starting from the end of the acquisition period;
- the term of this authorisation, which is set at 38 months.

**The Board lastly proposes the adoption of a resolution coming under the Ordinary and Extraordinary General Shareholders Meetings:**

#### ***Eleventh resolution***

Lastly, the eleventh resolution is a standard resolution concerning the granting of the powers needed to complete the necessary legal publications and formalities.



## 6 RECENT DEVELOPMENTS AND OUTLOOK

### Revenue of the first quarter of 2005

- Revenue of €K 2,376: down 16.7% compared to Q1 2004
- Licence sales: up 26.8% compared to Q1 2004

28 April 2005 – SYSTRAN, the leading machine translation software publisher, today announced its revenue for the first quarter of 2005 (period from 1st January to 31 March 2005).

In €K	2005	As % of total	2004	As % of total	Change 2005/2004
Software Publishing	1,843	77.6%	1,453	50.9%	+ 26.8%
Professional Services	533	22.4%	1,400	49.1%	- 61.9%
Consolidated revenue	2,376	100.0%	2,853	100.0%	- 16.7%

#### Preliminary note

The company is applying IFRS for the first time; this has no effect on the stated revenue.

#### Business in first quarter 2005

SYSTRAN has concentrated its efforts on marketing and after-sales support of the new version, 5.0, of its software, rather than acquisition of new Professional Services contracts.

The launch of version 5.0 of its Client-Server software during the quarter had a positive initial effect on licence sales which totalled 1,843,000 Euros, 26.8% up on the first quarter of 2004.

Software Publishing, a high profit margin business, offset the decline in Professional Services business which is explained by the Co-funded contracts and ongoing service contracts reaching their term without being renewed.

#### Outlook for 2005

Version 5.0 enables users to customise the software themselves; previously, this was carried out by SYSTRAN staff. SYSTRAN can therefore concentrate on its Software Publishing business. The company forecasts increased licence sales in 2005 and is currently expanding its sales and marketing staff as well as its product development and quality assurance staff.

## About SYSTRAN

SYSTRAN has been the leading provider of machine translation applications and technologies for over 30 years, developing products and services both for businesses and for European and US public administrations and government.

The SYSTRAN technology interfaces at all levels of IT infrastructures, where it helps to widen communication through more than 40 language pairs and 20 specialised domains. It is developed under Linux and is marketed for all versions of Unix and Windows. SYSTRAN is continuing to develop new systems, notably in Arabic, Persian, Hungarian, Polish, Czech, Swedish, Danish and Finnish.

SYSTRAN's head office is in France; it has a subsidiary in California (United States).

SYSTRAN (ISIN code: FR0004109197, Bloomberg: SYST NM, Reuters: SYTN.LN) is listed on the Nouveau Marché of Euronext Paris, and it is a member of Euronext's NextEconomy business segment.

Contact:

Dimitris SABATAKAKIS, Chairman and CEO

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**The six-monthly financial results for the first half of 2005 will be published on 5 August 2005.**

You can download this press release from:

[http://www.systransoft.com/company/investors/financial\\_releases.html](http://www.systransoft.com/company/investors/financial_releases.html)

## 7 TIMETABLE OF PUBLICATION OF THE FINANCIAL REPORTS

Revenue and income for the 1st half of 2005	5 August 2005
Revenue for the 3rd quarter of 2005	28 October 2005
Revenue and income for fiscal year 2005	14 February 2006
Revenue for the 1st quarter of 2006	28 April 2006

## GLOSSARY OF TERMS USED

**Natural language:** language intended to be spoken by humans, as opposed to a programming language.

**Gisting:** language comprehension aid

**Internet Service Provider:** company providing Internet users with an Internet network connection: e.g. AOL, Club-Internet, CompuServe, Free or Wanadoo.

**Intranet:** internal network using communications protocols and sometimes Internet navigation tools.

**Localisation:** process of translating content (e.g. a Website) and adapting it to the specific cultural preferences of the target language.

**OEM:** Original Equipment Manufacturing: term used in the computer field to designate a product manufactured by a company to be incorporated into a product manufactured by another company that markets the product assembled under its own brand.

**Language pair:** machine translation terminology designating the pair consisting of a source language (to be translated) and a target language (translated). Example: from French into English.

**Portal:** generalist Web site, the purpose of which is to support a panel of current services (directory, research, knowledge base, e-mail, forums, etc) for Internet users who often make the home page the default for their browser, thus constituting an entry to the Web (hence the use of the word "Portal"). AltaVista, AOL, Google, Lycos and Yahoo! are Internet portals.

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